

2018 Annual Report

Macquarie Group

Year ended 31 March 2018

Macquarie is a diversified financial group providing clients with:

- asset management and finance
- banking
- advisory
- risk and capital solutions across debt, equity and commodities.

2018 Annual General Meeting

Macquarie Group Limited's 2018 Annual General Meeting will be held at 10:30 am on Thursday 26 July 2018 at the Hyatt Regency Sydney, Maritime Ballroom, 161 Sussex Street, Sydney NSW 2000.

Details of the business of the meeting will be contained in the Notice of Annual General Meeting, to be sent to shareholders separately.

Cover image

The growth of cities is driving unprecedented social and economic change across the globe. With another one billion people expected to migrate to urban areas over the next 12 years, global infrastructure and energy investment has increased to meet the needs of growing populations, while technological innovation continues to shape the way we live, work and interact.

The Macquarie name and Holey Dollar device are registered trade marks of Macquarie Group Limited ACN 122 169 279.

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Corporate Governance Summary
Risk Management Report



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GOVERNANCE

CORPORATE GOVERNANCE SUMMARY

CORPORATE GOVERNANCE STATEMENT

Macquarie's Corporate Governance Statement has been approved by the Board and lodged with the ASX.

Macquarie's governance practices were consistent with the recommendations in the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations) throughout the year.



CORPORATE GOVERNANCE

Macquarie's approach to corporate governance is to:

- promote the long-term profitability of Macquarie while prudently managing risk
- drive superior and sustainable shareholder value over the long-term through the alignment of the interests of shareholders and staff
- meet stakeholder expectations of sound corporate governance as part of Macquarie's broader responsibility to clients, shareholders, investors and the communities in which it operates.

Macquarie's *Code of conduct* sets out the way staff are expected to do business.

ETHICAL AND RESPONSIBLE DECISION-MAKING

The *Code of conduct*, which has been approved by the Board:

- incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide the way staff conduct business
- provides clear guidance to staff on good decision-making and escalation, encouraging staff to speak up and report genuine concerns about misconduct
- reinforces Macquarie's policies, including the *Whistleblower Policy*, in relation to the protection of whistleblowers
- summarises the standards, policies and processes regarding conflicts of interest, disclosure and corruption.

Macquarie established the Integrity Office in 1998. Supporting the group-wide Integrity Officer are Integrity Officers in Macquarie's regional offices around the world. In addition to providing an independent and confidential point of escalation for staff to raise concerns, the Integrity Office works with business groups to support staff in good decision-making and to promote the principles of *What We Stand For*.

Macquarie established the Customer Advocate office at the end of March 2017 as part of our continuing commitment to our Australian retail and small business clients. In addition to customer support provided by the business, the Customer Advocate's role is to promote fair and reasonable customer complaint outcomes, to review and assist with determining escalated customer complaints, and to provide a customer-centric voice when making recommendations to improve customer experience.

Clients that receive a final decision from Macquarie's complaint resolution teams in the businesses may request the Customer Advocate or an external dispute resolution service (such as the Financial Ombudsman) review that decision.

Macquarie recognises that a sound risk culture is a fundamental requirement of an effective risk management framework. Macquarie's core risk management principles have remained stable and continue to be effective.

The risk management framework incorporates active management and monitoring of a range of risks. Policies and procedures are in place to manage the risks arising in all operations.



Refer to the Risk Management Report of this Annual Report for details on Macquarie's risk management framework.

COMMITMENT TO SHAREHOLDERS AND AN INFORMED MARKET

Macquarie believes that shareholders, regulators, rating agencies and the investment community should be informed of all material business events and risks that influence Macquarie in a factual, timely and widely available manner. Macquarie has a continuous disclosure policy that is incorporated in its *Continuous Disclosure and External Communications Policy*.



BOARD OVERSIGHT

The primary role of the Board is to promote Macquarie's long-term health and prosperity. The *Board Charter* details the Board's role and responsibilities that include approving strategy, adopting an annual budget, approving Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*, appointing Macquarie's Chief Executive Officer and considering matters relating to remuneration and diversity. The Board is committed to oversight of Macquarie's performance, risk management and culture and to promoting the creation of enduring value.

The Macquarie Board consists of ten Directors, nine of whom are independent. Nicholas Moore, Macquarie's Managing Director and Chief Executive Officer (CEO), is the only executive Board member. Peter Warne, an Independent Director, is Chairman.

During the year, Glenn Stevens was appointed to the Board, effective from 1 November 2017. Mr Stevens worked at the highest levels of the Reserve Bank of Australia for over 20 years and, as well as developing Australia's successful inflation targeting framework for monetary policy, played a significant role in central banking internationally.

Macquarie recognises that independent directors have an important role in assuring shareholders that the Board is able to act in the best interests of Macquarie and independently of management. A Voting Director (Director) will be considered independent if not a member of management and if they are free of any interests or relationships that could materially interfere with their ability to constructively challenge and independently contribute to the work of the Board.

Board Renewal and Performance

The Board, with the assistance of the Board Nominating Committee (BNC), regularly assesses the skills, experience, tenure and diversity required collectively for the Board to effectively fulfil its role. The Board recognises the importance of undergoing a regular process of renewal via changes in membership to provide it with the benefit of regular new input. The Board reviews its performance and the performance of each Director on an annual basis. A Director's Board membership is subject to their ongoing performance and the Board's need for any specialist skills or experience.

The Macquarie Board is comprised of highly experienced senior business leaders from a variety of professional backgrounds who each meet the fundamental requirements and collectively possess the skills, experience, tenure and diversity considered necessary to appropriately govern an ASX-listed, global, diversified financial group.



Further details on the skills, experience and tenure of the Board are in Macquarie's Corporate Governance Statement and Schedule 1 of the Directors' Report.

Macquarie's policy on *Board Renewal, Appointment of Directors and Board Performance Review* sets out the fundamental factors relevant to the selection of new Directors, the material terms of their appointment and the process for conducting the review of the Board's performance.

Board Committees

Macquarie's five standing Board Committees assist the Board in its oversight role. The Board Risk Committee (BRIC), Board Audit Committee (BAC), Board Governance and Compliance Committee (BGCC), BNC and Board Remuneration Committee (BRC) comprise members who are independent Directors and each Board Committee has an independent Director as its Chairman.

The membership of the Board Committees can be found in the Directors' Report. The Board Committee Charters detail the responsibilities of each Committee and how they exercise their authority.

Responsibilities of Management

The Board has reserved certain matters for its approval as set out in the *Board Charter*. In addition to delegating specific responsibilities

to its various Board Committees, the Board also determines delegations to Management, approves relevant limits and reviews business developments for consistency with the *Risk Appetite Statement* and *Risk Management Strategy* approved by the Board.

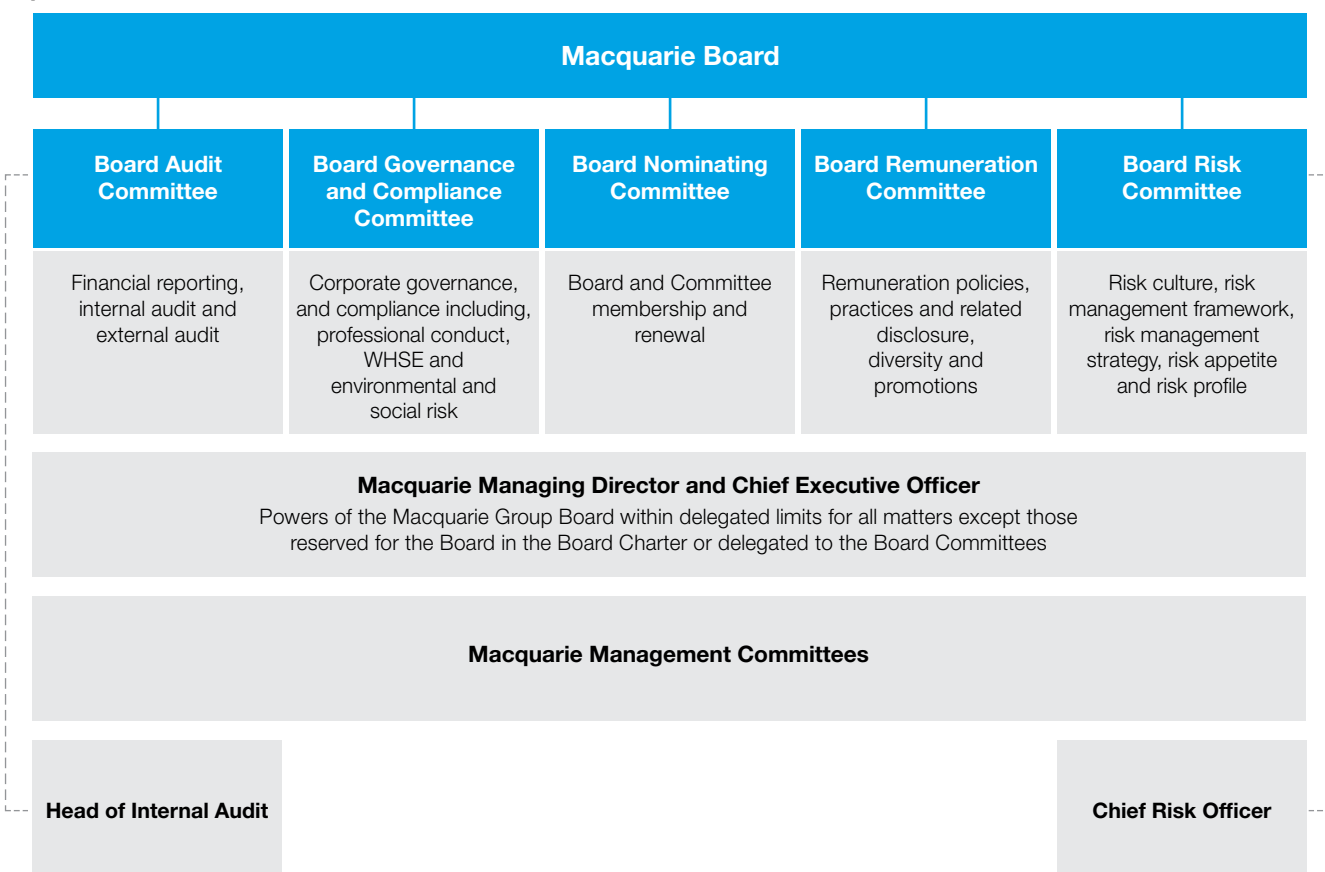
The CEO has been granted authority for those matters not reserved for the Board or a Board Committee. Macquarie's Management Committees assist in the exercise of the CEO's delegated authority. The CEO, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) report to the Board at each Board meeting. In addition to regular reporting from Management, the Board has unlimited access to Senior Management as well as external advisors.

For further information on corporate governance at Macquarie refer to the Corporate Governance Statement and the following documents:

- Macquarie Constitution
- Macquarie Board and Board Committee Charters
- Director Independence Criteria
- Policy on *Board Renewal, Appointment of Directors and Board Performance Review*
- *Code of conduct*
- *Continuous Disclosure and External Communications Policy* summary
- *MGL Trading Policy*



Corporate Governance Framework



RISK MANAGEMENT REPORT

RISK GOVERNANCE

The primary role of the Board is to promote Macquarie's long-term health and prosperity. Macquarie's robust risk management framework supports the Board in its role. The Board is ultimately responsible for the framework, including oversight of its operation by Management.

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

Board Committees, Management Committees and ultimately individuals support the Board in its oversight.



RISK MANAGEMENT FRAMEWORK

Overview

Macquarie's risk management framework consists of systems, structures, policies, processes, and our people and culture. Under the framework, staff are responsible for identifying, measuring, evaluating, monitoring, reporting, managing and where appropriate, accepting material risks.



The risk management framework incorporates active management and monitoring of a range of risks. These include credit, cyber and information security, data, environmental and social (including climate change), equity, legal, liquidity, market, model, operational, regulatory and compliance, reputation and tax risks. It also includes risk culture and conduct risk frameworks. The risk management framework applies to all business activities across Operating and Central Service Groups.

Policies and procedures are in place to manage the risks arising in all operations. Formalising practices and principles into policies assists in the consistent management of risks. It also results in the sharing of experience and expertise gained from managing risks in various business activities. Macquarie's key risk management policies are reviewed annually by the owner. Material changes are approved by the Board.

Internal Audit reviews elements of Macquarie's risk management framework annually and covers all key elements over a three-year period. The results of these reviews are reported to the Board Audit Committee (BAC). Relevant reviews for FY2018 have been completed.

The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defence':

- primary responsibility for risk management lies at the business level. This is the first line of defence. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately
- the risk management function forms the second line of defence and independently assesses all material risks
- Internal Audit, as the third line, independently reviews the Group's risk management controls, processes and systems.

Key Components

Core risk management principles

Macquarie's principles have remained stable and continue to be effective. These are:

- **ownership of risk at the business level:** Group Heads are responsible for identifying risks within their businesses and ensuring appropriate management. Before taking decisions, clear analysis of the risks is sought to ensure those taken are consistent with the risk appetite and strategy of Macquarie
- **understanding worst case outcomes:** Highly experienced professionals at Macquarie use both quantitative and qualitative inputs to examine the consequences of worst case outcomes and determine whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, the market risk management framework is based primarily on the application of stress tests, rather than statistical models. Macquarie applies limits to contingent losses from worst case scenarios that include market movements larger than have occurred historically. For example, an instantaneous 40% gap move in stock prices. These limits effectively constrain position taking by divisions trading in products where the current risk appears low but potential risk exists in extreme loss events. Macquarie has over 15,000 contingent loss limits that consider a variety of worst case scenarios
- **requirement for an independent sign-off by risk management:** Macquarie places significant importance on having a strong, independent Risk Management Group (RMG) charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals, many with trading or investment banking experience. For all material proposals, RMG's opinion is sought at an early stage in the decision-making process. The approval document submitted to Senior Management includes independent input from RMG on risk and return.

Macquarie's risk culture is well established

A sound risk culture has been integral to Macquarie's risk management framework since inception. It is continuously being maintained and improved. Primary responsibility for risk management in Macquarie, including risk culture, is at the business level.

The Board, assisted by the Board Risk Committee (BRiC), is responsible for:

- forming a view of Macquarie's risk culture and the extent to which that culture supports Macquarie's ability to operate consistently within its risk appetite
- the identification of any desirable changes to evolve Macquarie's risk culture and for ensuring that Macquarie takes steps to address those changes.

Macquarie's long standing approach to risk culture assists the Board and Management in meeting their responsibilities.

Maintaining an appropriate risk culture

Macquarie's approach to risk culture is based on the following main components:

Setting behavioural expectations

The Board recognises the importance of, and is committed to, a sound risk culture throughout Macquarie. Senior Management oversees performance and continually evolves Macquarie's expectations regarding appropriate behaviours.

Staff are made aware that Macquarie's *What We Stand For* principles of Opportunity, Accountability and Integrity must form the basis of all behaviours and actions.

These behavioural expectations are outlined in the Board approved *Code of conduct*, which is actively promoted by Management and cascaded through the organisation. They include:

- **individual accountability:** each person understands and meets their role and responsibilities; all staff are accountable to our clients, community, shareholders and staff for their actions
- **policies, procedures and systems:** for every individual, compliance is fundamental
- **proactive approach:** individuals are encouraged to;
 - remain vigilant for new and unexpected risks, and potential adverse consequences of actions
 - seek advice from appropriate experts
- **escalation:** each individual is obliged and encouraged to escalate concerns when they make a mistake or see something that may be a breach of Macquarie's *Code of conduct* or a policy
- **fair dealing:** it is a fundamental responsibility for staff to deal honestly and fairly in their relationships with our clients.

Leading and executing

Management implements behavioural expectations through:

- leadership actions and communication
- organisational governance
- incentives and consequence management
- organisational and individual capability.

Monitoring, measuring and reporting

Macquarie monitors and measures its risk culture to gauge effectiveness while promoting continuous improvement. Key mechanisms include but are not limited to:

- policies and processes in relation to Board and Management governance, which include reporting and escalation of issues
- processes to govern the identification, recording, management and reporting of incidents
- independent oversight and sign-off by RMG for material risk decisions
- intense scrutiny of material business activities and risk decisions at the business level by Senior Management and at the Group level led by BRiC
- personal observation and assessment by Board and Senior Management, including frequent interaction with staff, attendance at formal staff events, and the Board schedules two separate regional visits to Macquarie overseas offices annually
- risk culture reviews, completed by an independent Risk Mindsets and Behaviours team
- rigorous remuneration monitoring mechanisms.

Reports incorporating behavioural issues are prepared by all businesses, RMG, HR and Macquarie's Integrity Office and escalated, where relevant, according to our governance framework. These include multiple regular reports relating to risk culture which are provided to Senior Management and the Board.

Consequence management

Effective consequence management is also a key component of Macquarie's risk management framework and risk culture. Macquarie aims to apply consequences for non-compliance in a timely manner, and as fairly and consistently as possible.

In addition to Macquarie's group-wide guiding principles for consequence management, Operating and Central Service Groups may apply specific guidelines and/or procedures.

Staff are held accountable for the consequences of their actions in support of Macquarie's risk culture and good conduct.

RISK MANAGEMENT REPORT

CONTINUED

Decisions about consequences are made by Management supported by HR, RMG and additional stakeholders relevant to that particular matter. Depending on the level of materiality, the matter may be escalated to the CEO, Executive Committee and Board.

In determining the appropriate consequence for a breach by a staff member, relevant factors (both mitigating and aggravating) are considered. Actions undertaken assist staff in building their skills and knowledge. Where appropriate, actions can also be a deterrent against further breaches by reinforcing proper standards of staff conduct. Potential consequences include, but are not limited to:

- additional training
- placing the staff member under increased supervision and/or monitoring including pre-vetting of work and increased sample testing of work
- issuing a verbal warning
- issuing a written warning (including a first and final written warning)
- a financial consequence in respect of any discretionary element of remuneration
- a consequence that impacts performance rating or promotion
- dismissing the staff member (with or without notice).

RMG and HR data relating to employee conduct is collated from various sources and reported on a quarterly basis. At year end, relevant employee conduct data is used to inform remuneration and promotion decisions and ensure that appropriate consequence management is applied.

Conduct Risk Framework

Macquarie defines conduct risk as the risk of improper, unlawful or unethical behaviour or action that may have a negative impact on our clients or counterparties or the fair and effective operation of the markets in which Macquarie operates.

Conduct risk may arise inadvertently or deliberately in any of Macquarie's activities or businesses, both retail and wholesale.

Management approach

Macquarie's approach to conduct risk management is essential to the way we operate. It is based on sustainable practices and integrated in how staff manage their responsibilities and conduct themselves in Macquarie's business every day. Conduct risk management is a fundamental part of our existing risk management framework. Key aspects which address conduct risk include:

- establishing and maintaining an effective risk culture that drives good conduct
- having in place the necessary policies, controls, processes and reporting mechanisms to manage conduct risk associated with compliance, legal, reputation and operational risks.

Consistent with Macquarie's 'three lines of defence' approach to risk management, Operating and Central Service Groups are primarily responsible for ensuring appropriate application of the Conduct Risk Framework.

Macquarie identifies conduct risk through existing risk management controls and processes that have been established to actively identify, manage and monitor material risks. New and emerging conduct risk, relating to customer outcomes and market impact, continues to be identified through the:

- annual strategy and business planning process
- new product and business approval process.

Conduct risk also remains a key business focus in the risk and control self-assessment, and risk-based monitoring and surveillance processes.

Our ongoing focus on managing conduct risk, including monitoring and assurance, continues to drive the development of effective and sustainable controls designed to mitigate key conduct risks. The responsibilities of supervisors for overseeing the management of conduct risk are clearly outlined and communicated to staff.

Mandatory training incorporates strong messaging on the importance of adhering to Macquarie's *Code of conduct*, including the principles of effective supervision. Targeted conduct risk training is also delivered on an as needed basis.

Risk management framework support

In addition to those noted above, multiple aspects of the risk management framework support Macquarie's risk culture and management of conduct risk including:

- **Macquarie's businesses are fundamentally client based.** Greater emphasis is placed across Macquarie on fostering long-term relationships with our clients. This facilitates building client-facing businesses as opposed to short-term profits from proprietary trading
- **The role of risk management staff is one of active engagement in risk-taking decisions.** In accordance with the principle of risk ownership, the primary risk analysis and initial decisions to reject or accept a transaction are taken by Operating and Central Service Groups. In its review of a new proposal, RMG provides independent confirmation of the risk decision. RMG works closely with each deal team sharing the goal of making the transaction successful and, where applicable, requiring improvements to the transaction terms. Transferring knowledge to transaction teams, to enable the same risk management principles to be applied at an early stage to future proposals is strongly emphasised
- **Macquarie's remuneration framework seeks to align staff and shareholders' interests while prudently managing risk and encouraging a long-term view. The framework requires significant retention and deferral of a profit share based remuneration award, invested in Macquarie shares and Macquarie managed funds.** The principles behind the framework are long-standing and have been integral to Macquarie's sustained success. Profit share is determined at the business unit level with detailed consideration of market relativities and the individual's contribution to their business unit performance. The assessment of an individual's contribution includes an assessment of their risk management, compliance and conduct (including adherence to the *Code of conduct* and commitment to *What We Stand For*). The combination of a profit share based remuneration structure, with significant retention and deferral, invested in Macquarie's future performance, drives strong alignment to shareholder's interests and encourages ongoing prudent management of risk.

Risk appetite management

Risk appetite setting

The Board reviews and endorses Macquarie's risk appetite as part of the annual corporate strategy review process. Risk appetite is the nature and amount of risk Macquarie is willing to accept as outlined in the *Risk Appetite Statement* (RAS).

Macquarie's risk culture supports its ability to operate within the Board-approved RAS. In addition, behavioural expectations require staff to comply with the processes, limits and policies that put the principles of the RAS into operation.

The RAS sets out the degree of risk that Macquarie is willing to take overall and for each material risk type. It also conveys the process for ensuring that risk limits (tolerances) are set at an appropriate level, monitored and reviewed.

The principles of the RAS are implemented primarily through the following four mechanisms:

New product and business approval process

All new businesses and significant changes to existing products or processes are subject to a rigorous, interactive approval process that adheres to the principles stated in the RAS. This results in constructive dialogue on risk matters between RMG and the relevant business.

This formal process is designed so that the proposed transaction or operation can be managed properly, without creating unwanted risks for Macquarie. All relevant risks are reviewed to ensure they are identified and addressed prior to implementation. These risks are also monitored on an ongoing basis. The approvals of RMG, Financial Management Group, Legal and Governance and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement.

The Operational Risk function within RMG oversees the new product and business approval process.

Limits

In many cases, limits translate risk appetite principles into hard constraints on individual businesses.

These consist of specific risk limits given to various businesses and products or industry sectors, as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk.

Macquarie sets the Global Risk Limit with reference not only to capital but also to earnings so that in a prolonged, severe downturn, earnings and surplus capital cover losses and market confidence in Macquarie is maintained.

Under Macquarie's 'no limits, no dealing' approach, individual credit and equity exposures are managed within approved counterparty limits. Market risk exposures are also governed by a suite of individual and portfolio limits.

These granular limits are set to allow businesses to achieve their near-term plans while promoting a reassessment of the opportunity and associated risks as the limit is approached.

Relevant policies

Policies expand on the principles found in the RAS and often translate them into operational requirements for individuals and business activities.

Communication and training

The RAS is accessible to all staff and is referred to in the *Code of conduct*. In addition, the principles in the RAS are communicated to relevant staff through formal and informal training programs. These include regular communication of policies to key staff, training programs for specific policies and mandatory Director-level staff training on the risk management framework.

Requirement to consider risk-adjusted returns

The RAS states that:

- Macquarie pursues an appropriate and resilient long-term return on its capital
- transactions must generate returns proportionate to the risks.

Accordingly, proposals for all significant new deals, products and businesses must contain an analysis of risk-adjusted returns.

The level of acceptable return for any proposal must also account for strategic fit and broader risk analysis (e.g. tail risk and concentration).

Existing businesses are subject to regular risk-return monitoring and reporting. Risk-adjusted performance metrics for each division are significant inputs into performance based remuneration.

RISK MANAGEMENT REPORT

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RISK MANAGEMENT GROUP

RMG, which forms the second line of defence, is an independent and centralised unit responsible for identifying, assessing and monitoring risks across Macquarie. It designs and oversees implementation of the risk management framework.

RMG is structured into specialist teams and employs an integrated approach to risk analysis and management across risk classes. RMG's assessment and monitoring of risks involves a collaborative effort across the teams to ensure a detailed analysis takes place both at the individual and aggregate risk level.

RMG's oversight of risk is based on the following five principles:

- **Independence:** RMG is independent of Macquarie's Operating and other Central Service Groups. The Head of RMG, as Macquarie's CRO, reports directly to the CEO with a secondary reporting line to the BRiC. RMG approval is required for all material risk acceptance decisions
- **Centralised prudential management:** RMG's responsibility covers the whole of Macquarie. It assesses risks from a Macquarie-wide perspective and provides a consistent approach across all operating areas
- **Approval of all new business activities:** Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets without first consulting RMG. RMG reviews and assesses the risks, and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board
- **Continuous assessment:** RMG continually reviews risks to account for changes in market circumstances and developments within Macquarie's operating areas
- **Frequent monitoring:** Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with Operating and Central Service Groups.



INTERNAL AUDIT

Internal Audit, as the third line of defence, provides independent assurance to Senior Management and the Board on the adequacy and operational effectiveness of Macquarie's internal control, risk management, and governance systems and processes. Internal Audit assesses whether risks have been adequately identified, appropriate internal controls are in place to manage those risks and whether those controls are working effectively.

Issues identified by Internal Audit are followed up to validate remediation.

Our Risk Mindsets and Behaviours team, comprised of risk culture specialists, performs reviews across Macquarie using a well-established assessment methodology. The prevailing risk management attitudes and behaviours of selected functions across the Operating and Central Service Groups are assessed. Areas of relative strength are highlighted together with areas for improvement.

Internal Audit is independent of both business management and the activities it reviews. The Head of Internal Audit is jointly accountable to the BAC and the CRO. The BAC approves the appointment and removal of the Head of Internal Audit, who has unrestricted access to the BAC.

MARKET AND CREDIT RISK Year end performance indicators

Macquarie monitors and measures a range of risks as outlined above in the risk management framework overview. The following graphs provide historical and current year information on key market and credit risks.

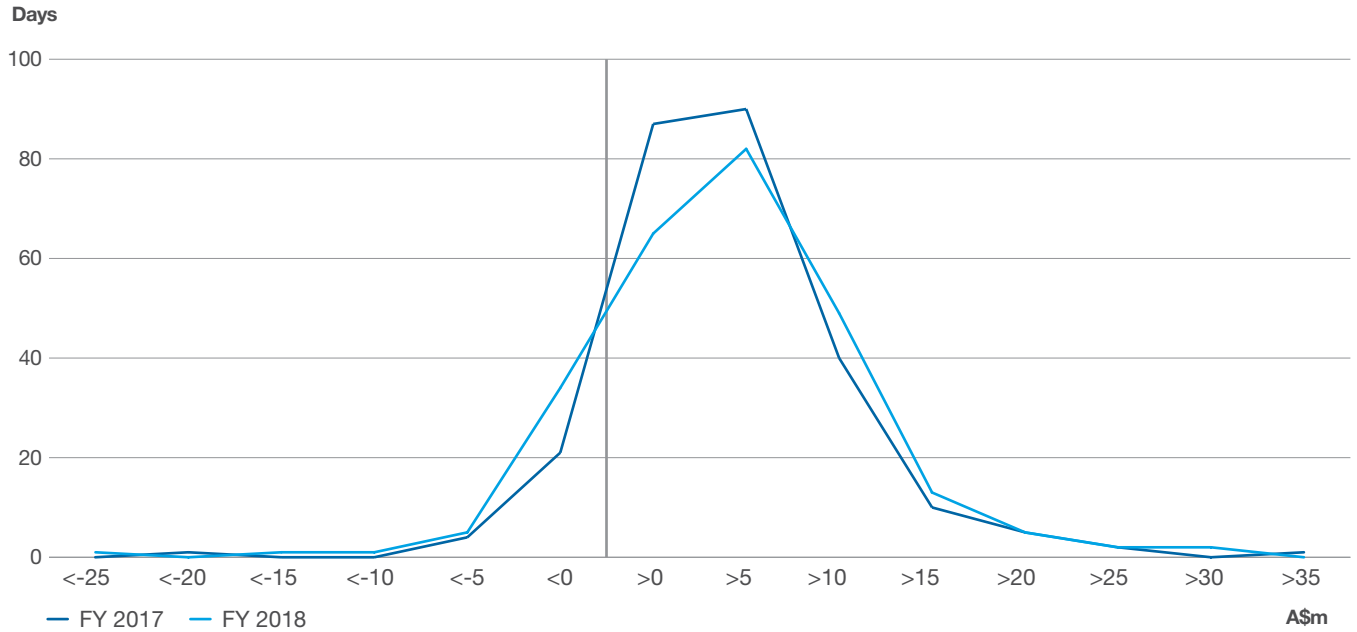
Trading revenue

The effectiveness of Macquarie's risk management framework can be partially measured by Macquarie's daily trading results. These are daily profit and loss results that are directly attributable to market based activity from Macquarie's trading desks. In light of uncertain market conditions, the small quantity and magnitude of daily losses incurred by Macquarie are indicative of an effective risk management framework and business operations focused on servicing our clients' needs.

Macquarie's market risk activities continue to be based on earning income from client-facing businesses. The majority of trading income is derived from client activities rather than outright proprietary trading activity.

Macquarie's trading results over time have shown consistent profits and low volatility. This is evident in the graph below and reflects the client-based nature of trading activities. In FY2018 Macquarie made a net trading profit on 218 out of 260 trading days (2017 results: 235 out of 261 trading days) and trading loss profiles were consistent with previous years.

Daily Trading Profit and Loss

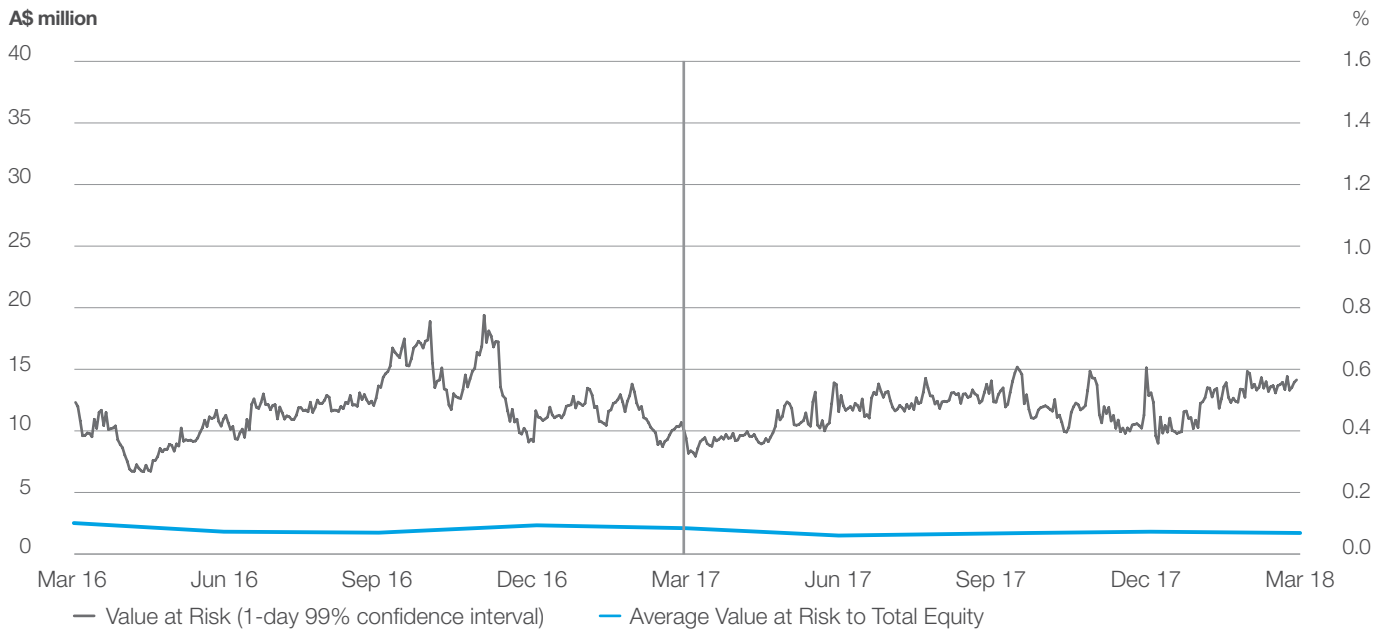


Value-at-Risk

VaR provides a statistically based summary of overall market risk in Macquarie. The magnitude of VaR reflects changes in positions as well as changes in market volatility, correlations and enhancements to the model. The integrity of the VaR model is regularly tested against daily profit and loss.

Macquarie's market risk fluctuated throughout the year driven by commodity exposure as well as changes in market volatility. VaR remains low in comparison to capital and earnings. It represents less than 0.1% of total equity.

Aggregate VaR



RISK MANAGEMENT REPORT

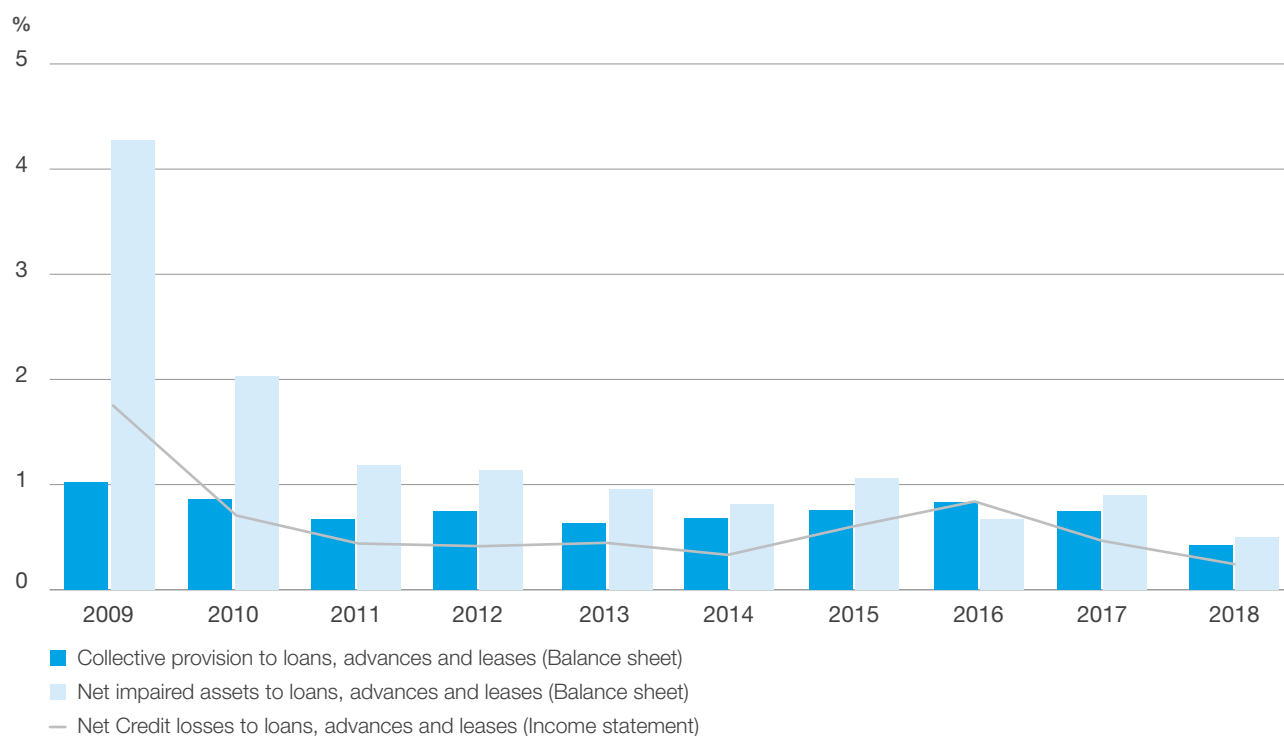
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Loan impairment review

All exposures are subject to recurring review and assessment for possible impairment. Provisions for loan losses are based on an incurred loss model that recognises a provision where there is objective evidence of impairment at each balance date. Specific provisions are recognised where a particular impairment is identified. Where applicable, the calculation for specific provisions is based on the discounted values of expected future cash flows. Facilities for which no individually assessed provision is required are evaluated collectively for impairment. These are representative of losses that have been incurred but not yet identified.

The decrease in 2018 is primarily driven by lower impaired assets in the Commodities and Global Markets Operating Group.

Ratio of provisions and impaired assets to loans, advances and leases



Notes:

- Loan assets exclude securitised mortgages, securitised Macquarie Capital loans/leases, segregated futures funds and receivables in the form of fees
- Net impaired assets and net losses exclude investment securities
- Collective provision is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable
- Net credit losses represent total P&L impact in the stated period due to additional specific provisions and direct write-offs net of any write-backs.

Directors' Report
Schedule 1 – Directors' experience and special responsibilities
Schedule 2 – Remuneration Report

3

DIRECTORS' REPORT

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

THE DIRECTORS OF MGL SUBMIT THEIR REPORT WITH THE FINANCIAL REPORT OF THE CONSOLIDATED ENTITY AND OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2018.

DIRECTORS

At the date of this report, the Directors of MGL are:

Independent Directors

P.H. Warne, Chairman

G.R. Banks AO

G.M. Cairns

M.J. Coleman

P.A. Cross

D.J. Grady AM

M.J. Hawker AM

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Director

N.W. Moore, Managing Director and Chief Executive Officer

Other than Mr Stevens, the Directors listed above each held office as a Director of MGL throughout the financial year ended 31 March 2018. Mr Stevens joined the Board of Directors effective on 1 November 2017. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

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

PRINCIPAL ACTIVITIES

The principal activity of MGL during the financial year ended 31 March 2018 was to act as a Non-Operating Holding Company (NOHC) for the Consolidated Entity. The activities of the Consolidated Entity were those of a global financial group providing banking, financial, advisory, investment and funds management services. In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

RESULT

The financial report for the financial years ended 31 March 2018 and 31 March 2017, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary owners for the financial year ended 31 March 2018 was \$A2,557 million (2017: \$A2,217 million).

DIVIDENDS AND DISTRIBUTIONS

Subsequent to the year ended 31 March 2018, the Directors have resolved to pay a final ordinary dividend of \$A3.20 per share, 45% franked based on tax paid at 30% (\$A1,088 million in aggregate). The final ordinary dividend is payable on 3 July 2018.

On 13 December 2017, the Company paid an interim ordinary dividend of \$A2.05 per share, 45% franked (\$A697 million in aggregate) for the financial year ended 31 March 2018.

On 3 July 2017, the Company paid a final dividend of \$A2.80 per share, 45% franked (\$A952 million in aggregate) for the financial year ended 31 March 2017.

No other ordinary share dividend or distributions were declared or paid during the financial year by the Company.

STATE OF AFFAIRS

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

OPERATING AND FINANCIAL REVIEW

Please refer to section 1 of this Annual Report for the following in respect of the Consolidated Entity:

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

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

Directors' Report
 Schedule 1 – Directors' experience and special responsibilities
 Schedule 2 – Remuneration Report

DIRECTORS' EQUITY PARTICIPATION AND OTHER RELEVANT INTERESTS

As at the date of this report, the Directors have relevant interests in MGL ordinary shares, MGL securities, or managed investment schemes made available by related companies of MGL and other relevant disclosable interests, as notified by the Directors to ASX in accordance with the *Corporations Act 2001* (Cth) (the Act), in the following:

| NAME & POSITION | EQUITY PARTICIPATION | | | OTHER RELEVANT INTERESTS | |
|----------------------------------|----------------------|-----------------------------------|-----------------------------------|--|-------------|
| | MGL ordinary shares | RSUs held in MEREP ⁽¹⁾ | PSUs held in MEREP ⁽¹⁾ | Direct & Indirect Interests | Number held |
| Executive Voting Director | | | | | |
| N.W. Moore | 2,310,976 | 632,575 | 195,826 | 2006 Macquarie Timber Land Trust units | 75 |
| | | | | Macquarie Global Infrastructure Fund III (B) units | 2,163,106 |
| Independent Directors | | | | | |
| G.R. Banks | 6,416 | – | – | – | – |
| G.M. Cairns | 12,734 | – | – | Macquarie Income Securities | 900 |
| M.J. Coleman | 7,199 | – | – | Macquarie Group Capital Notes 2 (MCN2) | 2,000 |
| P.A. Cross | 7,636 | – | – | – | – |
| D.J. Grady | 8,427 | – | – | Macquarie Group Capital Notes MCN2 | 400 100 |
| M.J. Hawker | 7,335 | – | – | MCN2 | 500 |
| G.R. Stevens | 1,028 | – | – | Macquarie Atlas Roads Group Limited Stapled Securities | 413 |
| N.M. Wakefield Evans | 5,267 | – | – | – | – |
| P.H. Warne | 14,933 | – | – | – | – |

(1) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in Note 32 to the financial statements in the Financial Report.

During the financial year, Directors received dividends relating to their holdings of MGL ordinary shares at the same rate as other shareholders.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE

The number of meetings of the Board of Directors (the Board) and of the Committees of the Board and the individual attendance by Directors at those meetings which they were eligible to attend, during the financial year, is summarised in the table below:

| | Regular Board Meetings ⁽¹⁾ | BAC meetings ⁽¹⁾ | BGCC meetings ⁽¹⁾ | BNC meetings ⁽¹⁾ | BRC meetings ⁽¹⁾ | BRiC meetings ⁽¹⁾ | Special Board Meetings ⁽¹⁾ |
|-----------------------------|---------------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|------------------------------|---------------------------------------|
| Number of meetings | 9 | 6 | 4 | 2 | 7 | 5 | 2 |
| P.H. Warne | 9/9 | – | – | 2/2 | 7/7 | 5/5 | 2/2 |
| N.W. Moore | 9/9 | – | – | 2/2 | – | – | 2/2 |
| G.R. Banks | 9/9 | – | 4/4 | 2/2 | 7/7 | 5/5 | 2/2 |
| G.M. Cairns | 9/9 | – | – | 2/2 | 7/7 | 5/5 | 2/2 |
| M.J. Coleman | 9/9 | 6/6 | 4/4 | 2/2 | – | 5/5 | 2/2 |
| P.A. Cross | 9/9 | 6/6 | – | 2/2 | – | 5/5 | 2/2 |
| D.J. Grady | 9/9 | – | 4/4 | 2/2 | 7/7 | 5/5 | 2/2 |
| M.J. Hawker | 9/9 | 6/6 | – | 2/2 | 7/7 | 5/5 | 2/2 |
| G.R. Stevens ⁽²⁾ | 4/4 | – | – | 1/1 | – | 3/3 | 1/1 |
| N.M. Wakefield Evans | 9/9 | 6/6 | 4/4 | 2/2 | – | 5/5 | 2/2 |

(1) Number of meetings attended by the member / total number of meetings eligible to attend as a member.

(2) Mr Stevens was appointed to the Board as an Independent Voting Director, and as a member of the Board Risk Committee and Board Nominating Committee, effective from 1 November 2017.

There was one Board sub-committee convened during the period, with two meetings held. All eligible sub-committee members, being Mr Warne, Mr Moore, Mr Coleman and the Chief Financial Officer (CFO), Mr Upfold, attended both meetings.

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

The Chairman of the Board and the CEO attend Board Committee meetings by invitation as a matter of course.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE

Under MGL's Constitution, MGL indemnifies all past and present directors and secretaries of MGL and its wholly-owned subsidiaries (including at this time the Directors named in this report and the Secretaries), against certain liabilities and costs incurred by them in their respective capacities. The indemnity covers the following liabilities and legal costs (subject to the exclusions described as follows):

- every liability incurred by the person in their respective capacity
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of their respective capacity
- legal costs incurred by the person in good faith in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of MGL and its wholly-owned subsidiaries, if that has been approved in accordance with MGL policy.

This indemnity does not apply to the extent that:

- MGL is forbidden by law to indemnify the person against the liability or legal costs, or
- an indemnity by MGL of the person against the liability or legal costs, if given, would be made void by law.

MGL has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (as amended from time to time) (Deed) with each of the Directors. Under the Deed, MGL, inter alia agrees to:

- indemnify the Director upon terms broadly consistent with the indemnity contained in MGL's Constitution
- take out and maintain an insurance policy against liabilities incurred by the Director acting as an officer of MGL or its wholly-owned subsidiaries. The insurance policy must be for an amount and on terms and conditions appropriate for a reasonably prudent company in MGL's position. Insurance must be maintained for seven years after the Director ceases to be a Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings)
- grant access to the Director to all relevant company papers (including Board papers and other documents) for seven years after the Director ceases to be a Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings).

In addition, MGL made an Indemnity and Insurance Deed Poll on 12 September 2007 (Deed Poll). The benefit of the undertakings made by MGL under the Deed Poll have been given to each of the directors, secretaries, persons involved in the management and certain other persons, of MGL and its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of MGL and its wholly-owned subsidiaries. The Deed Poll provides for broadly the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed described above. However, the Deed Poll does not provide for access to company documents.

The indemnities and insurance arrangements provided for under the MGL Constitution, the Deed and the Deed Poll, are broadly consistent with the corresponding indemnities and insurance arrangements provided under the MBL Constitution and deeds entered into by MBL.

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

ENVIRONMENTAL REGULATIONS

The Consolidated Entity has policies and procedures in place that are designed to ensure that where operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, those obligations are identified, appropriately addressed and material breaches notified.

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

NON-AUDIT SERVICES

Fees paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), for non-audit services during the period ended 31 March 2018 total \$A9.8 million. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 41 – Audit and other services provided by PwC in the Financial Report.

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

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

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



DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

ROUNDING OF AMOUNTS

In accordance with *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191*, amounts in the Directors' Report and Financial Report have been rounded off to the nearest million Australian dollars unless otherwise indicated.

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

EVENTS SUBSEQUENT TO BALANCE DATE

At the date of this report, the Directors are not aware of any matter or circumstance that has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2018.

Peter Warne
Independent Director and Chairman

Nicholas Moore
Managing Director and Chief Executive Officer

Sydney
4 May 2018

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
4 May 2018

Liability limited by a scheme approved under Professional Standards Legislation

DIRECTORS' REPORT SCHEDULE 1 DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

PETER H WARNE, BA (MACQUARIE), FAICD

Independent Chairman of MGL and MBL since April 2016

Independent Voting Director of MGL since August 2007

Independent Voting Director of MBL since July 2007

Mr Warne is Chairman of the BNC and a member of the BRC and BRiC

Experience

Peter Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of senior roles at Bankers Trust Australia Limited, including as Head of its global Financial Markets Group from 1988 to 1999. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 to 1999, then from 2000 to 2006. He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the ASX in July 2006, he became a Director of ASX Limited. Mr Warne has previously served as Chairman of ALE Property Group from 2003 to 2017 and OzForex Group Limited (now trading as OFX Limited) from 2013 to 2016, and as Deputy Chairman of Crowe Horwath Australasia Limited from 2008 to 2015.

Age: 62

Mr Warne is a resident of New South Wales.

Listed Company directorships (last three years)

- Chairman, ALE Property Group (September 2003 – May 2017)
- Director, ASX Limited (since July 2006)
- Chairman, OzForex Group Limited (now trading as OFX Limited) (September 2013 – November 2016)

Other current directorships/appointments

- Director, New South Wales Treasury Corporation
- Member, Macquarie University Faculty of Business and Economics Industry Advisory Board

NICHOLAS W MOORE, BCOM LLB (UNSW), FCA

Managing Director and Chief Executive Officer of MGL since May 2008

Executive Voting Director of MGL since February 2008

Executive Voting Director of MBL since May 2008

Experience

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

Appointed Chief Executive Officer in 2008, he is now leading the continued global growth of Macquarie Group.

Age: 59

Mr Moore is a resident of New South Wales.

Other current directorships/appointments

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

DIRECTORS' REPORT SCHEDULE 1

DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

CONTINUED

GARY R BANKS AO, BEC (HONS) (MONASH), MEC (ANU)

Independent Voting Director of MGL and MBL since August 2013

Mr Banks is a member of the BGCC, BNC, BRC and BRiC

Experience

Gary Banks has extensive experience across economics, public policy and regulation in Australia and internationally. He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012 and subsequently Chief Executive of the Australia and New Zealand School of Government.

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

Age: 68

Mr Banks is a resident of Victoria.

Other current directorships/appointments

- Chairperson, Australian Statistics Advisory Council
- Chairman, Regulatory Policy Committee of the OECD
- Professorial Fellow and Member of Advisory Board, Melbourne Institute, University of Melbourne
- Senior Fellow, Centre for Independent Studies
- Member, NSW Government's Economic Development Advisory Panel

GORDON M CAIRNS, MA (HONS) (EDIN)

Independent Voting Director of MGL and MBL since November 2014

Mr Cairns is a member of the BNC, BRC and BRiC

Experience

Gordon Cairns has held a range of management and executive roles throughout his career with Nestle, Cadbury Ltd and PepsiCo culminating as Chief Executive Officer of Lion Nathan Limited from 1997 – 2004. He has extensive experience as a company director, including nine years as a non-executive director of Westpac Banking Corporation, where he served on the Board Risk Management and Remuneration Committees.

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

Age: 67

Mr Cairns is a resident of New South Wales.

Listed Company directorships (last three years)

- Chairman, Woolworths Limited (since September 2015)
- Chairman, Origin Energy Limited (since October 2013) (Director since June 2007)

Other current directorships/appointments

- Director, World Education Australia

MICHAEL J COLEMAN, MCOM (UNSW), FCA, FCPA, FAICD

Independent Voting Director of MGL and MBL since November 2012

Mr Coleman is Chairman of the BAC and a member of the BGCC, BNC and BRiC

Experience

After a career as a senior audit partner with KPMG for 30 years, Mr Coleman has been a professional non-executive director for the past seven years. He has significant experience in risk management, financial and regulatory reporting and corporate governance.

Mr Coleman has been Chairman of ING Management Limited, a member of the Audit Committee of the Reserve Bank of Australia and a member of the Financial Reporting Council, including terms as Chairman and Deputy Chairman. He was KPMG's inaugural National Managing Partner Assurance and Advisory from 1998 to 2002, National Managing Partner for Risk and Regulation from 2002 to 2010 and Regional Leader for Asia Pacific Quality and Risk Management from 2002 to 2011.

Age: 67

Mr Coleman is a resident of New South Wales.

Listed Company directorships (last three years)

- Chairman, Bingo Industries Limited (since March 2017) (listed May 2017)

Other current directorships/appointments

- Chairman, Reporting Committee of the Australian Institute of Company Directors (AICD)
- Member, National Board and NSW Council, AICD
- Chairman, Planet Ark Environmental Foundation
- Adjunct Professor, Australian School of Business, UNSW
- Board member, Legal Aid NSW

PATRICIA A CROSS, BSC (HONS) (GEORGETOWN), FAICD

Independent Voting Director of MGL and MBL since August 2013

Mrs Cross is Chair of the BRiC and a member of the BAC and BNC

Experience

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

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

Age: 58

Mrs Cross is a resident of Victoria.

Listed Company directorships (last three years)

- Director, Aviva plc (since October 2013)

Other current directorships/appointments

- Chair, Commonwealth Superannuation Corporation
- Ambassador, Australian Indigenous Education Foundation
- Founding Chair, 30% Club Australia

DIRECTORS' REPORT SCHEDULE 1

DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

CONTINUED

DIANE J GRADY AM, BA (MILLS), MA (HAWAII), MBA (HARV), FAICD

Independent Voting Director of MGL and MBL since May 2011

Ms Grady is a member of the BGCC, BNC, BRC and BRiC

Experience

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

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

Age: 69

Ms Grady is a resident of New South Wales.

Listed Company directorships (last three years)

- Director, Spotless Group Holdings Limited (March 2014 – July 2017)

Other current directorships/appointments

- Chair, The Hunger Project Australia
- Member, Centre for Ethical Leadership
- Member, Heads Over Heels Advisory Board
- Member, NFP Chairs Forum
- Director, Tennis Australia
- Director, Grant Thornton Australia Board

MICHAEL J HAWKER AM, BSC (SYDNEY), FAICD, SF FIN, FAIM, FIOD

Independent Voting Director of MGL and MBL since March 2010

Mr Hawker is Chairman of the BRC and a member of the BAC, BRiC and BNC

Experience

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

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

Age: 58

Mr Hawker is a resident of New South Wales.

Listed Company directorships (last three years)

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

Other current directorships/appointments

- Chairman, the George Institute for Global Health
- Director, Rugby World Cup Limited

Directors' Report
 Schedule 1 – Directors' experience and special responsibilities
 Schedule 2 – Remuneration Report

GLENN R STEVENS AC, BEC (HONS) (SYDNEY), MA (ECON) (UWO)

Independent Voting Director of MGL and MBL since November 2017

Mr Stevens is a member of the BRiC and BNC

Experience

Glenn Stevens worked at the highest levels of the Reserve Bank of Australia (RBA) for 20 years and, as well as developing Australia's successful inflation targeting framework for monetary policy, played a significant role in central banking internationally. Most recently, he was Governor of the Reserve Bank of Australia between 2006 and 2016.

Mr Stevens has also made key contributions to a number of Australian and international boards and committees, including as chair of the Australian Council of Financial Regulators between 2006 and 2016, as a member of the Financial Stability Board and on a range of G20 committees.

Age: 60

Mr Stevens is a resident of New South Wales.

Other current directorships/appointments

- Director, Lowy Institute
- Director, Anika Foundation
- Member, Investment Committee, NWQ Capital Management
- Advisor, Ellerston Capital Global Macro Fund
- Deputy Chair, Temora Aviation Museum

NICOLA M WAKEFIELD EVANS, BJURIS/BLAW (UNSW), FAICD

Independent Voting Director of MGL and MBL since February 2014

Ms Wakefield Evans is Chair of the BGCC and a member of the BAC, BRiC and BNC

Experience

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

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

Age: 57

Ms Wakefield Evans is a resident of New South Wales.

Listed Company directorships (last three years)

- Director, Lendlease Corporation Limited (since September 2013)
- Director, Toll Holdings Limited (May 2011 – June 2017) (de-listed May 2015)

Other current directorships/appointments

- Director, BUPA ANZ Healthcare Holdings Pty Ltd
- Director, BUPA ANZ Insurance Pty Ltd
- Director, Clean Energy Finance Corporation
- Director, Chief Executive Women
- Member, Asialink (University of Melbourne) and Asialink Business
- Member, Takeovers Panel
- Director, UNSW Foundation Limited
- Member, National Board, Australian Institute of Company Directors

COMPANY SECRETARIES' QUALIFICATIONS AND EXPERIENCE

DENNIS LEONG, BSC BE (HONS) (SYD), MCOM (UNSW), CPA, FGIA

Company Secretary since October 2006

Dennis Leong is an Executive Director of Macquarie and has had responsibility for Macquarie's company secretarial requirements, general and professional risks insurances and aspects of its employee equity plans. He has over 24 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

IDA LAWRANCE, BCOM (HONS) (QUEENS), LL.M (UNSW), AGIA, GAICD

Assistant Company Secretary since July 2016

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

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

LETTER FROM THE CHAIRMAN OF THE BOARD REMUNERATION COMMITTEE

Dear shareholders

On behalf of the Board, I am pleased to present Macquarie's 2018 Remuneration Report. In 2018, Macquarie has continued to deliver strong financial results for shareholders. These results are reflected in Executive Key Management Personnel (Executive KMP) remuneration outcomes.

Performance

Our results are driven by the performance and deep expertise of our people, in accordance with our long-held principles of *What We Stand For* – Opportunity, Accountability and Integrity. For FY2018:

- Net profit after tax (NPAT) of \$A2,557 million is up 15% on the prior year
- Return on equity (ROE) of 16.8% has improved from 15.2% in the prior year
- Earnings per share (EPS) of 758.2 cents per share has increased by 15% on the prior year.

Total compensation has increased by 2%, whereas the total compensation expense to income ratio continued to decline. This reflects the change in business mix, with contribution to net profit from annuity-style businesses increasing from 25% to approximately 70% over the past ten years.

The Board has determined that total awarded profit share for Comparable Executive KMP⁽¹⁾ of \$A100.6 million, representing a 5% increase on the prior year, is appropriate.

The company-wide profit share pool is determined through a bottom-up assessment at both the business group and individual level (refer to page 57). This is compared to an internal formula based on Macquarie's after-tax profits and earnings over and above the estimated cost of capital. As in some previous years, the Board exercised its discretion to approve a final pool lower than the amount calculated in accordance with the internal formula.

Remuneration approach

Macquarie's remuneration framework continues to support the overarching objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*.

Macquarie has a longstanding and consistent approach to remuneration which has evolved over time. Our approach to remuneration is a partnership where profits are shared between our shareholders and our staff. No significant changes have been made to Macquarie's remuneration structure for this year.

The Board believes this approach is integral to Macquarie's sustained success and creates a strong alignment between staff and shareholders.

Our approach is characterised by:

- an emphasis on performance-based remuneration including consideration of the following factors: financial performance, risk management and compliance, business leadership, people leadership and professional conduct
- comparatively low fixed remuneration
- profit share based on realised after-tax profits
- significant retention and long deferral periods (for example, for the CEO, 80% is retained, vesting over three to seven years). Including Performance Share Units (PSUs), the effective deferral rate for the CEO is 82% for the year.

This approach has been fundamental in attracting, motivating and retaining our people. As a global diversified financial group, our people operate in over 100 different markets, in over 25 countries, with approximately 67% of our income generated outside Australia and 54% of our staff based offshore. We are a regular employer in offshore markets and must look to the international environment when competing for talent. For this reason, we use an international reference group for peer comparison.

Conduct

The manner in which our people conduct themselves is crucial to the success of our organisation. Staff are guided by our *Code of conduct* and long-held principles of *What We Stand For* – Opportunity, Accountability and Integrity.

We have consistent and transparent practices in place for managing non-compliance with our policies and our strong risk management framework guides the way all staff are expected to conduct themselves.

We are committed to achieving the highest standards of professional conduct across the organisation. The Board and the Board Remuneration Committee (BRC) take any breaches of policy or other misconduct very seriously. Our deferral periods and significant retention rates enable risk outcomes to be taken into account over long periods.

In 2018, there were 157 (2017: 167) matters involving conduct/policy breaches which resulted in formal consequences (refer to page 58). Consequences included additional training, adjustments of performance-based remuneration, impact on promotion, formal warnings and termination. Of the 157 matters, 38 resulted in termination of employment and 119 resulted in a formal warning. In 32 of the 119 matters where a formal warning was issued, the individual subsequently left Macquarie. These matters were considered to be isolated incidents and not systemic.

Disclosure

As a result of ongoing engagement with shareholders, investors and other external stakeholders, this year we have incorporated additional disclosures on awarded remuneration in our report. The additional disclosures illustrate how profit share awarded for the year is aligned with the current year's performance (refer to pages 59 to 62). In addition, we have included further information on how profit share is determined and allocated (refer to page 57), and how our robust consequence management process informs the Board's decision making (refer to page 58).

We look forward to receiving your views and support at the 2018 Annual General Meeting.



Michael Hawker
Chairman, Board Remuneration Committee

(1) Comparable Executive KMP are those KMP who are members of the Executive Committee for the full year in both FY2018 and FY2017.

REMUNERATION FRAMEWORK

This section explains the objectives and principles of our remuneration framework.

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

Overall remuneration objectives and principles

SUPERIOR LONG-TERM COMPANY PERFORMANCE

Align interests of staff and shareholders

Attract, motivate and retain high quality people

The Board consider this is best achieved by supporting the following principles:

- linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
- emphasising performance-based remuneration with an appropriate balance between short-term and long-term incentives having regard to risk
- determining variable remuneration as a share of profits (not a short-term bonus) based on realised after-tax profits
- remunerating high performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie
- ensuring remuneration is structured to drive behaviours which reflect Macquarie's culture and promote Macquarie's risk management framework
- delivering remuneration in a way that encourages a long-term perspective, creates alignment with shareholder interests and encourages the prudent management of risk
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives.

CREATING A LONG-TERM FOCUS

DIRECTORS' REPORT SCHEDULE 2

REMUNERATION REPORT

CONTINUED

REMUNERATION STRUCTURE

This section describes the way in which remuneration is structured and delivered.

Macquarie's remuneration framework works as an integrated whole. An individual's remuneration comprises fixed remuneration, profit share and, for Executive Committee members (our Executive KMP), PSUs. The table below provides an overview of these components.

| FIXED REMUNERATION | |
|--------------------------------|---|
| Fixed | <ul style="list-style-type: none"> – comparatively low compared to similar roles in other organisations but sufficient to avoid inappropriate risk-taking – for risk and financial control staff, generally a higher proportion of total remuneration than for front office staff. |
| PERFORMANCE-BASED REMUNERATION | |
| Profit share | <ul style="list-style-type: none"> – all permanent employees are eligible to participate – significant portion of profit share is retained (80% for the CEO) with a long deferral period (three to seven years for Executive Committee members) – retained profit share is delivered in a combination of MGL equity and Macquarie-managed fund equity to strengthen alignment with future performance – Malus provisions apply to certain senior employees – retained profit share is subject to forfeiture upon leaving Macquarie except in limited circumstances (such as retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances). |
| PSUs | <ul style="list-style-type: none"> – only awarded to Executive Committee members to drive company-wide performance – are a meaningful incentive but not the major element of total remuneration – vesting of PSUs is subject to achievement of performance hurdles measured equally against ROE relative to an international reference group (50%) and absolute EPS growth (50%) <ul style="list-style-type: none"> – PSU awards vest in two equal tranches after three and four years – no retesting of hurdles – an international reference group recognises the extent of Macquarie's diversification and internationalisation – Malus provisions apply from 2018 – unvested PSUs are subject to forfeiture upon leaving Macquarie except in limited circumstances (such as retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances). |

The Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

Retained profit share: retention and vesting

Macquarie retains a percentage of certain individuals' annual profit share allocation (retained profit share) which is invested in a combination of Macquarie ordinary shares under the MEREP and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan⁽¹⁾. Whilst they are employed, an individual's retained profit share vests and is released over a period that reflects the scope and nature of their role and responsibilities. Retention and vesting arrangements are determined by the BRC, according to prevailing market conditions, having regard to regulatory and remuneration trends. For each year's allocation, once the vesting period has been determined it remains fixed for that allocation.

The following table summarises the standard retention and vesting arrangements applicable for FY2018.

(1) Both the MEREP and DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in Macquarie ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 32 to the financial statements in the Financial Report.

The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.

FY2018 Standard profit share arrangements – retention levels, investment of retained profit share and vesting periods

| Role | Profit share retention (%) | Retained profit share investment | | Vesting and release of profit share |
|---|----------------------------|----------------------------------|--|-------------------------------------|
| | | MEREP (MGL ordinary shares) % | Post-2009 DPS plan (Macquarie-managed fund equity) % | |
| CEO | 80 | 90 | 10 | One-fifth in each of years 3 – 7 |
| CEO Macquarie Bank | 60 | 90 | 10 | |
| Executive Committee members with Funds responsibilities | 70 | 50 | 50 | |
| Other Executive Committee members | 60 – 70 | 80 – 90 | 10 – 20 | |
| Designated Executive Directors ⁽²⁾ | 50 – 60 | 80 – 90 | 10 – 20 | |
| Other Executive Directors | 40 – 60 | 80 – 90 | 10 – 20 | One-third in each of years 3 – 5 |
| Executive Directors with Funds responsibilities | 40 – 60 | 25 – 50 | 50 – 75 | As Above |
| Staff other than Executive Directors | 25 – 60 ⁽³⁾ | 100 ⁽⁴⁾ | 0 ⁽⁴⁾ | One-third in each of years 2 – 4 |

The Board's discretion to change remuneration arrangements, as noted above, includes changes to profit share retention levels provided that the retention percentage is at least 30% for Executive Directors.

In addition to the arrangements set out in the table above, different arrangements may apply in certain circumstances:

- Retention rates, vesting and release schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in certain jurisdictions, for example the EU, to ensure compliance with local regulatory requirements
- In limited circumstances, retained profit share may be allocated to other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of staff with those of their clients.

A small number of individuals with funds responsibilities may receive a portion of their performance-based remuneration as a share of performance fees paid by Macquarie-managed funds. The company-wide profit share pool is adjusted downwards to reflect these deferred remuneration arrangements which are also taken into account in determining the individual's profit share allocation. Consistent with market practice, these individuals are allocated an entitlement to a share of performance fees paid by a particular fund. This allocation is based on performance, seniority and the extent of their involvement with the particular fund. An individual will not receive their entitlement until Macquarie has received performance fees towards the end of the fund's life, which is typically upwards of 10 years. Currently there are no KMP that participate in these arrangements.

Forfeiture of retained profit share – Malus Events

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

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

Each of the above is a Malus Event.

Additional provisions may apply to staff in certain jurisdictions to ensure compliance with local regulations. This includes, for example, staff in the EU who are required to comply with local regulatory requirements. These individuals are subject to additional Malus and clawback provisions under EU regulations.

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

(2) Executive Directors who have a significant management or risk responsibility in the organisation.

(3) Above certain monetary thresholds.

(4) For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of Macquarie equity and Macquarie-managed fund equity.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT CONTINUED

REMUNERATION STRUCTURE CONTINUED

Early vesting and release of retained profit share

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

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in relation to strategic business objectives, including in connection with the divestment or internalisation of Macquarie businesses, or when an employee resigns to fulfil a public service role in a governmental organisation or agency. Where such discretion is exercised, the Board may impose such other conditions as it considers appropriate.

This year such discretion has been exercised and retained profit share was released for one executive due to the sale of the business, to which they provided services.

Conditions of early release to departing Executive Directors – Post Employment Events

In addition to the Malus provisions set out above, where discretion has been exercised to accelerate the vesting of the retained profit share of any departing Executive Director, the Board may reduce or eliminate in full their retained profit share, if it determines that the Executive Director has at any time during their employment or the relevant release periods after their employment committed a Malus Event (as described on page 53) or:

- taken staff to a competitor of Macquarie or been instrumental in causing staff to go to a competitor, or
- joined a competitor of Macquarie or otherwise participated in a business that competes with Macquarie.

Each of the above is a Post Employment Event.

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

| | First Period | Second Period | Third Period |
|--|--|--|---|
| Time post-departure | Six months | Six months to one year | One year to two years |
| Unvested retained profit share released | From all but the last two years of employment | From the second year prior to the end of employment | From the year prior to the end of employment |
| Subject to | No Malus Event as set out on the previous page or Post Employment Event as set out above | No Malus Event or Post Employment Event during the First Period, and | No Malus Event or Post Employment Event during the First Period, and |
| | | No Malus Event or Post Employment Event a) above during Second Period | No Malus Event or Post Employment Event a) during the Second Period, and |
| | | | No Malus Event during the Third Period |
| Where the release is by reason of retirement from Macquarie | As above | As above and in addition, the release is subject to no Post Employment Event b) during the Second Period | As above and in addition, the release is subject to no Post Employment Event b) during the Second and/or Third Period |

As set out in the table above, the release provisions for retirement from Macquarie were enhanced during FY2018, whereby the release of retention post termination at six months, one year and two years is subject to the Executive Director not having joined a competitor or otherwise participated in a business that competes with Macquarie (Post Employment Event b).

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

For individuals who are allocated an entitlement to a share of performance fees paid by a particular Macquarie-managed fund, the entitlement will be forfeited if their employment ceases before five years from the date of allocation. Entitlements are subject to similar forfeiture conditions as profit share.

Performance Share Units (PSUs)

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

Since their introduction, PSUs have been structured as DSUs⁽⁵⁾ with performance hurdles. Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for FY2018.

The following table summarises the key terms of PSUs and the performance hurdles:

| | EPS CAGR hurdle | ROE hurdle |
|----------------------------|---|---|
| Application | 50% of PSU award | 50% of PSU award |
| Performance measure | Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years) | Average annual ROE over the vesting period (three to four years) relative to a reference group of global financial institutions ⁽⁶⁾ |
| Hurdle | Sliding scale applies: <ul style="list-style-type: none"> – 50% becoming exercisable at EPS CAGR of 7.5% – 100% at EPS CAGR of 12% For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable. | Sliding scale applies: <ul style="list-style-type: none"> – 50% becoming exercisable above the 50th percentile – 100% at the 75th percentile For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable. |

Rationale for hurdles

- ROE and EPS drive long-term company performance and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control
- The approach is consistent with that advocated by APRA in not using TSR as a measure
- Can be substantiated using information that is disclosed in audited financial statements
- A sliding scale diversifies the risk of not achieving the hurdles and provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk-taking
- Designed to reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee
- An international reference group recognises the extent of Macquarie's diversification and internationalisation. At 31 March 2018, total international income represented approximately 67% of Macquarie's total income with approximately 54% of Macquarie's staff located outside Australia.

Forfeiture

- Malus provisions apply from 2018
- The standard policy is that unvested PSUs will be forfeited upon termination
- To ensure continued alignment with shareholders post termination, in the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health, or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles
- Should a change of control occur, the Board or the BRC has discretion to determine how unvested PSUs should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control.

(5) A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 32 to the financial statements in the Financial Report.

(6) The reference group for awards made from 2013 is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.

DIRECTORS' REPORT SCHEDULE 2

REMUNERATION REPORT

CONTINUED

Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year end results available. PSUs that do not meet performance hurdles expire.

The PSUs that vested in July 2017 comprised the second tranche of those awards granted in 2013 and the first tranche of those granted in 2014. The performance hurdles under each tranche were fully met and 100% of the awards became exercisable. As a result:

| PSU tranche | EPS CAGR hurdle | | | ROE hurdle | | |
|----------------|---------------------------------------|----------|------------------|---------------------------------------|--|------------------|
| | Macquarie result (for vesting period) | Hurdle | Outcome | Macquarie result (for vesting period) | Hurdle | Outcome |
| 2013 Tranche 2 | 27.20% | 7.5%-12% | 100% exercisable | 12.33% | 50% above the 50th percentile ⁽⁷⁾ 100% at the 75th percentile ⁽⁷⁾ | 100% exercisable |
| 2014 Tranche 1 | 19.68% | 7.5%-12% | 100% exercisable | 13.01% | 50% above the 50th percentile ⁽⁸⁾ 100% at the 75th percentile ⁽⁸⁾ | 100% exercisable |

Other features of Macquarie's remuneration structure

| | |
|---|---|
| Minimum shareholding requirement | Executive Directors are required to hold a relevant interest in Macquarie ordinary shares which have a value equal to 5% of an Executive Director's aggregate profit share allocations for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy. |
| Promotion Awards | Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on Director-level set with reference to an Australian dollar value. Currently these awards range from \$A25,000 to \$A175,000 depending on the promotion level. |
| Hedging | Macquarie prohibits staff from hedging shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP. |

Employment contracts

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

| | |
|-------------------------------------|---|
| Length of contract | Permanent open-ended. |
| Remuneration review period | 1 April to 31 March annually. |
| Profit share participation | Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'. Refer to pages 52 to 54 for details. |
| PSU participation | Executive Committee members are eligible to receive PSUs. Refer to pages 55 to 56 for details. |
| Termination of employment | Requires no more than four weeks' notice ⁽⁹⁾ by Macquarie or the Executive Committee member (Post-employment restrictions apply). |
| Post-employment restrictions | Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie's election, for up to three months post-termination. |

(7) Peer group ROE at 50th percentile 6.47% and peer group ROE at 75th percentile 9.64%.

(8) Peer group ROE at 50th percentile 7.19% and peer group ROE at 75th percentile 9.33%.

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

APPROACH TO DETERMINING REMUNERATION OUTCOMES

This section provides an overview of Macquarie's approach to determining remuneration outcomes.

FIXED REMUNERATION

| | |
|--------------|---|
| Fixed | <ul style="list-style-type: none"> – Reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements. |
|--------------|---|

PERFORMANCE-BASED REMUNERATION

| | |
|---------------------|--|
| Profit share | <p>The company-wide profit share pool is determined through a bottom-up assessment at both the business group and individual level:</p> <p>Allocation to business groups</p> <ul style="list-style-type: none"> – Considers overall remuneration levels in the market in which each business operates – Reflects each business' contribution to company-wide profits taking into account capital and funding usage – For support groups, based on the quality and integrity of control functions and support services; not primarily determined with reference to profitability. <p>Allocation to individuals</p> <ul style="list-style-type: none"> – Considers individual remuneration levels in the market in which each business operates – Primarily based on business profits and individual contribution to profits for front office staff – Primarily based on contribution to high quality control functions for risk management and financial control staff – For other support staff, based on their contribution to delivering high quality services to support the businesses – Other factors considered include risk management and compliance, business leadership, people leadership and professional conduct – May be adjusted downwards based on an assessment of risk or conduct issues that have arisen during the year. <p>Company-wide profit share pool</p> <ul style="list-style-type: none"> – Is an aggregate of the bottom-up assessment conducted at the business and individual level which is compared to an internal formula based on Macquarie's after-tax profits and its earnings over and above the estimated cost of capital to ensure it is appropriate – The CFO confirms that payment of the profit share pool would not result in elimination of capital surpluses – The Board retains discretion to determine the final amount of profit share allocated to reflect internal or external factors if deemed in the interests of Macquarie and shareholders. |
| PSUs | <ul style="list-style-type: none"> – Pool determined with reference to profits over recent years – The Board retains discretion to award PSUs – Awards are made based on a fair value methodology – Individual allocations reflect role and complexity, and contribution to driving the collective performance of Macquarie – PSUs are granted in August each year. Details of 2017 grants are included on pages 79 to 80 in Appendix 4. |

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

RISK CONSIDERATIONS AND CONSEQUENCE MANAGEMENT

This section describes how risk is considered throughout Macquarie's remuneration approach.

Risk culture

A sound risk culture has been integral to Macquarie's risk management framework since inception. Staff are made aware that Macquarie's *What We Stand For* principles of Opportunity, Accountability and Integrity must form the basis of all behaviours and actions. These behavioural expectations are outlined in the Board approved *Code of conduct*, which is actively promoted by Management and cascaded through the organisation.

The Board and the BRC take risk and behavioural matters very seriously. There are consistent and transparent practices in place for managing non-compliance with our policies.

Alignment of remuneration with prudent risk taking

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

Macquarie's remuneration framework is characterised by significant retention and long deferral periods, which enables risk outcomes to be taken into account over a longer period. There are robust processes in place to ensure that risk, reputation and conduct related matters, as well as financial losses and impairments, and other breaches of the risk management framework are specifically considered when assessing performance and determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate.

To assist the Board and the BRC:

- The Board receives regular reports to assist Board members in assessing Macquarie's risk culture as well as through personal observation including visits to Macquarie's overseas offices
- The Chief Risk Officer (CRO) provides an independent annual report to the BRC detailing any material breaches of policy, losses and impairments, residual risks associated with large transactions concluded during the current financial year, return on economic capital by business and the relationship between profitability and risk
- The Global Head of HR discusses the CRO's report with the Group Heads to ensure any matters listed in the report have been appropriately reflected in remuneration outcomes for relevant staff and provides a report to the BRC detailing how this has been achieved
- The General Counsel, in conjunction with HR, considers whether there are any incidents that should be brought to the attention of the BRC which might lead to a Malus determination and reports to the BRC at year end.

The BRC conducts a detailed review of all the material presented and uses this information when considering remuneration outcomes for relevant businesses and individuals.

Consequence Management

Macquarie operates a robust consequence management process whereby incidents, breaches of policy and misconduct are regularly reported to senior management. Macquarie's Consequence Management Guideline applies wherever a breach of internal policy, including the *Code of conduct*, or regulatory requirement is identified. Consequences may include requirements to undergo further training, removal of delegated authorities or permissions, adjustments to performance-based remuneration, impact on promotion, formal warnings or termination.

In any given year, each of these different types of consequences may be imposed on individuals working at Macquarie. The most serious consequences are formal warnings and terminations. Where an employee has received a formal warning, in most cases the discretionary component of their remuneration will be impacted. In the event that an individual's employment is terminated on account of a compliance or conduct concern (or they resign), Macquarie's standard policy would apply, whereby retained and unvested remuneration is forfeited.

To assist the Board and the BRC:

- RMG and HR routinely provide information on identified breaches of policies and regulatory rules to (amongst other purposes) ensure that appropriate consequence management is applied. RMG and HR data relating to employee conduct, including individual employee warnings, incidents and breaches, is collated from various sources and regularly reported to senior management
- The Global Head of HR annually reports to the BRC on the outcomes from the consequence management process and confirms these matters have been considered in determining remuneration and promotion outcomes where appropriate.

In 2018, there were 157 (FY2017: 167) matters involving conduct/policy breaches which resulted in formal consequences. Of those matters:

- for 38 matters, termination of employment was the outcome, compared with 63 matters in FY2017
- for 119 matters, a formal warning was issued compared with 104 matters in FY2017. Where a formal warning was issued, additional consequences were applied as appropriate including additional training, removal of delegated authorities or permissions, adjustments to performance-based remuneration and/or impact to promotion. Of the 119 matters, 32 have resulted in individuals subsequently leaving Macquarie.

These matters were considered to be isolated incidents and not systemic.

ALIGNMENT OF EXECUTIVE KMP REMUNERATION OUTCOMES TO RESULTS

This section details Executive KMP remuneration outcomes for FY2018 and demonstrates the link between pay and performance.

Macquarie has delivered strong financial results for shareholders in FY2018. NPAT and EPS have both increased by 15% compared with FY2017. In addition, returns to shareholders have been strong with an increase in ordinary dividends of 12% compared to the prior year.

Total compensation in FY2018 has not increased to the same extent as NPAT and EPS, and the compensation expense to income ratio has declined from 43.1% to 38.7% over a five year period. This reflects the change in business mix with contribution to net profit from annuity-style businesses increasing from 25% to approximately 70% over the past ten years.

As in some previous years, not all of the profit share pool calculated in accordance with the internal formula has been allocated.

Fixed remuneration outcomes

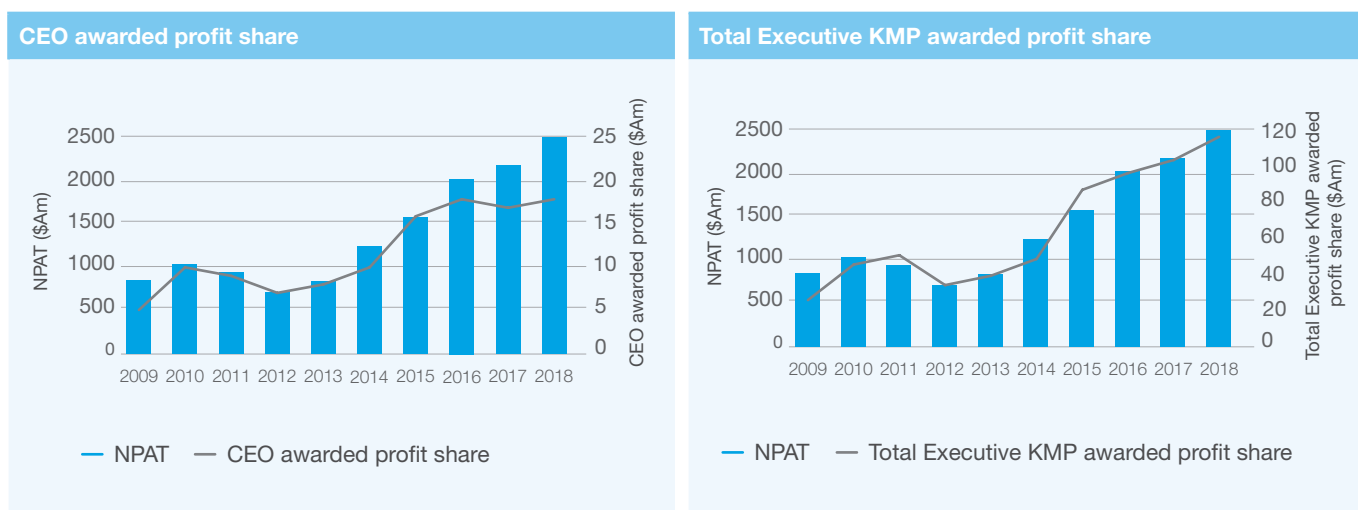
- No fixed remuneration increases are proposed for Executive KMP in 2018 with the exception of:
 - N. O'Kane and A. Harvey who both joined the Executive Committee during the year. Effective 1 July 2018, an increase in fixed remuneration was determined to be appropriate given their increased responsibilities and oversight role
 - M. Reemst whose fixed remuneration was increased, effective 1 July 2018, to reflect the scope of her role
- This is the 7th year that the CEO's fixed remuneration has remained unchanged
- In line with our pay for performance approach to remuneration, fixed remuneration of our Executive KMP in FY2018 comprised approximately 7% of total awarded remuneration, with the balance at risk and explicitly linked to performance.

Profit share outcomes

For FY2018 the Board determined that total awarded profit share for Comparable Executive KMP of \$A100.6 million⁽¹⁰⁾, representing an increase of 5% on the prior year, is appropriate.

In determining each Executive KMP's profit share for the year, the BRC carefully considered a number of factors with respect to each Executive KMP, including the financial performance of each business, their business and people leadership, their business judgement as well as risk and conduct matters. In addition, the BRC considered remuneration levels for organisations in an international reference group that broadly operate in the same markets and compete for the same people as Macquarie.

The following graphs show multi-year alignment between CEO and total Executive KMP awarded profit share and Macquarie NPAT over a ten year period.



(10) Total FY2018 awarded profit share for all Executive KMP is \$A115.9 million as set out in the Total Executive KMP awarded profit share graph.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

ADDITIONAL AWARDED REMUNERATION DISCLOSURES

This year, to clearly demonstrate the link between pay and performance and to further enhance the transparency of remuneration outcomes for our Executive KMP, we have included additional awarded profit share disclosures and highlights of each Executive KMP's performance for the year.

The tables on the following pages:

- are additional disclosures which are prepared on a different basis to those included in the statutory disclosures in Appendix 2 and are not additive
- only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

| Macquarie Group | | |
|---|-------------------|-------------------|
| – NPAT of \$A2,557 million is up 15% on the prior year | | |
| – ROE of 16.8% has improved from 15.2% in the prior year | | |
| – EPS of 758.2 cents per share has increased by 15% on the prior year | | |
| – Maintained a strong funded balance sheet | | |
| – Continued to pursue new opportunities including the successful integration of the Green Investment Group and Cargill trading businesses | | |
| – Strong risk management approach | | |
| – Continued focus on culture and conduct underpinned by our long-held principles of <i>What We Stand For</i> – Opportunity, Accountability and Integrity | | |
| – The Foundation and our staff contributed \$A28.3 million to more than 1,500 community organisations globally and recorded over 60,000 hours of voluntary service. | | |
| N.W. Moore – Macquarie CEO | | |
| Awarded remuneration (\$A) | FY2018 | FY2017 |
| Fixed remuneration | 818,746 | 818,804 |
| Available profit share | 3,616,294 | 3,447,296 |
| Retained profit share | 14,487,770 | 13,805,661 |
| Total | 18,922,810 | 18,071,761 |

| Macquarie Asset Management (MAM) | | |
|---|-------------------|-------------------|
| – MAM delivered a net profit contribution of \$A1,685 million for FY2018, up 10% on the prior year | | |
| – Performance fee income of \$A595 million increased significantly from \$A264 million in the prior year predominantly from Macquarie European Infrastructure Fund 3 (MEIF 3) and Macquarie Atlas Roads (MQA), and other managed funds and co-investors | | |
| – Base fees of \$A1,608 million were broadly in line with FY2017 | | |
| – AUM of \$A495.1 billion increased 3% in FY2018 | | |
| – Platform expansion through acquisition of GLL Real Estate Partners and ValueInvest Asset Management | | |
| – MIRA ranked largest infrastructure manager globally ⁽¹¹⁾ | | |
| – MIM received 6 awards for Australian Equities and 2 Lipper Awards. | | |
| S. Wikramanayake – Group Head | | |
| Awarded remuneration (\$A) | FY2018 | FY2017 |
| Fixed remuneration | 722,423 | 722,474 |
| Available profit share | 4,785,436 | 5,826,309 |
| Retained profit share | 11,175,707 | 8,745,265 |
| Total | 16,683,566 | 15,294,048 |

(11) Based on assets under management, Willis Towers Watson 2017 Global Alternatives Survey, published 17 July 2017.

| Macquarie Bank | | |
|--|------------------|------------------|
| – Strong MBL financial performance | | |
| – Strong liquidity position maintained well above regulatory minimums and surplus Group APRA Basel III capital available to support growth | | |
| – Stable credit ratings maintained; S&P “A” rating maintained for 26 years | | |
| – Strong risk management approach | | |
| – All Operating Groups focused on customer outcomes | | |
| – Office of the Customer Advocate introduced in FY2018 for retail and small business customers. | | |
| – Continued focus on Macquarie's risk culture as part of the way we do business | | |
| – Maintained strong awareness of our long-held principles of <i>What We Stand For</i> – Opportunity, Accountability and Integrity. | | |
| M.J. Reemst – Macquarie Bank CEO | | |
| Awarded remuneration (\$A) | FY2018 | FY2017 |
| Fixed remuneration | 722,423 | 722,474 |
| Available profit share | 1,590,412 | 1,401,648 |
| Retained profit share | 2,389,344 | 2,104,984 |
| Total | 4,702,179 | 4,229,106 |

| Banking and Financial Services (BFS) | | |
|---|------------------|------------------|
| – BFS delivered a net profit contribution of \$A560 million for FY2018, up 9% on the prior year | | |
| – BFS deposits of \$A45.7 billion increased 3% in FY2018 | | |
| – Funds on platform of \$A82.5 billion increased 14% in FY2018 | | |
| – The Australian mortgage portfolio of \$A32.7 billion increased 14% in FY2018 | | |
| – Significant focus on customer outcomes | | |
| – Recognised for Best Digital Banking offering and Innovative Card Product of the year, Australian Retail Banking Award (May 2017). | | |
| G.C. Ward – Group Head | | |
| Awarded remuneration (\$A) | FY2018 | FY2017 |
| Fixed remuneration | 770,584 | 770,639 |
| Available profit share | 3,142,957 | 3,030,590 |
| Retained profit share | 4,720,981 | 4,550,713 |
| Total | 8,634,522 | 8,351,942 |

Directors' Report
 Schedule 1 – Directors' experience and special responsibilities
 Schedule 2 – Remuneration Report

ADDITIONAL AWARDED REMUNERATION DISCLOSURES CONTINUED

Corporate and Asset Finance (CAF)

- CAF delivered a net profit contribution of \$A1,206 million for FY2018, up 1% from the prior year
- During FY2018, CAF continued to provide specialist finance and asset management solutions on a global scale with an asset and loan portfolio of \$A34.5 billion
- The Asset Finance portfolio continued to perform well:
 - Currently finance over 9 million smart meters in the UK, 600,000 cars in Australia and 196 commercial aircraft globally
 - Launched integrated operations platform to offer more solutions to our customers in the US, Europe and Australia
 - Continued investment in technology including the establishment of Moto Me
- Principal Finance continued to generate strong overall returns:
 - Disciplined and focused execution across geographies, sectors and instruments
 - Zero realised impairments in FY2018
 - Notable realisations from the sale of principal investments ranging from a UK solar platform to a US power plant.

G.A. Farrell – Group Co-Head (Asset Finance)

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|----------------------------|------------------|------------------|
| Fixed remuneration | 722,423 | 722,474 |
| Available profit share | 3,029,356 | 3,030,590 |
| Retained profit share | 4,551,131 | 4,551,317 |
| Total | 8,302,910 | 8,304,381 |

B.A. Brazil – Group Co-Head (Principal Finance)

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|----------------------------|-------------------|-------------------|
| Fixed remuneration | 722,423 | 722,474 |
| Available profit share | 5,728,513 | 6,387,347 |
| Retained profit share | 8,606,190 | 9,592,469 |
| Total | 15,057,126 | 16,702,290 |

Commodities and Global Markets (CGM)

- CGM delivered a net profit contribution of \$A910 million for FY2018, down 6% from the prior year
- Diverse platform covering more than 25 market segments, with more than 160 products
- Growth and continued strength in commodities (e.g. natural gas, LNG, NGLs, power, oil, coal, base metals, iron ore and sugar)
- Integrated the former MSG business into CGM with improved results across the equities platform
- Acquisition of Cargill Petroleum and Cargill North America Power and Gas were completed in FY2018, expanding the energy platform
- Improved ranking to become the No. 2 US physical gas marketer in North America – the highest ranked non-producer.⁽¹³⁾

A.J. Downe – Group Head

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|----------------------------|-------------------|-------------------|
| Fixed remuneration | 934,710 | 936,281 |
| Available profit share | 5,158,730 | 5,564,000 |
| Retained profit share | 7,738,096 | 8,346,000 |
| Total | 13,831,536 | 14,846,281 |

N. O'Kane – Head of Commodity Markets and Finance⁽¹⁴⁾

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|----------------------------|-------------------|-------------|
| Fixed remuneration | 590,962 | n.a. |
| Available profit share | 4,050,098 | n.a. |
| Retained profit share | 6,075,147 | n.a. |
| Total | 10,716,207 | n.a. |

(13) Platts Q4 CY17.

(14) Mr O'Kane was appointed to the Executive Committee effective 15 June 2017. Awarded remuneration disclosed reflects his time as an Executive KMP.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

Macquarie Capital

- Macquarie Capital delivered a net profit contribution of \$A700 million for FY2018, up 45% on the prior year
- Continued to build a global energy business by leading the acquisition of the UK Green Investment Bank plc, appointing a Global Head of Energy, increased investment in green energy assets and expansion into new geographies
- Stronger investment-related income from asset realisations across most regions, primarily in the green energy, conventional energy and infrastructure sectors
- Macquarie Capital maintained strong market positions across its global capabilities in FY2018 and continued to advise on and participate in leading transactions globally.

T.C. Bishop – Group Head

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|----------------------------|------------------|------------------|
| Fixed remuneration | 722,423 | 722,474 |
| Available profit share | 2,556,019 | 1,619,472 |
| Retained profit share | 5,973,361 | 3,783,282 |
| Total | 9,251,803 | 6,125,228 |

Risk Management Group (RMG)

- Successfully transitioned into the CRO role on 1 January 2018
- Responsible for identifying, assessing and monitoring risks across Macquarie
- Engages with 215 regulators around the world
- RMG continued to take a leading role in its core function of managing risk across Macquarie by analysing, approving and monitoring key risk decisions while adapting to changes in Macquarie's underlying businesses
- Further embedded conduct risk management into the existing Risk Management Framework with enhanced conduct risk processes
- Investment in key risk systems delivered efficiencies in FY2018.

P.C. Upfold – CRO and Group Head⁽¹⁶⁾

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|----------------------------|------------------|------------------|
| Fixed remuneration | 770,584 | 770,639 |
| Available profit share | 2,272,017 | 2,121,413 |
| Retained profit share | 3,413,349 | 3,185,922 |
| Total | 6,455,950 | 6,077,974 |

Corporate Operations Group (COG)

- Responsible for Technology, Market Operations, Human Resources, Business Services, Business Improvement & Strategy, Brand & Marketing, the Macquarie Foundation and Global Security
- Ongoing strategic initiatives resulting in net operational efficiencies
- Led a number of Group-wide initiatives including an Executive Director leadership program
- Strong operational metrics
- Partnered with the operating groups on a number of initiatives including BFS digital banking, MAM global platform strategy and the acquisitions of Green Investment Bank and Cargill
- Significant effort in regulatory reform including MiFIDII and BEAR
- Uplift in resilience and cyber security capability.

N. Sorbara – Group Head

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|------------------------------------|------------------|------------------|
| Fixed remuneration ⁽¹⁵⁾ | 759,027 | 698,713 |
| Available profit share | 2,272,017 | 1,780,472 |
| Retained profit share | 3,413,349 | 2,673,899 |
| Total | 6,444,393 | 5,153,084 |

Financial Management Group (FMG)

- Successfully transitioned into the CFO role on 1 January 2018
- Responsible for financial, tax and treasury services to all areas of Macquarie
- Ensures Macquarie continues to meet its financial regulatory and compliance obligations and is well positioned to respond effectively to future changes
- Continued responsibility for Macquarie's corporate communications, investor relations and actively engages and manages rating agency and banking relationships
- Continued responsibility for capital and funding, liquidity and interest rate risk management of Macquarie's balance sheet.

A. Harvey – CFO and Group Head⁽¹⁷⁾

| Awarded remuneration (\$A) | FY2018 | FY2017 |
|----------------------------|------------------|-------------|
| Fixed remuneration | 143,890 | n.a. |
| Available profit share | 568,004 | n.a. |
| Retained profit share | 853,338 | n.a. |
| Total | 1,565,232 | n.a. |

(15) Mrs Sorbara was a part-time employee until 31 May 2017 and became a full time employee effective 1 June 2017. She did not receive a fixed remuneration increase during the year.

(16) Mr Upfold commenced as the CRO and Head of RMG effective 1 January 2018. He was formerly the CFO and Head of FMG.

(17) Mr Harvey was appointed to the Executive Committee as CFO and Head of FMG effective 1 January 2018. Awarded remuneration disclosed reflects remuneration awarded in respect of his role as an Executive KMP.

Allocation of PSUs to the Macquarie CEO

Approval will be sought under ASX Listing Rule 10.14 at Macquarie's 2018 Annual General Meeting to allocate \$A2.55 million worth of PSUs to the Macquarie CEO, who is also an Executive Voting Director. The CEO's PSUs will be structured as Deferred Share Units (DSUs) with the performance hurdles described on page 55. As in previous years, the number of PSUs that will be allocated to the CEO will be calculated by dividing the \$A2.55 million by the fair valuation of a PSU at the date of grant. The fair value of PSUs that may be acquired by the CEO is \$A2.55 million (FY2017: \$A2.55 million).

The table below provides an estimate of the number of PSUs to be granted at varying prices for Macquarie's ordinary shares. The following assumptions were used in estimating these values: a risk free interest rate of 2.45% per annum, share volatility of 23.12% and a forecast dividend yield of 4.96% per annum (paid in two instalments each year).

| Macquarie Share Price \$A | Fair Value \$A | PSU Fair Value ⁽¹⁸⁾ (per unit) | Estimated number of PSUs to be granted | Estimated Face value \$A |
|------------------------------|-------------------|--|--|-----------------------------|
| 95 | 2,550,000 | 59.1660 | 43,099 | 4,094,405 |
| 100 | 2,550,000 | 62.2800 | 40,944 | 4,094,400 |
| 105 | 2,550,000 | 65.3940 | 38,994 | 4,094,370 |
| 110 | 2,550,000 | 68.5080 | 37,221 | 4,094,310 |

(18) The fair value per PSU will be calculated at the date of grant using a Monte-Carlo option pricing framework which is designed to take account of trading restrictions, the fact that PSUs do not attract dividends and the vesting performance hurdles and timeframes. As a result, the fair value of a PSU is lower than the market value of a Macquarie ordinary share.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

ALIGNMENT OF REMUNERATION OUTCOMES TO RESULTS

This section details Macquarie's results and demonstrates how these results are aligned to remuneration outcomes for the year.

Comparison of performance measures and executive remuneration measures: FY2017-2018

| | Expressed as | 2018 | 2017 | Increase/ (Decrease) % |
|---|-----------------|---------------|--------|------------------------------|
| Performance measures | | | | |
| NPAT | \$Am | 2,557 | 2,217 | 15 |
| Basic EPS | Cents per share | 758.2 | 657.6 | 15 |
| Ordinary Dividends | Cents per share | 525.0 | 470.0 | 12 |
| Return on equity | Percent | 16.8 | 15.2 | |
| Annual TSR ⁽¹⁹⁾ | Percent | 20.1 | 44.6 | |
| Executive remuneration measures | | | | |
| Total Compensation Expense | \$Am | 4,221 | 4,121 | 2 |
| Compensation Expense to Income ratio | Percent | 38.7 | 39.8 | |
| Average staff headcount | | 14,048 | 13,990 | - |
| Actual staff headcount 31 March | | 14,469 | 13,597 | 6 |
| Awarded profit share – CEO | \$Am | 18.1 | 17.3 | 5 |
| Awarded profit share – Comparable Executive KMP | \$Am | 100.6 | 95.5 | 5 |
| Statutory Remuneration – CEO | \$Am | 19.7 | 18.7 | 5 |
| Statutory Remuneration – Comparable Executive KMP | \$Am | 119.4 | 112.9 | 6 |

Performance over past 10 years: FY2009-2018

| Year ended 31 March | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------------------|--------|-------|--------|--------|-------|---------------------|-------|-------|-------|--------------|
| Income Statement | | | | | | | | | | |
| NPAT (\$Am) | 871 | 1,050 | 956 | 730 | 851 | 1,265 | 1,604 | 2,063 | 2,217 | 2,557 |
| Basic EPS (cents per share) | 309.6 | 320.2 | 282.5 | 210.1 | 251.2 | 383.6 | 502.3 | 619.2 | 657.6 | 758.2 |
| Shareholder returns | | | | | | | | | | |
| Return on equity (%) | 9.9 | 10.1 | 8.8 | 6.8 | 7.8 | 11.1 | 14.0 | 14.7 | 15.2 | 16.8 |
| Ordinary Dividends (cents per share) | 185 | 186 | 186 | 140 | 200 | 260 | 330 | 400 | 470 | 525 |
| Special Dividends (cents per share) | - | - | - | - | - | 116 ⁽²⁰⁾ | - | - | - | - |
| Share price at 31 March (\$A) | 27.1 | 47.3 | 36.6 | 29.1 | 37.2 | 57.9 | 76.7 | 66.1 | 90.2 | 102.9 |
| Annual TSR (%) ⁽¹⁹⁾ | (44.0) | 79.8 | (18.9) | (15.9) | 34.4 | 66.0 | 38.9 | (9.9) | 44.6 | 20.1 |
| 10 year TSR (%) ⁽¹⁹⁾ | - | - | - | - | - | - | - | - | - | 233.0 |

(19) Source: Bloomberg.

(20) The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD distribution in January 2014. The total distribution including return on capital was 373 cents per share.

MACQUARIE'S PERFORMANCE RELATIVE TO A REFERENCE GROUP

The following analysis demonstrates Macquarie's strong performance over the short and long-term, compared to its global reference group.

Use of a global reference group

The BRC considers a global reference group to be appropriate on the basis that Macquarie has no comparable Australian peers. These international firms broadly operate in the same markets and compete for the same people as Macquarie.

Nonetheless, comparisons are complicated as each company has a different business mix. Some companies are or have become part of larger organisations, often with large retail operations that can distort comparisons. In addition, depending on the business mix, the capital requirements may differ significantly, impacting each company's capital levels.

Comparator company information is presented in the same order throughout the Remuneration Report and comprises Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.

Return on Equity (ROE)

Macquarie's ROE for FY2018 of 16.8% has improved from 15.2% in the prior year, and is higher than all but one of the global reference group.

In addition, Macquarie's three, five and ten-year average annual ROE exceeds all but one of the reference group.

Reference group ROE over ten years FY2009-2018

| | 1 year average % p.a. | 3 year average % p.a. | 5 year average % p.a. | 10 year average % p.a. |
|----------------------------|--------------------------|--------------------------|--------------------------|---------------------------|
| Macquarie | 16.8 | 15.6 | 14.4 | 11.5 |
| Average of reference group | 5.0 | 8.7 | 9.2 | 6.5 |
| Company | 6.8 | 6.6 | 5.2 | 2.6 |
| Company | (3.4) | (0.4) | (0.1) | 4.8 |
| Company | (2.3) | (5.1) | (1.3) | 1.0 |
| Company | (1.7) | (5.1) | (2.2) | 0.6 |
| Company | 5.0 | 7.3 | 8.8 | 9.6 |
| Company | 9.9 | 10.1 | 9.7 | 8.9 |
| Company | 20.8 | 49.6 | 48.9 | 27.7 |
| Company | 8.1 | 8.3 | 6.8 | 4.9 |
| Company | 2.0 | 6.5 | 6.7 | (1.5) |

Source: Bloomberg and Annual Reports

Total shareholder return

Macquarie's total shareholder return over the long-term has been strong and continues to outperform both the MSCI World Capital Markets Index since the inception of this index and the All Ordinaries Accumulation Index (All Ords) since listing.

Macquarie TSR versus the MSCI Index⁽²¹⁾: 30 April 2003, being the date the index was first calculated, to 31 March 2018



Source: Factset

(21) Indexed to 100 on 30 April 2003, being the date the index was first calculated. The MSCI World Capital Markets Index comprises a basket of companies that provide capital markets activities (defined by MSCI as asset management, investment banking and brokerage, and diversified capital markets activities). Macquarie TSR calculations assume continuous listing. Therefore they are based on Macquarie Bank Limited (ASX Code: MBL) data up to and including 2 November 2007 (the last day of trading of MBL shares), and MGL (ASX Code: MQG) data from the commencement of trading of MGL ordinary shares on 5 November 2007 onwards.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

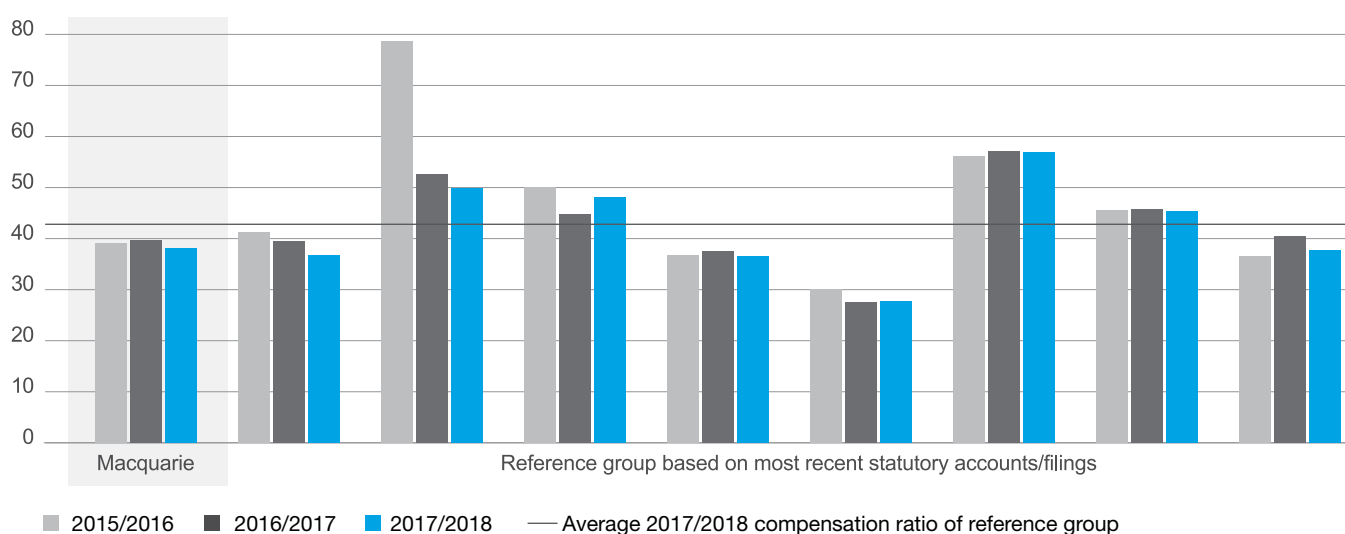
Macquarie TSR since listing versus the All Ords⁽²²⁾: 29 July 1996 to 31 March 2018



Source: Bloomberg

Compensation expense to income ratio: FY2016-FY2018 (%)

The compensation expense to income ratio (compensation ratio) is widely used in the financial services industry as a broad measure of relative remuneration levels. It is not, however, the basis on which Macquarie's profit share pool is determined. While the compensation ratio effectively adjusts for differences in size between organisations, it is not an entirely adequate measure to use in assessing compensation levels because it fails to take into account factors such as those set out on page 65. In the following chart, Macquarie's compensation ratio is compared with that of the global reference group⁽²³⁾ used for testing PSU outcomes.



Source: Data has been calculated by Macquarie. The information is based on publicly available information for the reference group. In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some organisations.

(22) Indexed to 100 on 29 July 1996, being when MBL shares were first quoted on ASX. The All Ordinaries Accumulation Index (All Ords) comprises the 500 largest ASX listed companies by market capitalisation.

(23) The reference group comprises Bank of America Corporation, Credit Suisse Group AG (Investment Banking and Capital Markets and Global Markets segments), Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co. (Corporate and Investment Banking segment), Lazard Ltd, Morgan Stanley and UBS AG (Investment Banking segment). Barclays PLC (Investment Banking segment) data is no longer available and has therefore been excluded from this analysis.

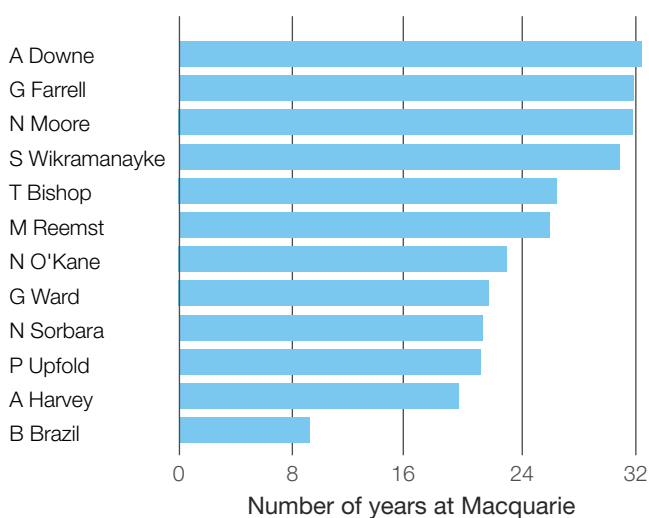
MACQUARIE'S PERFORMANCE RELATIVE TO A REFERENCE GROUP CONTINUED

Staff retention

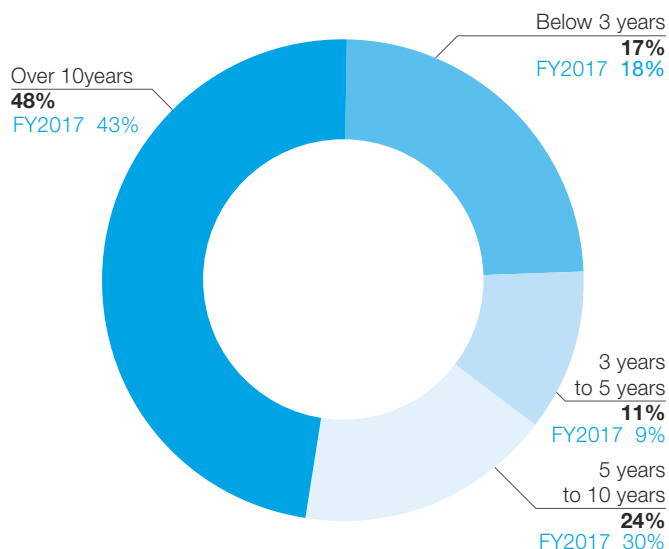
One of the primary goals of Macquarie's remuneration framework is to attract, motivate and retain high-performing staff. The Board's view is that Macquarie continues to achieve this goal as demonstrated by the following:

- Macquarie's Executive KMP had an average tenure of 25 years with Macquarie as at 31 March 2018. Their strong leadership and deep expertise was integral in driving company and business performance in FY2018
- As at 31 March 2018, 48% of Director-level staff had ten or more years' experience with Macquarie, while a further 24% had between five and ten years' experience with Macquarie
- The 6.9% director-level voluntary turnover rate in FY2018 is broadly in line with the prior year and remains below the voluntary turnover rate across Macquarie overall.

Tenure of Executive KMP⁽²⁴⁾



Director-level staff tenure as at 31 March 2018⁽²⁵⁾



(24) This includes accumulated service at acquired companies, for example Bankers Trust Investment Bank Australia.

(25) Directors include all Director-level staff defined as Associate Directors, Division Directors and Executive Directors. As at 31 March 2018, there were a total of 3,158 Director-level staff, of whom 342 were Executive Directors.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

REMUNERATION GOVERNANCE

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

Strong Board oversight

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

The BRC currently comprises five independent Non-Executive Directors (NEDs):

- Michael Hawker (Chairman)
- Gary Banks
- Gordon Cairns
- Diane Grady
- Peter Warne.

The BRC members have the required experience and expertise in human resources, remuneration and risk that enable them to achieve effective governance of Macquarie's remuneration framework. The BRC has a regular meeting cycle and it met seven times over the last financial year. Attendance at the meetings by the BRC members is set out in the Directors' Report. Strict processes are in place to ensure that conflicts of interest are appropriately managed.

The BRC pays close attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives. The responsibilities of the BRC are outlined in its Charter, which is reviewed and approved annually by the Board. Some of the responsibilities include:

- recommending to the Board the remuneration outcomes for all Executive KMP, Designated Executive Directors as well as other senior executives
- assessing the effectiveness of the *Remuneration Policy* to ensure compliance with legal and regulatory requirements, as well as to support the alignment of remuneration with prudent risk taking and professional conduct across the organisation
- recommending the *Remuneration Policy* to the Board for approval, and
- overseeing the process for the annual review by the Board of the CEOs' and other Executive KMPs' performance.



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

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

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

The Board and the BRC also consider formal documentation for each Executive Committee member, which covers financial performance, risk management and compliance, business leadership and people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*. In addition, the BRC considers remuneration levels for organisations in an international reference group that broadly operate in the same markets and compete for the same people as Macquarie.

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

Engagement with external stakeholders

The Chairman of the Board and the Chairman of the BRC undertake a series of meetings each year with investors and proxy advisors to communicate our remuneration approach and to hear any concerns raised by the investor community.

Independent remuneration review

The BRC has retained Pay Governance as its independent remuneration consultant, for the use of the Board to obtain advice on the appropriateness of Macquarie's remuneration framework.

The only service that Pay Governance provides to Macquarie is executive compensation consulting to the BRC. Pay Governance has not made any remuneration recommendations, as defined by the *Corporations Act 2001* (Cth). The BRC is responsible for making decisions within the terms of its Charter. Pay Governance's terms of engagement set out their independence from members of Macquarie's management. This year, Pay Governance:

- provided information on global remuneration and regulatory trends
- considered alignment with shareholder interests
- compared individual remuneration for Executive KMP where relevant comparator company information was available
- considered Macquarie's overall remuneration approach compared to comparator company organisations.

Pay Governance's findings included that:

- the objectives of Macquarie's remuneration framework are similar to those cited by other leading global investment banks
- Macquarie's remuneration components support its remuneration objectives and principles and are largely consistent with practices at other leading global investment banks, including that performance-based remuneration takes risk management into account.

NON-EXECUTIVE DIRECTOR REMUNERATION

Macquarie's remuneration approach seeks to ensure that the Non-Executive Directors (NEDs) are appropriately remunerated. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, significantly differ from the arrangements applicable to Executives.

Non-Executive Director remuneration

Non-Executive Director Fees are set acknowledging the level required to appropriately remunerate highly qualified NEDs who have the relevant skills and experience to govern as a member of the Board.

Macquarie's NED remuneration framework seeks to remunerate high-calibre directors by:

- setting an overall fee that reflects the scale and complexity of Macquarie including risk management and regulatory responsibilities and the global financial nature of Macquarie's activities
- setting Board and Committee fees to reflect the time commitment to meet the responsibilities involved in the annual scheduled calendar, taking into account market rates for relevant organisations and market trends
- paying separate fees for additional responsibilities that may arise on an ad-hoc basis
- delivering these fees in a form that is not contingent on Macquarie's performance
- setting a minimum shareholding requirement to align the interest of NEDs with shareholders.

All NEDs of MGL are also NEDs of MBL. The framework governs the remuneration of NEDs of both MGL and MBL. The CEO is not remunerated separately for acting as an Executive Voting Director.

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

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions over and above the minimum level of contribution required under applicable legislation. Macquarie's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for this purpose. Macquarie shareholders approved the current limit (\$A4.6 million per annum) at MGL's 2015 AGM. The Board ensures that NED remuneration for MGL and MBL taken together does not exceed this shareholder approved maximum amount.

Board and Committee fees are reviewed annually⁽²⁶⁾. An internal review of NED remuneration was completed during the year. Following this review, the Boards determined that Board and Committee fees should remain unchanged.

Minimum shareholding requirement for Non-Executive Directors

To align the interests of the Board with shareholders, the Board has a minimum shareholding requirement for NEDs, who are required to have a meaningful direct shareholding in Macquarie.

In March 2018, the Board reviewed the minimum shareholding requirement for NEDs given share price increases since it was last reviewed. To support Board diversity while maintaining a significant alignment with the interests of shareholders in a manner that directly relates to the level of remuneration paid to NEDs, the Board approved amending the minimum shareholding requirement as follows:

- for NEDs other than the Chair using an investment of one times the average annual NED fees for the financial year ending prior to their appointment
- for the Chair using an investment of one times the Chair fee

with the minimum number of shares to be determined using the share price as at the date of a NED's appointment.

The above requirements apply to NEDs appointed after March 2018 and are to be met within three years from appointment with one third of the requirement to be held after one year, two thirds after two years and in full after three years. Transitional arrangements apply to NEDs whose tenure is less than five years.

Under Macquarie's *Trading Policy*, NEDs may only trade Macquarie securities during designated trading windows and are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each NED's current holding of Macquarie ordinary shares is included on page 41 of the Directors' Report.

MGL and MBL Annual Director Fees

| | MGL FEES | | MBL FEES | | TOTAL FEES | |
|--|-----------------|---------------|-----------------|---------------|---------------------------------|---------------|
| | Chairman \$A | Member \$A | Chairman \$A | Member \$A | Chairman ⁽²⁷⁾ \$A | Member \$A |
| Board | 615,000 | 177,500 | 250,000 | 72,500 | 865,000 | 250,000 |
| Board Risk Committee (BRiC) | 75,000 | 35,000 | n.a. | n.a. | 75,000 | 35,000 |
| Board Audit Committee (BAC) | 75,000 | 35,000 | n.a. | n.a. | 75,000 | 35,000 |
| Board Remuneration Committee (BRC) | 75,000 | 35,000 | n.a. | n.a. | 75,000 | 35,000 |
| Board Governance and Compliance Committee (BGCC) | 75,000 | 35,000 | n.a. | n.a. | 75,000 | 35,000 |
| Board Nominating Committee (BNC) | n.a. | 8,000 | n.a. | n.a. | n.a. | 8,000 |

(26) Macquarie has five standing Board Committees. The BAC and BRiC are joint committees of Macquarie and Macquarie Bank. The BRC also advises both Boards.

(27) The Board Chairman is not paid separate Committee fees. The Board Chairman is Chairman of the BNC, a member of the BRiC and the BRC, and normally attends BAC and BGCC meetings by invitation.

DIRECTORS' REPORT SCHEDULE 2
REMUNERATION REPORT
CONTINUED

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Directors' Report
 Schedule 1 – Directors' experience and special responsibilities
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APPENDIX 1: KEY MANAGEMENT PERSONNEL (KMP) FOR FY2018

All the individuals listed below have been determined to be KMP for FY2018 for the purposes of the *Corporations Act 2001* (Cth) and as defined by AASB 124 *Related Party Disclosures*. KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of MGL and its controlled entities (together making Executive KMP) and NEDs. MGL's NEDs are required by the Act to be included as KMP for the purposes of disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management.

| Name | Position | Term as KMP for FY2018 |
|----------------------------------|---|--|
| Executive Voting Director | | |
| N.W. Moore | CEO | Full year |
| Non-Executive Directors | | |
| G.R. Banks AO | Independent Director | Full year |
| G.M. Cairns | Independent Director | Full year |
| M.J. Coleman | Independent Director | Full year |
| P.A. Cross | Independent Director | Full year |
| D.J. Grady AM | Independent Director | Full year |
| M.J. Hawker AM | Independent Director | Full year |
| G.R. Stevens AC | Independent Director | Appointed to the Board effective from 1 November 2017 |
| N.M. Wakefield Evans | Independent Director | Full year |
| P.H. Warne | Independent Chairman | Full year |
| Executives⁽¹⁾ | | |
| S.D. Allen | Former CRO and Head of RMG | Ceased to be a member of the Executive Committee on 31 December 2017 |
| T.C. Bishop | Head of Macquarie Capital | Full year |
| B.A. Brazil | Co-Head of CAF | Full year |
| A.J. Downe | Head of CGM | Full year |
| G.A. Farrell | Co-Head of CAF | Full year |
| A. Harvey | CFO, Head of FMG | Appointed to the Executive Committee effective from 1 January 2018 |
| M. McLaughlin | Former Country Head, USA | Ceased to be a member of the Executive Committee on 15 June 2017 |
| N. O'Kane | Head of Commodity Markets and Finance (CMF) | Appointed to the Executive Committee effective from 15 June 2017 |
| M.J. Reemst | Macquarie Bank CEO | Full year |
| N. Sorbara | COO, Head of COG | Full year |
| P.C. Upfold ⁽²⁾ | CRO, Head of RMG | Full year |
| G.C. Ward | Deputy Managing Director and Head of BFS | Full year |
| S. Wikramanayake | Head of MAM | Full year |

(1) Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 4 May 2018.

(2) Mr. Upfold was an Executive KMP for FY2018 but changed roles during the year, commencing as CRO, Head of RMG on 1 January 2018. He was formerly CFO, Head of FMG.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

APPENDIX 2: EXECUTIVE KMP REMUNERATION DISCLOSURE (IN ACCORDANCE WITH AUSTRALIAN ACCOUNTING STANDARDS)

| Name | Position | Year | SHORT-TERM EMPLOYEE BENEFITS | | |
|---|---------------------------------------|------|--|---|---|
| | | | Salary (including superannuation) \$A | Performance related remuneration \$A | Total short- term employee benefits \$A |
| Executive Voting Director | | | | | |
| N.W. Moore ⁽¹⁾ | CEO | 2018 | 818,746 | 3,616,294 | 4,435,040 |
| | | 2017 | 818,804 | 3,447,296 | 4,266,100 |
| Other Executives | | | | | |
| T.C. Bishop | Head of Macquarie Capital | 2018 | 722,423 | 2,556,019 | 3,278,442 |
| | | 2017 | 722,474 | 1,619,472 | 2,341,946 |
| B.A. Brazil | Co-Head of CAF | 2018 | 722,423 | 5,728,513 | 6,450,936 |
| | | 2017 | 722,474 | 6,387,347 | 7,109,821 |
| A.J. Downe ⁽²⁾ | Head of CGM | 2018 | 934,710 | 5,158,730 | 6,093,440 |
| | | 2017 | 936,281 | 5,564,000 | 6,500,281 |
| G.A. Farrell | Co-Head of CAF | 2018 | 722,423 | 3,029,356 | 3,751,779 |
| | | 2017 | 722,474 | 3,030,590 | 3,753,064 |
| M.J. Reemst | Macquarie Bank CEO | 2018 | 722,423 | 1,590,412 | 2,312,835 |
| | | 2017 | 722,474 | 1,401,648 | 2,124,122 |
| N. Sorbara ⁽³⁾ | COO, Head of COG | 2018 | 759,027 | 2,272,017 | 3,031,044 |
| | | 2017 | 698,713 | 1,780,472 | 2,479,185 |
| P.C. Upfold | CRO, Head of RMG | 2018 | 770,584 | 2,272,017 | 3,042,601 |
| | | 2017 | 770,639 | 2,121,413 | 2,892,052 |
| G.C. Ward | Deputy Managing Director, Head of BFS | 2018 | 770,584 | 3,142,957 | 3,913,541 |
| | | 2017 | 770,639 | 3,030,590 | 3,801,229 |
| S. Wikramanayake | Head of MAM | 2018 | 722,423 | 4,785,436 | 5,507,859 |
| | | 2017 | 722,474 | 5,826,309 | 6,548,783 |
| Total Remuneration – Comparable Executive KMP⁽⁴⁾ | | 2018 | 7,665,766 | 34,151,751 | 41,817,517 |
| | | 2017 | 7,607,446 | 34,209,137 | 41,816,583 |
| New Executives | | | | | |
| A. Harvey ⁽⁵⁾ | CFO, Head of FMG | 2018 | 143,890 | 568,004 | 711,894 |
| | | 2017 | – | – | – |
| N. O'Kane ⁽⁶⁾ | Head of CMF | 2018 | 590,962 | 4,050,098 | 4,641,060 |
| | | 2017 | – | – | – |
| Former Executives | | | | | |
| S.D. Allen ⁽⁶⁾ | Former CRO, Head of RMG | 2018 | 578,731 | 1,476,811 | 2,055,542 |
| | | 2017 | 770,639 | 2,348,707 | 3,119,346 |
| M. McLaughlin ⁽⁶⁾ | Former Country Head, USA | 2018 | 172,857 | – | 172,857 |
| | | 2017 | 797,240 | 800,000 | 1,597,240 |
| S. Vrcelj ⁽⁶⁾ | Former Head of MSG | 2018 | – | – | – |
| | | 2017 | 485,709 | 189,412 | 675,121 |
| Total Remuneration – Executive KMP (including new and former executives) | | 2018 | 9,152,206 | 40,246,664 | 49,398,870 |
| | | 2017 | 9,661,034 | 37,547,256 | 47,208,290 |

(1) Mr Moore's FY2018 statutory remuneration includes amortisation of \$A10.0 million that relates to prior years' equity awards that have been previously disclosed and approved by shareholders. In future years it is likely, subject to performance, there will also be an amount that relates to equity awards in respect of years 2011-2017 that have previously been disclosed and approved by shareholders.

(2) Mr Downe is paid in \$SG. His base salary for FY2018 differs to FY2017 due to exchange rate movements.

(3) Mrs Sorbara's FY2018 full-time equivalent salary is \$A770,584 (FY2017: \$A770,639). Mrs Sorbara was a part-time employee until 31 May 2017 and became a full time employee effective 1 June 2017. She did not receive a base remuneration increase during the year.

Directors' Report
 Schedule 1 – Directors' experience and special responsibilities
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LONG-TERM EMPLOYEE BENEFITS

SHARE BASED PAYMENTS

| Restricted profit share \$A | Earnings on prior year restricted profit share \$A | Total long-term employee benefits \$A | Equity awards including shares ⁽⁴⁾ \$A | PSUs \$A | Total share-based payments \$A | Total Remuneration \$A | Percentage of remuneration that consists of PSUs % |
|--------------------------------|---|--|--|-------------|-----------------------------------|---------------------------|---|
| 1,446,518 | 803,246 | 2,249,764 | 9,674,838 | 3,290,441 | 12,965,279 | 19,650,083 | 16.75 |
| 1,378,918 | 478,265 | 1,857,183 | 9,004,475 | 3,586,078 | 12,590,553 | 18,713,836 | 19.16 |
| 596,405 | 266,622 | 863,027 | 3,340,241 | 1,991,767 | 5,332,008 | 9,473,477 | 21.02 |
| 377,877 | 450,920 | 828,797 | 2,893,189 | 2,004,093 | 4,897,282 | 8,068,025 | 24.84 |
| 859,277 | 481,598 | 1,340,875 | 7,231,912 | 1,914,747 | 9,146,659 | 16,938,470 | 11.30 |
| 958,102 | 223,087 | 1,181,189 | 6,973,281 | 1,619,586 | 8,592,867 | 16,883,877 | 9.59 |
| 773,810 | 1,014,743 | 1,788,553 | 5,015,379 | 2,308,390 | 7,323,769 | 15,205,762 | 15.18 |
| 834,600 | 882,811 | 1,717,411 | 4,717,101 | 2,510,939 | 7,228,040 | 15,445,732 | 16.26 |
| 454,403 | 299,756 | 754,159 | 3,298,853 | 2,308,392 | 5,607,245 | 10,113,183 | 22.83 |
| 454,589 | 215,380 | 669,969 | 3,201,048 | 2,506,392 | 5,707,440 | 10,130,473 | 24.74 |
| 238,562 | 110,241 | 348,803 | 1,397,486 | 1,349,723 | 2,747,209 | 5,408,847 | 24.95 |
| 210,247 | 72,717 | 282,964 | 1,223,635 | 1,112,092 | 2,335,727 | 4,742,813 | 23.45 |
| 340,803 | 111,893 | 452,696 | 1,740,081 | 1,596,954 | 3,337,035 | 6,820,775 | 23.41 |
| 267,071 | 50,565 | 317,636 | 1,354,591 | 1,662,145 | 3,016,736 | 5,813,557 | 28.59 |
| 340,803 | 129,141 | 469,944 | 2,187,911 | 1,349,723 | 3,537,634 | 7,050,179 | 19.14 |
| 318,212 | 55,845 | 374,057 | 1,919,250 | 1,112,092 | 3,031,342 | 6,297,451 | 17.66 |
| 942,887 | 292,986 | 1,235,873 | 2,527,447 | 2,205,306 | 4,732,753 | 9,882,167 | 22.32 |
| 909,177 | 141,766 | 1,050,943 | 2,296,985 | 2,307,839 | 4,604,824 | 9,456,996 | 24.40 |
| 5,583,009 | 1,897,726 | 7,480,735 | 3,595,850 | 2,308,390 | 5,904,240 | 18,892,834 | 12.22 |
| 4,369,732 | 865,262 | 5,234,994 | 3,040,082 | 2,515,794 | 5,555,876 | 17,339,653 | 14.51 |
| 11,576,477 | 5,407,952 | 16,984,429 | 40,009,998 | 20,623,833 | 60,633,831 | 119,435,777 | |
| 10,078,525 | 3,436,618 | 13,515,143 | 36,623,637 | 20,937,050 | 57,560,687 | 112,892,413 | |
| 85,201 | 27,668 | 112,869 | 481,155 | 90,605 | 571,760 | 1,396,523 | 6.49 |
| – | – | – | – | – | – | – | – |
| 607,515 | 303,968 | 911,483 | 4,323,099 | 410,528 | 4,733,627 | 10,286,170 | 3.99 |
| – | – | – | – | – | – | – | – |
| 221,522 | 150,674 | 372,196 | 1,533,423 | 926,041 | 2,459,464 | 4,887,202 | 18.95 |
| 352,306 | 126,838 | 479,144 | 2,017,926 | 1,688,686 | 3,706,612 | 7,305,102 | 23.12 |
| – | 59,197 | 59,197 | 159,831 | 83,646 | 243,477 | 475,531 | 17.59 |
| 120,000 | 238,882 | 358,882 | 1,290,666 | 562,715 | 1,853,381 | 3,809,503 | 14.77 |
| – | – | – | – | – | – | – | – |
| 44,196 | 25,715 | 69,911 | 787,901 | 921,630 | 1,709,531 | 2,454,563 | 37.55 |
| 12,490,715 | 5,949,459 | 18,440,174 | 46,507,506 | 22,134,653 | 68,642,159 | 136,481,203 | |
| 10,595,027 | 3,828,053 | 14,423,080 | 40,720,130 | 24,110,081 | 64,830,211 | 126,461,581 | |

(4) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2018 and FY2017.

(5) Mr Harvey and Mr O'Kane were appointed to the Executive Committee effective from 1 January 2018 and 15 June 2017 respectively.

(6) Mr Allen, Mr McLaughlin and Mr Vrcelj ceased to be members of the Executive Committee on 31 December 2017, 15 June 2017 and 29 November 2016 respectively. The amount shown as a PSU share-based payment represents the current year expense in respect of prior year PSU awards.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT CONTINUED

APPENDIX 2: EXECUTIVE KMP REMUNERATION DISCLOSURE (IN ACCORDANCE WITH AUSTRALIAN ACCOUNTING STANDARDS) CONTINUED

Additional information in regards to the statutory remuneration disclosures set out in this Appendix

The remuneration disclosures set out in this appendix have been prepared in accordance with Australian Accounting standards and differ to the additional disclosures set out on pages 60 to 62.

Under the requirements of AASB 124 Related Party Disclosures, the remuneration disclosures for the years ended 31 March 2018 and 31 March 2017 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

The following information provides more detail in regards to some of the column headings in this appendix:

- (1) *Short-term employee benefits:*
 - a) *Salary:* includes superannuation and an accrual for long service leave
 - b) *Performance-related remuneration:* this represents the cash portion of each person's profit share allocation for the reporting period as an Executive KMP.
- (2) *Long-term employee benefits:*
 - a) *Restricted profit share:* this represents the amount of retained profit share that is deferred to future periods and held as a notional investment in Macquarie-managed fund equity (Post-2009 DPS Plan)
 - b) *Earnings on prior years restricted profit share:* Profit share amounts retained under the Post-2009 DPS Plan are notionally invested in Macquarie-managed funds, providing Executive Directors with an economic exposure to the underlying investments. Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. The notional returns are calculated based on total shareholder return. Where these amounts are positive, they may be paid to Executive Directors and are included in these remuneration disclosures as part of 'Earnings on prior year restricted profit share'. If there is a notional loss, this loss will be offset against any future notional income until the loss is completely offset, and is reported as a negative amount in the same column. These earnings reflect the investment performance of the assets in which prior year retained amounts have been notionally invested. Their inclusion in the individual remuneration disclosures on the following pages may, therefore, cause distortions when year-on-year remuneration trends are examined. They do not reflect remuneration review decisions made about the individual's current year performance.
- (3) *Share-based payments:*
 - a) *Equity awards including shares:* This represents the current year expense for retained profit share that is invested in Macquarie ordinary shares under the MEREP as described on page 53. This is recognised as an expense over the respective vesting periods as described on page 53 and includes amounts that relates to prior year equity awards that have been previously disclosed. Equity awards in respect of FY2018 performance will be granted during FY2019, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity awards expected to vest. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each equity award when granted and will use this validation for recognising the expense over the remaining vesting period
 - b) *PSUs:* This represents the current year expense for PSUs that is recognised over the vesting period as described on page 55. This includes amounts that relate to prior year PSU awards. PSUs will be granted during FY2019, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of PSUs expected to vest. The estimate also incorporates an interest rate to maturity of 2.45% per annum, expected vesting dates of PSUs of 1 July 2021 and 1 July 2022, and a dividend yield of 4.96% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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APPENDIX 3: NON-EXECUTIVE DIRECTOR REMUNERATION

The remuneration arrangements for all of the persons listed below as NEDs are described on page 69 of the Remuneration Report. The fees shown include fees paid as members of both the MGL and MBL Boards.

| | Year | Fees \$A | Other benefits ⁽¹⁾ \$A | Total Compensation \$A |
|---|-------------|------------------|---|------------------------------|
| G.R. Banks | 2018 | 363,000 | – | 363,000 |
| | 2017 | 363,000 | – | 363,000 |
| G.M. Cairns | 2018 | 328,000 | – | 328,000 |
| | 2017 | 328,000 | – | 328,000 |
| M.J. Coleman | 2018 | 403,000 | – | 403,000 |
| | 2017 | 403,000 | 3,000 | 406,000 |
| P.A. Cross | 2018 | 368,000 | – | 368,000 |
| | 2017 | 368,000 | – | 368,000 |
| D.J. Grady | 2018 | 363,000 | – | 363,000 |
| | 2017 | 363,000 | – | 363,000 |
| M.J. Hawker ⁽²⁾ | 2018 | 403,000 | – | 403,000 |
| | 2017 | 398,914 | – | 398,914 |
| G.R. Stevens ⁽³⁾ | 2018 | 122,083 | – | 122,083 |
| | 2017 | – | – | – |
| N.M. Wakefield Evans | 2018 | 403,000 | – | 403,000 |
| | 2017 | 403,000 | – | 403,000 |
| P.H. Warne | 2018 | 865,000 | – | 865,000 |
| | 2017 | 865,000 | – | 865,000 |
| Total Remuneration – Non-Executive KMP | 2018 | 3,618,083 | – | 3,618,083 |
| | 2017 | 3,491,914 | 3,000 | 3,494,914 |

(1) Other benefits for NEDs include due diligence committee fees paid to Mr Coleman of \$A3,000 in FY2017.

(2) Mr Hawker became Chairman of the BRC effective 8 May 2016.

(3) Mr Stevens was appointed to the MGL and MBL Boards as an Independent Voting Director effective 1 November 2017. He became a member of the Board Risk Committee and a member of the Board Nominating Committee on 1 November 2017.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

APPENDIX 4: SHARE DISCLOSURES

Shareholdings of KMP and their related parties

The following tables set out details of MGL ordinary shares held during the financial year by KMP including their related parties.

| Name and position | Number of shares held at 1 April 2017 ⁽¹⁾ | Shares received on withdrawal from the MEREP | Other changes ⁽²⁾ | Number of shares held at 31 March 2018 ^(3/4) |
|--------------------------------|--|--|------------------------------|---|
| Executive Director | | | | |
| N.W. Moore | 2,109,147 | 201,829 | – | 2,310,976 |
| Non-Executive Directors | | | | |
| G.R. Banks | 6,416 | – | – | 6,416 |
| G.M. Cairns | 12,734 | – | – | 12,734 |
| M.J. Coleman ⁽⁵⁾ | 9,529 | 249 | (409) | 9,369 |
| P.A. Cross | 7,636 | – | – | 7,636 |
| D.J. Grady | 8,306 | – | 246 | 8,552 |
| M.J. Hawker | 11,407 | – | – | 11,407 |
| G.R. Stevens | – | – | 1,028 | 1,028 |
| N.M. Wakefield Evans | 4,411 | – | 856 | 5,267 |
| P.H. Warne | 14,933 | – | – | 14,933 |
| Executives | | | | |
| S.D. Allen | 33,315 | 70,460 | (103,775) | – |
| T.C. Bishop | – | 84,611 | (84,611) | – |
| B.A. Brazil | 56,801 | 93,244 | (50,000) | 100,045 |
| A.J. Downe | 28,594 | 138,104 | (68,104) | 98,594 |
| G.A. Farrell | – | 181,870 | (181,870) | – |
| A. Harvey | – | – | – | – |
| M. McLaughlin | – | 57,470 | (57,470) | – |
| N. O'Kane | 4,840 | – | – | 4,840 |
| M.J. Reemst | 10,902 | 19,180 | (19,180) | 10,902 |
| N. Sorbara | 9,384 | 44,399 | (44,399) | 9,384 |
| P.C. Upfold | 75,151 | 20,753 | (20,753) | 75,151 |
| G.C. Ward | – | 86,347 | (86,347) | – |
| S. Wikramanayake | 615,754 | 94,249 | – | 710,003 |

(1) Or date of appointment if later.

(2) Includes on-market acquisitions and disposals.

(3) Or date of ceasing to be a KMP if earlier.

(4) In addition to the MGL ordinary shares set out in this table, Executive KMP also hold an interest in MGL ordinary shares through the MEREP, as set out in the table on page 81.

(5) A related party of Mr Coleman holds RSU awards, some of which vested during the year. Mr Coleman does not influence any investment decisions over, nor does he benefit from, this holding.

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RSU awards to KMP

The following tables set out details of the RSU awards associated with MGL ordinary shares granted to Executive KMP. Grants made to Executive KMP prior to their joining the Executive Committee are not disclosed. PSUs are disclosed in a separate table.

A significant portion of an Executive KMP's retained profit share is invested in Macquarie equity, delivered as RSUs. There have been no alterations to the terms or conditions of the grants set out below since the grant date. RSU awards are subject to forfeiture as set out on page 53. The value of the grants at vesting could vary significantly as they are dependent on the MGL ordinary share price at the time of vesting. Retention rates, the vesting profiles and service and performance criteria for the current year are set out on page 53. RSUs are granted in the financial year following the year of Macquarie's performance to which the grant relates. For example RSUs granted to the CEO in August 2017 relate to the CEO's performance in FY2017. All awards that were eligible to vest, vested during the year. No awards were forfeited during the year.

| Name and position | RSU awards granted to date ⁽⁶⁾⁽⁷⁾ | Grant date | Number vested during the year ⁽⁸⁾⁽⁹⁾ |
|-----------------------------|--|------------------|---|
| Executive Director | | | |
| N.W. Moore | 139,235 | 15-Aug-17 | – |
| | 156,144 | 15-Aug-16 | – |
| | 124,404 | 17-Aug-15 | – |
| | 117,102 | 15-Aug-14 | 26,496 |
| | 92,048 | 15-Aug-13 | 18,410 |
| | 133,805 | 15-Aug-12 | 26,761 |
| | 144,026 | 15-Aug-11 | 28,805 |
| | 100,625 | 13-Aug-10 | 19,889 |
| Executives | | | |
| S.D. Allen ⁽¹⁰⁾ | 35,573 | 22-Jun-17 | – |
| | 31,014 | 17-Jun-16 | – |
| | 26,975 | 6-Jul-15 | – |
| | 29,934 | 25-Jun-14 | 6,944 |
| | 27,120 | 25-Jun-13 | 5,424 |
| | 41,150 | 7-Jun-12 | 6,842 |
| | 109,173 | 3-Mar-10 | 16,577 |
| T.C. Bishop ⁽¹¹⁾ | 38,155 | 22-Jun-17 | – |
| | 53,773 | 17-Jun-16 | – |
| | 39,035 | 6-Jul-15 | – |
| | 37,947 | 25-Jun-14 | 8,561 |
| | 45,305 | 25-Jun-13 | 9,060 |
| | 31,361 | 7-Jun-12 | 4,531 |
| | 5,509 | 15-Apr-11 | 1,092 |
| B. Brazil | 96,743 | 22-Jun-17 | – |
| | 127,396 | 17-Jun-16 | – |
| | 84,429 | 6-Jul-15 | – |
| A.J. Downe | 84,151 | 22-Jun-17 | – |
| | 54,749 | 17-Jun-16 | – |
| | 57,546 | 6-Jul-15 | – |
| | 75,152 | 25-Jun-14 | 16,895 |
| | 58,182 | 25-Jun-13 | 11,636 |
| | 95,575 | 7-Jun-12 | 19,115 |
| | 82,233 | 20-Jun-11 | 16,446 |
| | 93,557 | 30-Jun-10 | 18,492 |
| G.A. Farrell | 45,901 | 22-Jun-17 | – |
| | 41,749 | 17-Jun-16 | – |
| | 44,959 | 6-Jul-15 | – |
| | 48,496 | 25-Jun-14 | 10,980 |
| | 46,229 | 25-Jun-13 | 9,245 |
| | 88,108 | 7-Jun-12 | 17,621 |
| | 57,259 | 20-Jun-11 | 11,451 |

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

APPENDIX 4: SHARE DISCLOSURES CONTINUED

| Name and position | RSU awards granted to date ⁽⁶⁾⁽⁷⁾ | Grant date | Number vested during the year ⁽⁸⁾⁽⁹⁾ |
|----------------------------------|--|------------------|---|
| Executives continued | | | |
| M. McLaughlin | 12,157 | 22-Jun-17 | – |
| | – | 17-Jun-16 | – |
| | 14,501 | 6-Jul-15 | – |
| | 25,321 | 25-Jun-14 | 6,298 |
| | 28,490 | 25-Jun-13 | 5,698 |
| | 14,908 | 7-Jun-12 | 2,981 |
| M.J. Reemst | 21,229 | 22-Jun-17 | – |
| | 18,787 | 17-Jun-16 | – |
| | 14,810 | 6-Jul-15 | – |
| N. Sorbara | 26,967 | 22-Jun-17 | – |
| | 25,049 | 17-Jun-16 | – |
| | 18,512 | 6-Jul-15 | – |
| | 17,105 | 25-Jun-14 | 3,676 |
| | 12,327 | 25-Jun-13 | 2,465 |
| P.C. Upfold | 32,131 | 22-Jun-17 | – |
| | 33,399 | 17-Jun-16 | – |
| | 26,446 | 6-Jul-15 | – |
| G.C. Ward | 40,801 | 22-Jun-17 | – |
| | 32,445 | 17-Jun-16 | – |
| | 26,446 | 6-Jul-15 | – |
| | 31,696 | 25-Jun-14 | 7,333 |
| | 31,229 | 25-Jun-13 | 6,246 |
| | 46,460 | 7-Jun-12 | 9,292 |
| | 43,316 | 20-Jun-11 | 8,663 |
| | 36,591 | 30-Jun-10 | 7,236 |
| S. Wikramanayake ⁽¹²⁾ | 49,025 | 22-Jun-17 | – |
| | 54,473 | 17-Jun-16 | – |
| | 42,608 | 6-Jul-15 | – |
| | 47,019 | 25-Jun-14 | 10,317 |
| | 35,957 | 25-Jun-13 | 7,191 |
| | 58,075 | 7-Jun-12 | 4,785 |
| | 66,611 | 3-Mar-10 | 16,436 |

(6) Or during the period that the Executive was a KMP.

(7) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. For the RSUs in the above table granted prior to that date, the number of RSUs has been adjusted for the impact of the consolidation.

(8) RSUs vesting during the current financial year for grants made prior to Executives becoming a KMP are not disclosed.

(9) The number of RSUs that vested during the year includes the impact of the transitional remuneration arrangements that were put in place in 2009 when shareholders approved the establishment of the MEREP.

(10) As at the date Mr Allen ceased to be a member of the Executive Committee on 31 December 2017, 15,889 awards granted in previous years were held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

(11) As at 31 March 2018, 19,765 awards granted in previous years are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

(12) As at 31 March 2018, 11,016 awards granted in previous years are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

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PSU awards to KMP

The following tables set out details of PSU awards granted to Executive KMP.

| Name and position | GRANTED TO DATE | | | | FORFEITED/LAPSED DURING THE FINANCIAL YEAR ⁽¹³⁾ | | | EXERCISED DURING THE FINANCIAL YEAR ⁽¹³⁾ | |
|---------------------------|------------------------|------------------|---|--------------------------------|--|---|-----------|---|---------------------------|
| | Number ⁽¹⁴⁾ | Date | Accounting Fair Value \$A ⁽¹⁵⁾ | Face Value \$A ⁽¹⁶⁾ | Number | % | Value \$A | Number exercised | Value \$A ⁽¹⁷⁾ |
| Executive Director | | | | | | | | | |
| N.W. Moore | 47,532 | 15-Aug-17 | 3,469,807 | 4,171,408 | – | – | – | – | – |
| | 52,887 | 15-Aug-16 | 3,488,600 | 4,132,590 | – | – | – | – | – |
| | 52,947 | 17-Aug-15 | 3,535,271 | 4,181,754 | – | – | – | – | – |
| | 84,920 | 15-Aug-14 | 4,067,668 | 4,842,988 | – | – | – | 42,460 | 3,711,853 |
| | 78,017 | 15-Aug-13 | 3,223,662 | 3,506,084 | – | – | – | 39,008 | 3,410,079 |
| Executives | | | | | | | | | |
| S.D. Allen | 23,673 | 15-Aug-17 | 1,728,115 | 2,077,542 | – | – | – | – | – |
| | 26,339 | 15-Aug-16 | 1,737,407 | 2,058,129 | – | – | – | – | – |
| | 26,369 | 17-Aug-15 | 1,760,658 | 2,082,624 | – | – | – | – | – |
| | 36,191 | 15-Aug-14 | 1,733,549 | 2,063,973 | – | – | – | 18,095 | 1,549,108 |
| | 33,157 | 15-Aug-13 | 1,370,047 | 1,490,076 | – | – | – | 16,578 | 1,419,491 |
| T.C. Bishop | 28,333 | 15-Aug-17 | 2,068,292 | 2,486,504 | – | – | – | – | – |
| | 31,524 | 15-Aug-16 | 2,079,426 | 2,463,285 | – | – | – | – | – |
| | 31,560 | 17-Aug-15 | 2,107,261 | 2,492,609 | – | – | – | – | – |
| | 43,315 | 15-Aug-14 | 2,074,789 | 2,470,254 | – | – | – | 21,657 | 1,841,062 |
| | 39,895 | 15-Aug-13 | 1,648,462 | 1,792,881 | – | – | – | 19,948 | 1,696,178 |
| B.A. Brazil | 34,903 | 15-Aug-17 | 2,547,898 | 3,063,087 | – | – | – | – | – |
| | 41,023 | 15-Aug-16 | 2,706,012 | 3,205,537 | – | – | – | – | – |
| | 35,298 | 17-Aug-15 | 2,356,847 | 2,787,836 | – | – | – | – | – |
| A.J. Downe | 33,552 | 15-Aug-17 | 2,449,276 | 2,944,524 | – | – | – | – | – |
| | 37,332 | 15-Aug-16 | 2,462,541 | 2,917,122 | – | – | – | – | – |
| | 37,374 | 17-Aug-15 | 2,495,462 | 2,951,799 | – | – | – | – | – |
| | 57,848 | 15-Aug-14 | 2,770,919 | 3,299,071 | – | – | – | 28,924 | 2,491,224 |
| | 53,193 | 15-Aug-13 | 2,197,935 | 2,390,493 | – | – | – | 26,596 | 2,292,309 |
| G.A. Farrell | 33,552 | 15-Aug-17 | 2,449,276 | 2,944,524 | – | – | – | – | – |
| | 37,332 | 15-Aug-16 | 2,462,541 | 2,917,122 | – | – | – | – | – |
| | 37,374 | 17-Aug-15 | 2,495,462 | 2,951,799 | – | – | – | – | – |
| | 57,848 | 15-Aug-14 | 2,770,919 | 3,299,071 | – | – | – | 28,924 | 2,859,087 |
| | 53,194 | 15-Aug-13 | 2,197,976 | 2,390,538 | – | – | – | 53,194 | 5,094,967 |
| | 92,796 | 15-Aug-12 | 2,033,160 | 2,405,272 | – | – | – | 43,614 | 4,035,596 |
| M. McLaughlin | 8,296 | 15-Aug-16 | 547,231 | 648,249 | – | – | – | – | – |
| | 8,305 | 17-Aug-15 | 554,525 | 655,929 | – | – | – | – | – |
| | 13,393 | 15-Aug-14 | 641,525 | 763,803 | – | – | – | – | – |
| | 12,412 | 15-Aug-13 | 512,864 | 557,795 | – | – | – | – | – |
| M.J. Reemst | 23,673 | 15-Aug-17 | 1,728,115 | 2,077,542 | – | – | – | – | – |
| | 26,339 | 15-Aug-16 | 1,737,407 | 2,058,129 | – | – | – | – | – |
| | 26,369 | 17-Aug-15 | 1,760,658 | 2,082,624 | – | – | – | – | – |
| N. Sorbara | 23,673 | 15-Aug-17 | 1,728,115 | 2,077,542 | – | – | – | – | – |
| | 26,339 | 15-Aug-16 | 1,737,407 | 2,058,129 | – | – | – | – | – |
| | 26,369 | 17-Aug-15 | 1,760,658 | 2,082,624 | – | – | – | – | – |
| | 36,191 | 15-Aug-14 | 1,733,549 | 2,063,973 | – | – | – | 18,095 | 1,556,069 |
| | 33,158 | 15-Aug-13 | 1,370,088 | 1,490,121 | – | – | – | 16,579 | 1,426,840 |

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

CONTINUED

APPENDIX 4: SHARE DISCLOSURES CONTINUED

| Name and position | GRANTED TO DATE | | | | FORFEITED/LAPSED DURING THE FINANCIAL YEAR ⁽¹³⁾ | | | EXERCISED DURING THE FINANCIAL YEAR ⁽¹³⁾ | |
|-------------------|------------------------|------------------|---|--------------------------------|--|---|-----------|---|---------------------------|
| | Number ⁽¹⁴⁾ | Date | Accounting Fair Value \$A ⁽¹⁵⁾ | Face Value \$A ⁽¹⁶⁾ | Number | % | Value \$A | Number exercised | Value \$A ⁽¹⁷⁾ |
| P.C. Upfold | 23,673 | 15-Aug-17 | 1,728,115 | 2,077,542 | – | – | – | – | – |
| | 26,339 | 15-Aug-16 | 1,737,407 | 2,058,129 | – | – | – | – | – |
| | 26,369 | 17-Aug-15 | 1,760,658 | 2,082,624 | – | – | – | – | – |
| G.C. Ward | 32,434 | 15-Aug-17 | 2,367,663 | 2,846,408 | – | – | – | – | – |
| | 36,087 | 15-Aug-16 | 2,380,417 | 2,819,838 | – | – | – | – | – |
| | 36,128 | 17-Aug-15 | 2,412,267 | 2,853,389 | – | – | – | – | – |
| | 49,584 | 15-Aug-14 | 2,375,074 | 2,827,776 | – | – | – | 24,792 | 2,171,902 |
| | 45,569 | 15-Aug-13 | 1,882,911 | 2,047,871 | – | – | – | 22,785 | 1,957,625 |
| S. Wikramanayake | 33,552 | 15-Aug-17 | 2,449,276 | 2,944,524 | – | – | – | – | – |
| | 37,332 | 15-Aug-16 | 2,462,541 | 2,917,122 | – | – | – | – | – |
| | 37,374 | 17-Aug-15 | 2,495,462 | 2,951,799 | – | – | – | – | – |
| | 57,848 | 15-Aug-14 | 2,770,919 | 3,299,071 | – | – | – | 28,924 | 2,481,679 |
| | 53,193 | 15-Aug-13 | 2,197,935 | 2,390,493 | – | – | – | 26,596 | 2,281,937 |

As required under the Act, Macquarie has adopted the fair value measurement provisions of AASB 2 Share-Based Payment for all PSUs granted to KMP. The accounting fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period. The 2017 PSU allocation has been determined based on a fair valuation of a PSU at 15 August 2017. The accounting fair value of \$A73.00 at this date has been estimated using a discounted cash flow method.

The following key assumptions were adopted in determining the value of the PSUs granted:

| | |
|---------------------------|-----------------------------|
| Interest rate to maturity | 2.26% per annum |
| Expected vesting dates | 1 July 2020 and 1 July 2021 |
| Dividend yield | 5.07% per annum |

PSUs have a nil exercise price. PSUs vest on a pro-rata basis as set out on page 55. For the 2017 grant, the first tranche will vest on 1 July 2020. The PSUs expire on 15 August 2025.

(13) Or during the period for which the Executive was a KMP if shorter.

(14) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. For the PSUs in the above table granted prior to that date, the number of PSUs granted has been adjusted for the impact of the consolidation.

(15) Based on the accounting fair value on the date of grant. The 2016 grant reflects the accounting fair value of \$65.96 in accordance of AASB 2.

(16) Face value is calculated by multiplying the number of PSUs granted by the closing market price of Macquarie ordinary shares on the date of grant.

(17) Based on the share price at the time of exercise.

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MEREP awards of KMP and their related parties

The following tables set out details of the MEREP RSU and PSU awards held during the year for the KMP including their related parties.



Further details in relation to the MEREP RSU and PSU awards are disclosed in Note 32 to the financial statements in the Financial Report.

| Name and position | Type of Award | Number of Awards held at 1 April 2017 ⁽¹⁸⁾ | Awards granted during the financial year ⁽¹⁹⁾ | Awards vested/exercised during the financial year ⁽²⁰⁾⁽²¹⁾ | Awards not able to be exercised due to performance hurdles not met | Number of awards held at 31 March 2018 ⁽²²⁾ |
|----------------------------------|---------------|---|--|---|--|--|
| Executive Director | | | | | | |
| N.W. Moore | RSU | 613,701 | 139,235 | 120,361 | – | 632,575 |
| | PSU | 229,762 | 47,532 | 81,468 | – | 195,826 |
| Executives | | | | | | |
| S.D. Allen ⁽²³⁾ | RSU | 154,969 | 35,573 | 35,787 | – | 154,755 |
| | PSU | 105,477 | 23,673 | 34,673 | – | 94,477 |
| T.C. Bishop ⁽²³⁾ | RSU | 214,130 | 38,155 | 43,006 | – | 209,279 |
| | PSU | 126,347 | 28,333 | 41,605 | – | 113,075 |
| B.A. Brazil | RSU | 532,035 | 96,743 | 93,244 | – | 535,534 |
| | PSU | 76,321 | 34,903 | – | – | 111,224 |
| A.J. Downe | RSU | 333,399 | 84,151 | 82,584 | – | 334,966 |
| | PSU | 159,150 | 33,552 | 55,520 | – | 137,182 |
| G.A. Farrell | RSU | 248,397 | 45,901 | 56,138 | – | 238,160 |
| | PSU | 229,362 | 33,552 | 125,732 | – | 137,182 |
| A. Harvey | RSU | 121,433 | – | – | – | 121,433 |
| M. McLaughlin | RSU | 126,429 | – | 57,470 | – | 68,959 |
| | PSU | 36,201 | – | – | – | 36,201 |
| N. O'Kane | RSU | 312,299 | 70,919 | – | – | 383,218 |
| M.J. Reemst | RSU | 88,177 | 21,229 | 19,180 | – | 90,226 |
| | PSU | 52,708 | 23,673 | – | – | 76,381 |
| N. Sorbara | RSU | 80,010 | 26,967 | 9,725 | – | 97,252 |
| | PSU | 105,478 | 23,673 | 34,674 | – | 94,477 |
| P.C. Upfold | RSU | 129,532 | 32,131 | 20,753 | – | 140,910 |
| | PSU | 52,708 | 23,673 | – | – | 76,381 |
| G.C. Ward | RSU | 163,037 | 40,801 | 38,770 | – | 165,068 |
| | PSU | 144,584 | 32,434 | 47,577 | – | 129,441 |
| S. Wikramanayake ⁽²³⁾ | RSU | 219,795 | 49,025 | 38,729 | – | 230,091 |
| | PSU | 159,150 | 33,552 | 55,520 | – | 137,182 |

(18) Or date of appointment if later.

(19) RSU awards are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to FY2017. PSUs are granted annually in August.

(20) For RSUs, this represents vested RSUs transferred to the KMP's shareholding and includes RSUs vesting during the current year in respect of grants made prior to Executives becoming a KMP.

(21) There were no PSUs that vested during the year that were not exercised.

(22) Or date of ceasing to be a KMP if earlier.

(23) Refer to footnotes (10), (11) and (12) in the table 'RSU Awards to KMP' on pages 77 to 78.

DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

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APPENDIX 5: LOAN DISCLOSURES

Loans to Key Management Personnel and their related parties

Details of loans provided by Macquarie to KMP and their related parties⁽¹⁾ are disclosed in the following table:

| Name and Position | Balance at 1 April 2017 \$A'000 | Interest charged ⁽²⁾ \$A'000 | Write downs \$A'000 | Balance at 31 March 2018 \$A'000 | Highest balance during the year \$A'000 |
|--------------------------------|---------------------------------------|---|---------------------------|--|--|
| Non-Executive Directors | | | | | |
| D.J. Grady (related party) | – | 3 | – | 464 | 498 |

(1) There were no other loans provided by Macquarie to KMP and their related parties during the financial year ended 31 March 2018.

(2) All loans provided by Macquarie to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

APPENDIX 6: OTHER KMP DISCLOSURES

Other transactions with KMP and their related parties

Certain KMP and their related parties have acquired investments in certain products from subsidiaries within Macquarie. These products typically involve the issuance of investment units and have been financed with limited recourse loans.

Some are accounted for as fee and commission income when acting on behalf of investors. This fee represents the service performed by Macquarie for transferring interest received from investors in exchange for their investment unit returns. The gross receipts by Macquarie were zero (2017: \$A2,700 thousand).

Others are subject to swap agreements and are accounted for as derivatives by Macquarie. All the arrangements between the investor and Macquarie are subject to a legal right of set-off.

All transactions with KMP (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees.

From an accounting perspective, amounts recognised by Macquarie in respect of these transactions are either recognised net in either trading income or fee and commission income and have been disclosed below.

| Aggregated amounts recognised by Macquarie | Balance at 31 March 2018 \$A'000 | Balance at 31 March 2017 \$A'000 |
|---|--|--|
| Trading income | – | 838 |
| Fee and Commission income | – | 397 |

Contributions for FY2017 in respect of these products relate to the following Key Management Personnel: S. Wikramanayake. All products have matured or have been redeemed during FY2017.

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

Throughout this Remuneration Report financial information for Macquarie relating to the years ended 31 March 2009 through to 31 March 2018 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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FINANCIAL REPORT

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The Financial Report was authorised for issue by the Board of Directors on 4 May 2018.

The Board of Directors has the power to amend and reissue the Financial Report.

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INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

| | Notes | CONSOLIDATED | | COMPANY | |
|--|-------|--------------|--------------|-----------------|--------------|
| | | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| Interest and similar income | 2 | 4,943 | 5,138 | 479 | 447 |
| Interest expense and similar charges | 2 | (2,957) | (2,953) | (521) | (488) |
| Net interest income/(expense) | | 1,986 | 2,185 | (42) | (41) |
| Fee and commission income | 2 | 4,670 | 4,331 | 10 | 10 |
| Net trading income/(expense) | 2 | 1,957 | 1,758 | (39) | (39) |
| Net operating lease income | 2 | 935 | 921 | – | – |
| Share of net profits of associates and joint ventures | 2 | 241 | 51 | – | – |
| Other operating income and charges | 2 | 1,131 | 1,118 | 4,430 | 4,087 |
| Net operating income | | 10,920 | 10,364 | 4,359 | 4,017 |
| Employment expenses | 2 | (4,493) | (4,379) | (4) | (4) |
| Brokerage, commission and trading-related expenses | 2 | (830) | (852) | – | – |
| Occupancy expenses | 2 | (402) | (392) | – | – |
| Non-salary technology expenses | 2 | (604) | (644) | – | – |
| Other operating expenses | 2 | (1,127) | (993) | (1) | (2) |
| Total operating expenses | | (7,456) | (7,260) | (5) | (6) |
| Operating profit before income tax | | 3,464 | 3,104 | 4,354 | 4,011 |
| Income tax (expense)/benefit | 4 | (883) | (868) | 3 | (2) |
| Profit after income tax | | 2,581 | 2,236 | 4,357 | 4,009 |
| Profit attributable to non-controlling interests: | | | | | |
| Macquarie Income Securities | 5 | (14) | (15) | – | – |
| Other non-controlling interests | | (10) | (4) | – | – |
| Profit attributable to non-controlling interests | | (24) | (19) | – | – |
| Profit attributable to ordinary equity holders of Macquarie Group Limited | | 2,557 | 2,217 | 4,357 | 4,009 |
| | | | | Cents per share | |
| Basic earnings per share | 6 | 758.2 | 657.6 | | |
| Diluted earnings per share | 6 | 743.5 | 644.5 | | |

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

STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

| | Notes | CONSOLIDATED | | COMPANY | |
|--|-------|--------------|-------------|--------------|-------------|
| | | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| Profit after income tax | | 2,581 | 2,236 | 4,357 | 4,009 |
| Other comprehensive income/(expense): | | | | | |
| Movements in items that may be subsequently reclassified to income statement: | | | | | |
| Available for sale investments, net of tax: | | | | | |
| Revaluation (losses)/gains transferred to equity | 28 | (129) | 129 | - | - |
| Transferred to income statement on: | | | | | |
| Impairment | 28 | 16 | 32 | - | - |
| Sale or reclassification | 28 | (263) | (323) | - | - |
| Cash flow hedges, net movement taken to equity, net of tax | 28 | 54 | 15 | - | - |
| Share of other comprehensive income/(expense) of associates and joint ventures, net of tax | 28 | 2 | (1) | - | - |
| Exchange differences on translation of foreign operations, net of hedge and tax | | 263 | (130) | - | - |
| Movements in items that will not be reclassified to income statement: | | | | | |
| Fair value changes attributable to own credit risk on other debt issued at fair value through profit or loss, net of tax | | 37 | (30) | - | - |
| Total other comprehensive expense | | (20) | (308) | - | - |
| Total comprehensive income | | 2,561 | 1,928 | 4,357 | 4,009 |
| Total comprehensive income attributable to non-controlling interests: | | | | | |
| Macquarie Income Securities | | (14) | (15) | - | - |
| Other non-controlling interests | | (146) | (3) | - | - |
| Total comprehensive income attributable to non-controlling interests | | (160) | (18) | - | - |
| Total comprehensive income attributable to ordinary equity holders of Macquarie Group Limited | | 2,401 | 1,910 | 4,357 | 4,009 |

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

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STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2018

| | Notes | CONSOLIDATED | | COMPANY | |
|--|-------|----------------|----------------|---------------|---------------|
| | | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| Assets | | | | | |
| Receivables from financial institutions | 7 | 38,559 | 27,471 | – | – |
| Trading portfolio assets | 8 | 15,585 | 26,933 | – | – |
| Derivative assets | | 12,937 | 12,106 | – | – |
| Investment securities available for sale | 9 | 6,166 | 6,893 | – | – |
| Other assets | 10 | 18,370 | 16,558 | 12 | 70 |
| Loan assets held at amortised cost | 11 | 81,150 | 76,663 | – | – |
| Other financial assets at fair value through profit or loss | 13 | 1,434 | 1,502 | – | – |
| Due from subsidiaries | 30 | – | – | 17,269 | 10,009 |
| Property, plant and equipment | 14 | 11,426 | 11,009 | – | – |
| Interests in associates and joint ventures | 15 | 4,055 | 2,095 | – | – |
| Intangible assets | 16 | 993 | 1,009 | – | – |
| Investments in subsidiaries | 17 | – | – | 25,347 | 22,644 |
| Deferred tax assets | 18 | 650 | 638 | 19 | 26 |
| Total assets | | 191,325 | 182,877 | 42,647 | 32,749 |
| Liabilities | | | | | |
| Trading portfolio liabilities | 19 | 8,061 | 5,067 | – | – |
| Derivative liabilities | | 11,925 | 11,128 | 1 | – |
| Deposits | 20 | 59,412 | 57,708 | 24 | 11 |
| Other liabilities | 21 | 16,086 | 15,031 | 196 | 160 |
| Payables to financial institutions | 22 | 15,440 | 17,072 | 3,191 | 2,413 |
| Due to subsidiaries | 30 | – | – | 843 | 945 |
| Debt issued at amortised cost | 23 | 53,717 | 50,828 | 12,177 | 5,746 |
| Other debt issued at fair value through profit or loss | 24 | 2,363 | 2,404 | – | – |
| Deferred tax liabilities | 18 | 749 | 621 | – | – |
| Total liabilities excluding loan capital | | 167,753 | 159,859 | 16,432 | 9,275 |
| Loan capital | 26 | 5,392 | 5,748 | 1,135 | 1,130 |
| Total liabilities | | 173,145 | 165,607 | 17,567 | 10,405 |
| Net assets | | 18,180 | 17,270 | 25,080 | 22,344 |
| Equity | | | | | |
| Contributed equity | 27 | 6,243 | 6,290 | 8,849 | 8,933 |
| Reserves | 28 | 1,297 | 1,396 | 902 | 804 |
| Retained earnings | 28 | 8,817 | 7,877 | 15,329 | 12,607 |
| Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited | | 16,357 | 15,563 | 25,080 | 22,344 |
| Non-controlling interests | 28 | 1,823 | 1,707 | – | – |
| Total equity | | 18,180 | 17,270 | 25,080 | 22,344 |

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

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

| | Notes | Contributed equity \$m | Reserves \$m | Retained earnings \$m | Total \$m | Non-controlling interests \$m | Total equity \$m |
|---|-------|---------------------------|-----------------|--------------------------|---------------|----------------------------------|---------------------|
| CONSOLIDATED | | | | | | | |
| Balance as at 1 April 2016 | | 6,422 | 1,536 | 7,158 | 15,116 | 548 | 15,664 |
| Profit after income tax | | – | – | 2,217 | 2,217 | 19 | 2,236 |
| Other comprehensive expense, net of tax | | – | (277) | (30) | (307) | (1) | (308) |
| Total comprehensive (expense)/income | | – | (277) | 2,187 | 1,910 | 18 | 1,928 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | | | |
| Contributions of ordinary equity, net of transaction costs | | 1 | – | – | 1 | – | 1 |
| Dividends paid | 5,28 | – | – | (1,462) | (1,462) | – | (1,462) |
| Purchase of shares by MEREP Trust | 27 | (433) | – | – | (433) | – | (433) |
| Non-controlling interests: | | | | | | | |
| Change in non-controlling ownership interests | | – | – | (6) | (6) | 1,160 | 1,154 |
| Dividends and distributions paid or provided for | | – | – | – | – | (19) | (19) |
| Other equity movements: | | | | | | | |
| MEREP expense | 28 | – | 382 | – | 382 | – | 382 |
| Additional deferred tax benefit on MEREP expense | 28 | – | 57 | – | 57 | – | 57 |
| Net other movements in treasury shares | 27 | (2) | – | – | (2) | – | (2) |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 277 | (277) | – | – | – | – |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 39 | (39) | – | – | – | – |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 27,28 | (14) | 14 | – | – | – | – |
| | | (132) | 137 | (1,468) | (1,463) | 1,141 | (322) |
| Balance as at 31 March 2017 | | 6,290 | 1,396 | 7,877 | 15,563 | 1,707 | 17,270 |
| Profit after income tax | | – | – | 2,557 | 2,557 | 24 | 2,581 |
| Other comprehensive (expense)/income, net of tax | | – | (193) | 37 | (156) | 136 | (20) |
| Total comprehensive (expense)/income | | – | (193) | 2,594 | 2,401 | 160 | 2,561 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | | | |
| Dividends paid | 5,28 | – | – | (1,649) | (1,649) | – | (1,649) |
| Purchase of shares by MEREP Trust | 27 | (373) | – | – | (373) | – | (373) |
| Non-controlling interests: | | | | | | | |
| Change in non-controlling ownership interests | | – | – | (5) | (5) | 27 | 22 |
| Dividends and distributions paid or provided for | | – | – | – | – | (71) | (71) |
| Other equity movements: | | | | | | | |
| MEREP expense | 28 | – | 383 | – | 383 | – | 383 |
| Additional deferred tax benefit on MEREP expense | 28 | – | 37 | – | 37 | – | 37 |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 293 | (293) | – | – | – | – |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 40 | (40) | – | – | – | – |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 27,28 | (7) | 7 | – | – | – | – |
| | | (47) | 94 | (1,654) | (1,607) | (44) | (1,651) |
| Balance as at 31 March 2018 | | 6,243 | 1,297 | 8,817 | 16,357 | 1,823 | 18,180 |

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STATEMENTS OF CHANGES IN EQUITY
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| | Notes | Contributed equity \$m | Reserves \$m | Retained earnings \$m | Total equity \$m |
|---|-------|---------------------------|-----------------|--------------------------|---------------------|
| COMPANY | | | | | |
| Balance as at 1 April 2016 | | 9,097 | 686 | 10,047 | 19,830 |
| Profit after income tax | | – | – | 4,009 | 4,009 |
| Total comprehensive income | | – | – | 4,009 | 4,009 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | |
| Contributions of ordinary equity, net of transaction costs | | 3 | – | – | 3 |
| Dividends paid | 5,28 | – | – | (1,449) | (1,449) |
| Purchase of shares by MEREP Trust | 27 | (433) | – | – | (433) |
| Other equity movements: | | | | | |
| MEREP expense relating to employees of subsidiaries | 28 | – | 382 | – | 382 |
| Additional deferred tax benefit on MEREP expense | 28 | – | 2 | – | 2 |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 277 | (277) | – | – |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 3 | (3) | – | – |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 27,28 | (14) | 14 | – | – |
| | | (164) | 118 | (1,449) | (1,495) |
| Balance as at 31 March 2017 | | 8,933 | 804 | 12,607 | 22,344 |
| Profit after income tax | | – | – | 4,357 | 4,357 |
| Total comprehensive income | | – | – | 4,357 | 4,357 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | |
| Contributions of ordinary equity, net of transaction costs | | 1 | – | – | 1 |
| Dividends paid | 5,28 | – | – | (1,635) | (1,635) |
| Purchase of shares by MEREP Trust | 27 | (373) | – | – | (373) |
| Other equity movements: | | | | | |
| MEREP expense relating to employees of subsidiaries | 28 | – | 383 | – | 383 |
| Additional deferred tax benefit on MEREP expense | 28 | – | 3 | – | 3 |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 293 | (293) | – | – |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 27,28 | 2 | (2) | – | – |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 27,28 | (7) | 7 | – | – |
| | | (84) | 98 | (1,635) | (1,621) |
| Balance as at 31 March 2018 | | 8,849 | 902 | 15,329 | 25,080 |

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

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

| | Notes | CONSOLIDATED | | COMPANY | |
|--|-------|---------------|---------------|-------------|-------------|
| | | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| Cash flows from/(used in) operating activities | | | | | |
| Interest and similar income received | | 4,908 | 5,161 | 479 | 447 |
| Interest expense and similar charges paid | | (2,940) | (2,843) | (492) | (428) |
| Fees and other non-interest income received | | 4,405 | 4,484 | 9 | 10 |
| Fees and commissions paid | | (877) | (909) | – | – |
| Operating lease income received | | 1,831 | 1,607 | – | – |
| Dividends and distributions received | | 228 | 209 | 1,730 | 1,787 |
| Employment expenses paid | | (3,913) | (3,885) | (4) | (4) |
| Operating expenses paid | | (1,836) | (1,401) | – | – |
| Income tax paid | | (483) | (723) | (187) | (257) |
| Changes in operating assets and liabilities: | | | | | |
| Net receipts from trading portfolio assets and other assets/liabilities | | 3,937 | 3,901 | (129) | (11) |
| Net movement in deposits | | 1,499 | 5,561 | 13 | 3 |
| Net movement in debt issued at amortised cost | | 2,500 | (12,303) | 6,447 | (753) |
| Net movement in payables to financial institutions and other borrowings | | 182 | (4,259) | 854 | (434) |
| Net movement in loan assets and balance with related entities | | (3,610) | 1,012 | (6,712) | 1,522 |
| Net margin money paid | | (184) | (1,104) | – | – |
| Net payments for assets under operating lease | | (1,202) | (320) | – | – |
| Life business: | | | | | |
| Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions | | 1,104 | 1,181 | – | – |
| Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions | | (1,099) | (1,077) | – | – |
| Net cash flows from/(used in) operating activities | 29 | 4,450 | (5,708) | 2,008 | 1,882 |
| Cash flows (used in)/from investing activities | | | | | |
| Net proceeds from investment securities available for sale and financial instruments designated at fair value | | 111 | 3,212 | – | – |
| Proceeds from the disposal of or capital return from associates, subsidiaries and businesses, net of cash deconsolidated | | 3,510 | 2,869 | – | – |
| Payments for the acquisition of associates or capital contribution, subsidiaries and businesses, net of cash acquired | | (4,224) | (2,619) | – | – |
| Proceeds from the disposal of property, plant and equipment, and intangible assets | | 58 | – | – | – |
| Payments for the acquisition of property, plant and equipment, and intangible assets | | (255) | (329) | – | – |
| Net cash flows (used in)/from investing activities | | (800) | 3,133 | – | – |
| Cash flows (used in)/from financing activities | | | | | |
| (Payments for)/Proceeds from non-controlling interests | | (33) | 1,160 | – | – |
| Proceeds from the issue of loan capital | | – | 980 | – | – |
| Payments on redemption of loan capital | | (330) | (221) | – | – |
| Dividends and distributions paid | | (1,663) | (1,477) | (1,635) | (1,449) |
| Payments for treasury shares | 27 | (373) | (433) | (373) | (433) |
| Net cash flows (used in)/from financing activities | | (2,399) | 9 | (2,008) | (1,882) |
| Net increase/(decrease) in cash and cash equivalents | | | | | |
| Cash and cash equivalents at the beginning of the financial year | | 11,754 | 14,320 | – | – |
| Cash and cash equivalents at the end of the financial year | 29 | 13,005 | 11,754 | – | – |

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

NOTE 1

Summary of significant accounting policies

(i) Basis of preparation

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

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth). Macquarie is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS as issued by the IASB

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

Historical cost convention

This Financial Report has been prepared under the historical cost convention except for the following items:

Fair value measurement basis – derivative financial instruments, trading portfolio assets and liabilities, investment securities available for sale, other financial assets and other financial liabilities designated at fair value through profit or loss, and non current assets and disposal groups held for sale where the fair value less cost of disposal is less than their carrying value.

Amortised cost adjusted for changes in fair value attributable to the risk being hedged – recognised financial assets and liabilities designated as hedged items in qualifying fair value hedge relationships.

Critical accounting estimates and significant judgements

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

- fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 38)
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures, investment in subsidiaries and assets under operating lease (Notes 1(xiii), 1(xv), 1(xvii), 9, 11, 14, 15 and 17)
- distinguishing between whether assets or a business is acquired under a business combination (Note 1(iii))
- determination of control of subsidiaries and structured entities (Notes 1(ii) and 35)
- determination of significant influence over associates and joint control over joint arrangements (Note 1(ii))
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(vii), 4 and 18)
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Notes 1(xvii) and 16)
- recognition of performance fees from Macquarie-managed listed and unlisted funds (Note 1(vi)), and
- recognition and measurement of supplemental income, maintenance liabilities and end of lease compensation (Note 1(xix), 10 and 21).

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

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

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

AASB 9 Financial Instruments

AASB 9 results in changes to accounting policies for financial assets and financial liabilities covering Classification and Measurement, Impairment and Hedge accounting. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2018 and it will be applied retrospectively in respect of Classification and Measurement and Impairment, with no requirement to restate comparatives. The cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance sheet.

Classification and Measurement:

Financial assets:

AASB 9 has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial instrument is managed and its contractual cash flows.

Compared to AASB 139, the FVTOCI and amortised cost categories will be added and held-to-maturity, loans and receivables and available-for-sale classification categories will be removed.

Under AASB 9, financial assets with embedded derivatives are classified in their entirety, without separating any derivative element.

The Consolidated Entity will apply the following policies for the newly adopted classification categories under AASB 9.

Amortised cost

A financial asset will be measured at amortised cost if both of the following conditions are met:

- (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTOCI

A financial asset will be measured at FVTOCI if both of the following conditions are met:

- (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

NOTE 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

FVTPL

All financial assets that are not measured at amortised cost or FVTOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless the Consolidated Entity irrevocably elects to present subsequent changes in the fair value in other comprehensive income. The Consolidated Entity does not expect to make this election.

The Consolidated Entity may also irrevocably elect to designate a financial asset as measured at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

Business model assessment

The Consolidated Entity will determine the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- (i) how the performance of financial assets held within that business model are evaluated and reported to the Consolidated Entity's key management personnel
- (ii) the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed
- (iii) how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Financial liabilities:

The component of change in fair value of financial liabilities designated at fair value through profit or loss due to the Consolidated Entity's own credit risk is presented in other comprehensive income, unless this creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of credit risk) are presented in profit or loss. Under AASB 139, this component was recognised in profit or loss. This treatment was early adopted prospectively from 1 October 2016.

Impairment:

AASB 9 replaces the incurred loss model of AASB 139 with an expected loss model, resulting in an acceleration of impairment recognition.

The impairment requirements apply to financial assets measured at amortised cost and FVTOCI, lease receivables, amounts receivable from contracts with customers as defined in AASB 15 Revenue from Contracts with Customers, loan commitments, certain letters of credit and financial guarantee contracts.

Under the expected credit loss model, the Consolidated Entity will apply a three-stage approach to measuring the expected credit loss (ECL) based on credit migration between the stages. Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD).

The assessment of credit risk, and the estimation of ECL, will be unbiased and probability weighted, and incorporate all relevant available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date.

The impairment allowance is intended to be more forward-looking under AASB 9.

(i) Stage 1 – 12 month ECL

At initial recognition, ECL is measured as the product of the 12 month PD, LGD and EAD, adjusted for forward-looking information.

(ii) Stage 2 – Lifetime ECL not credit-impaired

When there has been a significant increase in credit risk (SICR), the ECL is increased to reflect the product of the lifetime PD, LGD and EAD, adjusted for forward-looking information.

(iii) Stage 3 – Lifetime ECL credit-impaired

An ECL is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate (EIR) for that exposure. For credit-impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for forward-looking information.

(iv) Purchased or originated credit-impaired

The ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for forward-looking information or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit-adjusted effective interest rate, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in profit or loss as an impairment expense or gain.

Credit impaired assets generally match the Australian Prudential Regulatory Authority (APRA) definition of default which includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

Hedge accounting:

The new hedge accounting requirements under AASB 9 simplify hedge accounting by more closely aligning hedge relationships with Macquarie's risk management activities. Hedge accounting may be applied to a greater variety of hedging instruments and related hedged risks. Hedge effectiveness testing will be less prescriptive under the new standard and make achieving hedge accounting more likely.

The new standard does not explicitly address the accounting for macro hedging activities and includes the choice to retain the current hedge accounting requirements of AASB 139 until an amended standard as an outcome of the IASB's project on macro hedge accounting is effective. Macquarie has early adopted the hedge accounting requirements under AASB 9 prospectively for the reporting period beginning 1 April 2018. Enhanced disclosures required by amendments to AASB 7 Financial Instruments Disclosures relating to hedge accounting will be required in Macquarie's Financial Report for the financial year beginning 1 April 2018.

Transition:

The Consolidated Entity will record a transition adjustment to the opening balance sheet, retained earnings and other comprehensive income at 1 April 2018 for the impact of the adoption of the classification and measurement, and impairment requirements of AASB 9.

The transition adjustment will reduce the Consolidated Entity's shareholders' equity by approximately \$125 million after tax and will not have a material impact on the Consolidated Entity's minimum regulatory capital requirements. The estimated transition

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NOTE 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

adjustment relates primarily to the implementation of the impairment requirements which reduce opening retained earnings by approximately \$150 million after tax. The Consolidated Entity will not restate comparatives.

The Consolidated Entity will continue to refine and validate components of the ECL impairment models and develop related technology solutions and controls during the financial year ending 31 March 2019.

The adoption of the Classification and Measurement requirements of the standard will result in measurement differences when compared to those under AASB 139. The most significant change is approximately \$17,000 million of financial assets measured at amortised cost that will be recognised at FVTPL on adoption. The impacted instruments are primarily short-term reverse repurchase agreements and the fair value re-measurement is included in the above. There are no other material changes in measurement categories expected.

In the separate financial statements of the Company, adoption will result in additional credit provisioning in relation to amounts due from subsidiaries. The total transition impact to the Company's shareholders' equity on transition is a reduction of approximately \$20 million.

AASB 7 Financial Instruments: Disclosures

AASB 7 has been amended to include more extensive qualitative and quantitative disclosure relating to AASB 9, such as new financial instrument classification categories which will impact disclosures related to the statement of financial performance as well as introducing new qualitative and quantitative disclosure requirements for the three stage impairment model. The amendment also includes new hedge accounting disclosures and transition disclosures related to the adoption of AASB 9.

AASB 2017-6 Amendments to Australian Accounting Standards – Prepayments features with negative compensation

AASB 2017-6 amends AASB 9 to permit entities to measure at amortised cost or fair value through other comprehensive income, particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

AASB 2017-6 is effective for annual periods beginning on or after 1 January 2019. The Consolidated Entity will early adopt the amendment from 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

AASB 2017-7 Amendments to Australian Accounting Standards – Long-term interests in associates and joint ventures

AASB 2017-7 clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which the equity method is not applied. Such long term interests are accounted under AASB 9 before applying the loss allocation and impairment requirements in AASB 128 Investments in Associates and Joint Ventures. These long term interests are in the nature of debt

instruments. Macquarie will calculate the expected credit losses on these long-term interests under the AASB 9 impairment model.

AASB 2017-7 is effective for annual periods beginning on or after 1 January 2019. The Consolidated Entity will early adopt the amendment in the financial year beginning 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all current guidance on revenue recognition from contracts with customers. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services are transferred to the customer. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component will occur when the uncertainties around its measurement are removed.

AASB 15 also specifies the accounting treatment for costs incurred to obtain or fulfil a contract. Costs are recognised as an asset only if the entity expects to recover them. Any capitalised contract costs are amortised on a systematic basis that is consistent with the transfer of the related goods and services.

In 2016, the AASB issued clarifying amendments to AASB 15. These amendments provided additional application guidance but did not alter the underlying requirements of the standard.

The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2018, retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings, with no comparatives restatement.

AASB 15 specifically excludes financial instruments recognised under AASB 9 Financial Instruments. As such, the impacted revenue streams for Macquarie are limited to fee-based revenue items such as performance fees, corporate advisory and underwriting fees, asset management fees and brokerage & commissions.

Macquarie's assessment of revenue streams existing at transition has concluded. Based on this assessment, neither the Consolidated Entity or the Company will be materially impacted upon adoption and no transition adjustment is required. The application of the requirements of AASB 15 are broadly consistent with Macquarie's current accounting policies.

The Consolidated Entity and the Company expects presentation changes in the income statements relating to certain recoverable costs previously recognised net of any associated revenue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

NOTE 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

AASB 16 Leases

AASB 16 replaces the current AASB 117 Leases standard and sets out a comprehensive model for identifying lease arrangements and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The majority of leases from the lessee perspective within the scope of AASB 16 will require the recognition of a 'right-of-use' asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense. Classification of leases from the Consolidated Entity's perspective as lessor remains unchanged under AASB 16.

Unless early adopted, AASB 16 is effective for the Consolidated Entity for the annual periods beginning 1 April 2019. The Consolidated Entity is expected to apply the standard retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. Alternative methods of calculating the 'right-of-use' asset are allowed under AASB 16 which impact the size of the transition adjustment. The Consolidated Entity is still evaluating which method to apply.

An initial assessment has been performed based on operating leases that exist in the current reporting period. Based on this assessment it is not anticipated that there will be a material impact to retained earnings. This assessment is subject to the composition of operating leases at the date of transition. A schedule of current operating lease commitments is disclosed in Note 34.

AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

The amendment addresses the accounting for cash-settled share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The requirements would be effective for Macquarie on 1 April 2018, however the Consolidated Entity has early adopted this amendment from 1 April 2017. Retrospective application did not have a material impact on the financial position nor performance of the Consolidated Entity or the Company.

AASB Interpretation 23 (Interpretation 23) Uncertainty over Income Tax Treatments

Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes where there is uncertainty over income tax treatments. It requires assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either

the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances come to light.

Interpretation 23 will apply to the Consolidated Entity from 1 April 2019. An initial assessment has been performed and based on this assessment it is not expected that the implementation of Interpretation 23 will materially impact Macquarie's statement of financial position or income statement. This assessment is subject to the matters relevant at the date of transition.

(ii) Principles of consolidation

Subsidiaries

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

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

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

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

Structured entities

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

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

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Summary of significant accounting policies continued

(ii) Principles of consolidation continued

Consolidation

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries are shown separately in the consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position.

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

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

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

Interests in associates and joint ventures

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control. Investment in associates and joint ventures are accounted for under the equity method except those which are classified as held for sale and loans to associates and joint ventures that are accounted for under effective interest rate method. The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or loss in the consolidated income statements, and the share of the post-acquisition movements in reserves in the consolidated statements of comprehensive income. Dividends or distributions from associates or joint ventures reduce the carrying amount of the investment.

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

(iii) Business combinations

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

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

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

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

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

(iv) Segment reporting

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

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NOTE 1

Summary of significant accounting policies continued (v) Foreign currency translation

Functional and presentation currency

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated Entity's and Company's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gain and loss resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in OCI as a result of meeting cash flow hedge or net investment hedge accounting requirements (see Note 1(xii)).

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

Subsidiaries and other entities

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

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

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

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

(vi) Revenue and expense recognition

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

Net interest income

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

Fee and commission income

Fee and commission income includes fees from fund management, brokerage, account servicing, corporate advisory, underwriting and securitisation arrangements and is recognised as the related services are performed. Where commissions and fees are subject to clawback or meeting certain performance hurdles, they are recognised as income when it is highly probable those conditions will not affect the outcome.

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

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

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

Net trading income

Net trading income comprises gain and loss related to trading assets and liabilities and include all realised and unrealised fair value changes, dividends, ineffective hedge accounting movements and foreign exchange differences.

Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term. It comprises operating lease income and supplemental rent and is presented net of depreciation expense.

Dividends and distributions

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

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

The Consolidated Entity undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Consolidated Entity estimates the amount expected to be paid to/(recovered from) tax authorities based on its understanding of the law.

Tax consolidation

The Consolidated Entity's Australian tax liabilities are determined according to tax consolidation legislation.

The Company together with all eligible Australian resident wholly owned subsidiaries of the Company comprise a tax consolidated group with the Company as the head entity. As a consequence, the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses. Under the terms and conditions of a tax funding agreement, the Company charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

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

Goods and services tax (GST)

Where GST (or other value added tax) is not recoverable from global tax authorities, it is either capitalised to the statement of financial position as part of the cost of the asset or expensed to the income statement.

Where GST (or other value added tax) is recoverable from or payable to global tax authorities, the amount is recorded as a separate asset or liability in the statement of financial position.

Cash flows are presented on a gross basis in the statement of cash flows.

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

As part of its trading activities, the Consolidated Entity borrows and lends securities on a collateralised basis. The securities subject to the borrowing or lending are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

Reverse repurchase transactions, where the Consolidated Entity purchases securities under an agreement to resell, and repurchase transactions, where the Consolidated Entity sells securities under an agreement to repurchase, are also conducted on a collateralised basis. The securities subject to the reverse repurchase and repurchase agreements are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

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

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

(ix) Recognition and derecognition of financial instruments

Financial instruments are recognised when the Consolidated Entity becomes a party to the contractual provisions of the instrument. Specific policies are provided for the various financial instrument categories below.

Financial assets are derecognised from the statement of financial position when the rights to cash flows have expired (for example because the borrower repays its obligations), the loan is sold and substantially all the risks and rewards of ownership are transferred.

Financial liabilities are derecognised from the statement of financial position when the Consolidated Entity's obligation has been discharged, cancelled or has expired.

Where an existing financial instrument is replaced by another with the same counterparty on substantially different terms, or the terms of an existing instrument are substantially modified, the exchange or modification is treated as a derecognition of the original instrument and the recognition of a new instrument, with the difference in the respective carrying amounts recognised in the income statement.

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Summary of significant accounting policies continued (x) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 38). Commodities are measured at fair value less costs to sell in accordance with the broker-trader exception. Realised and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise.

Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of trading portfolio financial assets. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset and any subsequent unrealised profit or loss arising from revaluing that contract to fair value is recognised in the income statement. When the Consolidated Entity becomes party to a sale contract of a financial asset, and the derecognition criteria are met, it derecognises the asset and recognises a trade receivable from trade date until settlement date. The same trade date accounting applies for available for sale financial instruments and financial instruments designated at fair value through profit or loss.

The Consolidated Entity uses trade date accounting when accounting for purchases and sales of trading portfolio financial liabilities.

(xi) Derivative instruments

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

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

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

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

(xii) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in Note 36 – Derivative financial instruments. Movements in the cash flow hedging reserve in equity are shown in Note 28 – Reserves, retained earnings and non-controlling interests.

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Summary of significant accounting policies continued (xiii) Investments and other financial assets

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

Loans and receivables

This category includes loan assets held at amortised cost, other receivables and amounts due from subsidiaries, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on settlement date, when cash is advanced to the borrower.

Other financial assets at fair value through profit or loss

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

Management may elect to designate a financial asset as such if:

- the asset contains embedded derivatives which must otherwise be separated and carried at fair value
- it is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and reporting is provided on that basis to key management personnel, or
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in Note 1(vi).

Investment securities available for sale

Investment securities in this category are available for sale and may be sold should the need arise, including for purposes of liquidity, or due to fair value movements resulting from 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 values are recognised through OCI in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

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

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

Dividends from equity securities available for sale are recognised in the income statement when the Consolidated Entity becomes entitled to the dividend or distribution as disclosed in Note 1(vi).

Life investment linked assets and liabilities

Life investment policies consist of two components: a financial instrument and an investment management fee. The investment management fee is recognised through the income statement over the period for which the service is provided, while the deposit component is designated at fair value through the profit or loss. Life investment contracts are directly linked to the performance and market value of the assets that back them and the fair value is measured as the minimum current surrender value. Withdrawals and surrenders of life investment contracts are treated as a reduction in the investment contract liability. Life investment linked assets are measured at fair value through the profit or loss, with any changes in fair value recognised in the income statement in the period in which they occur.

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

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

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

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NOTE 1

Summary of significant accounting policies continued (xv) Impairment

Loan assets held at amortised cost

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

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

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

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

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

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from the loan asset and all possible collateral has been realised, the loan is written off, either partially or in full, against the related provision. Recoveries of loans previously written off are recorded based on the cash received.

Investment securities available for sale

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

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

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

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

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

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

Interests in associates and joint ventures

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

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

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 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.

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Summary of significant accounting policies continued (xvi) Property, plant and equipment

Property, plant and equipment are stated at historical cost (which includes directly attributable borrowing costs) less accumulated depreciation and accumulated impairment loss, if any. Property, plant and equipment are reviewed for indicators of impairment (or possible reversal of previous impairment losses) at each reporting date. Historical cost includes expenditure directly attributable to the acquisition of the asset. Property, plant and equipment includes assets leased out under operating leases.

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

| | |
|---|-----------|
| Buildings | 2 to 3.3% |
| Furniture, fittings and leasehold improvements ⁽¹⁾ | 10 to 20% |
| Equipment | 33 to 50% |
| Infrastructure assets | 2 to 12% |
| Aviation ⁽²⁾ | 2 to 8% |
| Meters | 5 to 15% |
| Rail cars | 3 to 5% |
| Telecommunications | 33% |
| Other operating lease assets | 2 to 50% |

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

(2) Includes aircraft, for which depreciation is calculated on a diminishing-value basis.

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

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

(xvii) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

Licences and trading rights are generally carried at cost less accumulated impairment loss. Where no contractual or legal limitation exists, these assets are not amortised because they are considered to have an indefinite useful life.

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

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

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

Software

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

Impairment

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

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

(xviii) Financial liabilities

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

Other debt issued at fair value through profit or loss

This category includes only those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. Management may elect to designate a financial liability as such if:

- the liability contains embedded derivatives which must otherwise be separated and carried at fair value
- the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis in accordance with a documented risk management or
- investment strategy, and reporting is provided on that basis to key management personnel, or
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

For financial liabilities designated at fair value through profit or loss, the Consolidated Entity uses trade date accounting on recognition and settlement date accounting on derecognition of the obligation.

Interest expense on such items is recognised in the income statement as interest expense using the effective interest method. Changes in fair value due to the change in the Consolidated Entity's own credit are recognised in Other Comprehensive Income.

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NOTE 1

Summary of significant accounting policies continued (xix) Supplemental rent, maintenance liability and end of lease compensation

Under certain leases, the Consolidated Entity requires lessees to make regular additional rent payments based on aircraft utilisation to contribute towards maintenance expenditure related to Major Maintenance Events (MMEs). These payments are typically calculated on the basis of hourly utilisation, calendar time or the number of cycles operated at an agreed rate specified in the lease. These payments are recorded as supplemental rent revenue in the period in which it is earned.

In certain circumstances, the Consolidated Entity agrees to an alternative mechanism to earn supplemental rent known as end of lease compensation. This compensation is typically calculated on the basis of the condition of each major component at the end of the lease relative to the commencement of the lease measured by hours, number of cycles or calendar time at an agreed rate specified in the lease. The Consolidated Entity accrues the expected lessee's compensation for the use of the aircraft over the term of the lease and agrees to defer the receipt of this compensation until the lease end.

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

(xx) Provisions

Employee benefits

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

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

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

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

Dividends

Provisions for dividends to be paid by the Company are recognised in the statement of financial position as a liability and a reduction in retained earnings when the dividend has been declared.

(xxi) Earnings per share

Basic earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders adjusted by profit attributable to all the dilutive potential ordinary shares by the weighted average number of ordinary shares and potential ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

Refer to Note 6 – Earnings per share for information concerning the classification of securities.

(xxii) Performance based remuneration

Share-based payments

The Consolidated Entity operates share-based compensation plans, which include awards (including those delivered through the MEREP) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 32 – Employee equity participation. The Consolidated Entity recognises an expense and a corresponding increase in equity in case of equity settled awards or a corresponding increase in liability in case of cash settled awards granted to employees. The awards are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

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

Profit share remuneration

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

(xxiii) Cash and cash equivalents

Cash and cash equivalents comprise of:

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

(xxiv) Investment property

Investment properties are initially recognised at cost and subsequently stated at fair value at each balance date. Any change in fair value is recognised in the consolidated income statements in the period.

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NOTE 1

Summary of significant accounting policies continued (xxv) Leases

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

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

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

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

(xxvi) Offsetting financial instruments

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

(xxvii) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. For compound instruments that have both equity and liability features, the liability component is initially measured at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method. Capital instruments with conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that are accounted for separately at fair value through profit and loss if the derivative is deemed to not be closely related to the capital instrument.

(xxviii) Contributed equity

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

(xxix) Changes in ownership interests

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

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

When increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity. Any changes in ownership of an associate that remains an associate only impacts the investment and does not create any profit or loss.

(xxx) Comparatives

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

(xxxi) Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191*, amounts in the Directors' Report and Financial Report have been rounded off to the nearest million Australian dollars unless otherwise indicated.

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FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018
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| | CONSOLIDATED | | COMPANY | |
|--|--------------|-------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 2 | | | | |
| Operating profit before income tax | | | | |
| Net interest income/(expense) | | | | |
| Interest and similar income | 4,943 | 5,138 | 479 | 447 |
| Interest expense and similar charges | (2,957) | (2,953) | (521) | (488) |
| Net interest income/(expense) | 1,986 | 2,185 | (42) | (41) |
| Fee and commission income | | | | |
| Base fees | 1,632 | 1,580 | - | - |
| Performance fees | 595 | 264 | - | - |
| Mergers and acquisitions, advisory and underwriting fees | 920 | 963 | - | - |
| Brokerage and commissions | 774 | 813 | - | - |
| Other fee and commission income | 749 | 711 | 10 | 10 |
| Total fee and commission income | 4,670 | 4,331 | 10 | 10 |
| Net trading income/(expense)⁽¹⁾ | | | | |
| Equities | 566 | 441 | - | - |
| Commodities ⁽²⁾ | 1,132 | 1,163 | - | - |
| Credit, interest rate and foreign exchange products | 259 | 154 | (39) | (39) |
| Net trading income/(expense) | 1,957 | 1,758 | (39) | (39) |
| Net operating lease income | | | | |
| Rental income ⁽³⁾ | 1,901 | 1,646 | - | - |
| Depreciation on operating lease assets (Note 14) | (966) | (725) | - | - |
| Net operating lease income | 935 | 921 | - | - |
| Share of net profits of associates and joint ventures | 241 | 51 | - | - |

(1) Includes net fair value loss of \$20 million (2017: \$64 million gain) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This also includes the ineffective portion of hedges and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk where hedge accounting requirements are not met. Refer to Note 1(xi) – Derivative instruments.

(2) Includes \$411 million (2017: \$266 million) of transportation and storage costs.

(3) Includes \$155 million (2017: \$128 million) of net supplemental rent on aircraft (adjusted for maintenance expense).

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|---|---------------|---------------|--------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 2 | | | | |
| Operating profit before income tax continued | | | | |
| Other operating income and charges | | | | |
| Investment income | | | | |
| Net gain on sale of investment securities available for sale | 76 | 419 | – | – |
| Net gain on sale of interests in associates and joint ventures | 224 | 286 | – | – |
| Net gain on acquisition, disposal, reclassification and change in ownership interests of investments, subsidiaries and businesses and assets held for sale ⁽¹⁾ | 768 | 613 | – | – |
| Net fair value gains on financial instruments designated at fair value | 113 | 11 | – | – |
| Dividends/distributions from investment securities available for sale | 52 | 95 | – | – |
| Dividends/distributions from Subsidiaries (Note 30) | – | – | 1,730 | 1,787 |
| Total investment income | 1,233 | 1,424 | 1,730 | 1,787 |
| Impairments (charge)/reversal | | | | |
| Investment securities available for sale | (25) | (47) | – | – |
| Interests in associates and joint ventures | (201) | (27) | – | – |
| Intangible assets and other non-financial assets | (77) | (99) | – | – |
| Investment in subsidiaries (Note 17) | – | – | 2,700 | 2,300 |
| Total impairment (charge)/reversal | (303) | (173) | 2,700 | 2,300 |
| Provision on loans and other receivables | | | | |
| Individually assessed provisions | (123) | (210) | – | – |
| Recovery of individually assessed provisions | 37 | 38 | – | – |
| Collective allowance for credit losses reversed | 116 | 5 | – | – |
| Amounts written off | (134) | (148) | – | – |
| Recovery of amounts previously written off | 41 | 44 | – | – |
| Total provision on loan and other receivables | (63) | (271) | – | – |
| Other income | 264 | 138 | – | – |
| Total other operating income and charges | 1,131 | 1,118 | 4,430 | 4,087 |
| Net operating income⁽²⁾ | 10,920 | 10,364 | 4,359 | 4,017 |

(1) Includes \$557 million (2017: \$80 million) of gains on reclassification of investments.

(2) Prior comparative financial year has been reclassified to conform to current financial year presentation.

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| | CONSOLIDATED | | COMPANY | |
|---|----------------|----------------|--------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 2 | | | | |
| Operating profit before income tax continued | | | | |
| Employment expenses | | | | |
| Salary and related costs including commissions, superannuation and performance-related profit share | (3,798) | (3,691) | (4) | (4) |
| Share-based payments ⁽¹⁾ | (410) | (416) | - | - |
| Provision for long service leave and annual leave | (13) | (14) | - | - |
| Total compensation expenses | (4,221) | (4,121) | (4) | (4) |
| Other employment expenses including on-costs, staff procurement and staff training | (272) | (258) | - | - |
| Total employment expenses | (4,493) | (4,379) | (4) | (4) |
| Brokerage, commission and trading-related expenses | | | | |
| Brokerage and other trading-related expenses | (661) | (674) | - | - |
| Other fee and commission expenses | (169) | (178) | - | - |
| Total brokerage, commission and trading-related expenses | (830) | (852) | - | - |
| Occupancy expenses | | | | |
| Operating lease rentals | (224) | (219) | - | - |
| Depreciation: buildings, furniture, fittings and leasehold improvements | (75) | (73) | - | - |
| Other occupancy expenses | (103) | (100) | - | - |
| Total occupancy expenses | (402) | (392) | - | - |
| Non-salary technology expenses | | | | |
| Information services | (181) | (189) | - | - |
| Depreciation: equipment (Note 14) | (24) | (27) | - | - |
| Service provider and other non-salary technology expenses | (399) | (428) | - | - |
| Total non-salary technology expenses | (604) | (644) | - | - |
| Other operating expenses | | | | |
| Professional fees | (411) | (385) | - | - |
| Travel and entertainment expenses | (163) | (154) | - | - |
| Advertising and promotional expenses | (83) | (80) | - | - |
| Auditor's remuneration (Note 41) | (35) | (36) | - | - |
| Amortisation of intangible assets | (41) | (35) | - | - |
| Communication expenses | (31) | (35) | - | - |
| Depreciation: infrastructure assets | (26) | (16) | - | - |
| Other expenses | (337) | (252) | (1) | (2) |
| Total other operating expenses | (1,127) | (993) | (1) | (2) |
| Total operating expenses | (7,456) | (7,260) | (5) | (6) |
| Operating profit before income tax | 3,464 | 3,104 | 4,354 | 4,011 |

(1) Includes \$26 million (2017: \$33 million) of share-based payments expense for cash settled awards.

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NOTE 3

Segment reporting

(i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing information about the Consolidated Entity's reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information may be produced using different measures to that used in preparing the statutory income statement.

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into five Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. There were previously six Operating Groups and during the prior year Commodities and Financial Markets merged with Macquarie Securities to form CGM. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

MAM provides clients with access to a diverse range of capabilities and products, including infrastructure, real assets, equities, fixed income, liquid alternatives and multi-asset investment management solutions.

CAF operates in selected international markets, providing specialist financing, investing and asset management solutions. CAF has expertise in flexible primary financing, secondary market investing and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

BFS provides a diverse range of personal banking, wealth management and business banking products and services to retail clients, advisers, brokers and business clients.

CGM provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities.

Macquarie Capital has global capability across Infrastructure, Energy, Real Estate, Telecommunications, Media and Technology, Consumer, Gaming and Leisure, Business Services, Resources, Industrials and Financial Institutions in mergers and acquisitions advisory, equity and debt capital markets and balance sheet positions.

The Operating Groups are grouped into annuity-style businesses and capital markets facing businesses:

- Annuity-style businesses comprise of MAM, CAF and BFS
- Capital markets facing businesses comprise of CGM and Macquarie Capital.

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

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

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

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

Internal funding arrangements

Group Treasury has responsibility for managing funding for the Consolidated Entity and Operating Groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding. Break costs are charged to Operating Groups for the early repayment of term funding.

In certain cases, Operating Groups may source funding directly from external sources – typically where the funding is secured by the assets of the Operating Group. In such cases the Operating Group bears the funding costs directly and Group Treasury may levy additional charges where appropriate.

Deposits are a funding source for the Consolidated Entity. BFS receives a deposit premium from Group Treasury on deposits they generate. This deposit premium is included within net interest and trading income for segment reporting purposes.

Transactions between Operating Groups

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

Accounting for derivatives that economically hedge interest rate risk

For businesses that predominately earn income from lending activities (CAF and BFS), derivatives that economically hedge interest rate risk are required to be carried at fair value through net trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognised at a Consolidated Entity level; however for segment reporting, derivatives are accounted for on an accruals basis in the Operating Group segments and changes in fair value are recognised within the Corporate segment offset by the effect of hedge relationships at the total Consolidated Entity level.

Central service groups

Central service groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. Central service groups include COG, FMG, RMG, LGL and Central Executive.

Performance-related profit share and share-based payments expense

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

Income tax

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

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| | Macquarie Asset Management \$m | Corporate and Asset Finance \$m | Banking and Financial Services \$m | Annuity Style Businesses \$m |
|--|---|--|---|------------------------------------|
| NOTE 3 | | | | |
| Segment reporting continued | | | | |
| (i) Operating segments continued | | | | |
| The following is an analysis of the Consolidated Entity's revenue and results by reportable segment | | | | |
| Net interest and trading (expense)/income | (52) | 582 | 1,182 | 1,712 |
| Fee and commission income/(expense) | 2,407 | 41 | 466 | 2,914 |
| Net operating lease income | 3 | 929 | – | 932 |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method | 163 | (3) | 3 | 163 |
| Other operating income and charges: | | | | |
| Impairment charges, write-offs and provisions, net of recoveries | (177) | (15) | (26) | (218) |
| Other operating income and charges | 407 | 351 | 18 | 776 |
| Internal management revenue/(charge) | 41 | 4 | 3 | 48 |
| Net operating income | 2,792 | 1,889 | 1,646 | 6,327 |
| Total operating expenses | (1,107) | (679) | (1,086) | (2,872) |
| Operating profit/(loss) before income tax | 1,685 | 1,210 | 560 | 3,455 |
| Income tax expense | – | – | – | – |
| Profit attributable to non-controlling interests | – | (4) | – | (4) |
| Net profit/(loss) attributable to ordinary equity holders | 1,685 | 1,206 | 560 | 3,451 |
| Reportable segment assets | 8,959 | 36,901 | 42,318 | 88,178 |
| Net interest and trading (expense)/income | (42) | 712 | 1,049 | 1,719 |
| Fee and commission income/(expense) | 2,067 | 53 | 472 | 2,592 |
| Net operating lease income | 14 | 904 | – | 918 |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method | 45 | – | 6 | 51 |
| Other operating income and charges: | | | | |
| Impairment charges, write-offs and provisions, net of recoveries | 14 | (111) | (91) | (188) |
| Other operating income and charges | 454 | 233 | 207 | 894 |
| Internal management revenue/(charge) | 44 | 40 | 5 | 89 |
| Net operating income | 2,596 | 1,831 | 1,648 | 6,075 |
| Total operating expenses | (1,057) | (634) | (1,135) | (2,826) |
| Operating profit/(loss) before income tax | 1,539 | 1,197 | 513 | 3,249 |
| Income tax expense | – | – | – | – |
| (Profit)/loss attributable to non-controlling interests | (1) | 1 | – | – |
| Net profit/(loss) attributable to ordinary equity holders | 1,538 | 1,198 | 513 | 3,249 |
| Reportable segment assets | 8,017 | 38,159 | 38,106 | 84,282 |

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| Commodities and Global Markets \$m | Macquarie Capital \$m | Capital Markets Facing Businesses \$m | Corporate \$m | Total \$m |
|--|--------------------------|---|------------------|----------------|
| CONSOLIDATED 2018 | | | | |
| 1,960 | (72) | 1,888 | 343 | 3,943 |
| 893 | 878 | 1,771 | (15) | 4,670 |
| – | – | – | 3 | 935 |
| 21 | 56 | 77 | 1 | 241 |
| (88) | (60) | (148) | – | (366) |
| 109 | 668 | 777 | (56) | 1,497 |
| 12 | 21 | 33 | (81) | – |
| 2,907 | 1,491 | 4,398 | 195 | 10,920 |
| (1,997) | (785) | (2,782) | (1,802) | (7,456) |
| 910 | 706 | 1,616 | (1,607) | 3,464 |
| – | – | – | (883) | (883) |
| – | (6) | (6) | (14) | (24) |
| 910 | 700 | 1,610 | (2,504) | 2,557 |
| 89,644 | 5,062 | 94,706 | 8,441 | 191,325 |
| CONSOLIDATED 2017 | | | | |
| 2,060 | 3 | 2,063 | 161 | 3,943 |
| 857 | 887 | 1,744 | (5) | 4,331 |
| – | – | – | 3 | 921 |
| – | 28 | 28 | (28) | 51 |
| (149) | (97) | (246) | (10) | (444) |
| 181 | 379 | 560 | 108 | 1,562 |
| (1) | 6 | 5 | (94) | – |
| 2,948 | 1,206 | 4,154 | 135 | 10,364 |
| (1,976) | (722) | (2,698) | (1,736) | (7,260) |
| 972 | 484 | 1,456 | (1,601) | 3,104 |
| – | – | – | (868) | (868) |
| (1) | (1) | (2) | (17) | (19) |
| 971 | 483 | 1,454 | (2,486) | 2,217 |
| 86,107 | 3,521 | 89,628 | 8,967 | 182,877 |

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NOTE 3

Segment reporting continued

(ii) Products and services

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

- **Lending:** corporate and structured finance, banking activities, mortgages and leasing
- **Financial Markets:** trading in fixed income securities, equities, currency, commodities and derivative products
- **Asset and Wealth Management:** investment management, manufacture and distribution of fund management products
- **Capital Markets:** advisory, underwriting, facilitation, broking, principal investments and real estate/property development.

| | CONSOLIDATED | |
|--|---------------|---------------|
| | 2018 \$m | 2017 \$m |
| Revenue from external customers | | |
| Lending | 6,069 | 5,712 |
| Financial Markets | 3,859 | 3,618 |
| Asset and Wealth Management | 2,851 | 2,914 |
| Capital Markets | 2,814 | 2,638 |
| Total revenue from external customers⁽¹⁾ | 15,593 | 14,882 |

(1) Revenue from external customers includes interest and similar income, fee and commission income, net trading income, operating lease income, income associated with investing activities and other income.

(iii) Geographical areas

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

| | CONSOLIDATED 2018 | | CONSOLIDATED 2017 | |
|---|--|---|--|---|
| | Revenue from external customers \$m | Non-current assets ⁽¹⁾ \$m | Revenue from external customers \$m | Non-current assets ⁽¹⁾ \$m |
| Australia | 5,953 | 2,518 | 5,969 | 2,087 |
| Europe, Middle East and Africa ⁽²⁾ | 4,557 | 10,938 | 3,789 | 9,735 |
| Americas ⁽³⁾ | 3,875 | 2,845 | 3,750 | 2,393 |
| Asia Pacific | 1,208 | 215 | 1,374 | 278 |
| Total | 15,593 | 16,516 | 14,882 | 14,493 |

(1) Non-current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and investment property.

(2) Includes external revenue generated in the United Kingdom of \$3,722 million (2017: \$2,898 million).

(3) Includes external revenue generated in the United States of America of \$3,658 million (2017: \$3,532 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customers.

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| | CONSOLIDATED | | COMPANY | |
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| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 4 | | | | |
| Income tax expense | | | | |
| (i) Income tax (expense)/benefit | | | | |
| Current tax (expense)/benefit | (581) | (486) | 9 | 44 |
| Deferred tax expense | (302) | (382) | (6) | (46) |
| Total income tax (expense)/benefit | (883) | (868) | 3 | (2) |
| (ii) Numerical reconciliation of income tax expense to prima facie tax payable | | | | |
| Prima facie income tax expense on operating profit ⁽¹⁾ | (1,039) | (931) | (1,306) | (1,203) |
| Tax effect of amounts which are (not deductible)/ non-assessable in calculating taxable income: | | | | |
| Rate differential on offshore income | 173 | 75 | 6 | 5 |
| Impairment reversal on subsidiaries | – | – | 810 | 690 |
| Intra-group dividend | – | – | 519 | 536 |
| Other items | (17) | (12) | (26) | (30) |
| Total income tax (expense)/benefit | (883) | (868) | 3 | (2) |
| (iii) Tax benefit/(expense) relating to items of other comprehensive income | | | | |
| Available for sale reserve | 144 | 54 | – | – |
| Cash flow hedge reserve | (13) | (13) | – | – |
| Share of other comprehensive expense of associates and joint ventures | (1) | – | – | – |
| Foreign currency translation reserve | – | 2 | – | – |
| Own credit risk | (3) | – | – | – |
| Total tax benefit relating to items of other comprehensive income | 127 | 43 | – | – |
| (iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities | | | | |
| Fixed assets | (25) | (9) | – | – |
| Intangible assets | 37 | 9 | – | – |
| Investments | 23 | (89) | – | – |
| Tax losses | (18) | (77) | – | – |
| Leasing and financial instruments | 56 | (207) | – | – |
| Other assets and liabilities | (375) | (9) | (6) | (46) |
| Total deferred tax expense represents movements in deferred tax assets/liabilities | (302) | (382) | (6) | (46) |

(1) Prima facie income tax on operating profit is calculated at the rate of 30% (2017: 30%).

Revenue authorities undertake risk reviews and audits as part of their normal activities. The Consolidated Entity has assessed these and other taxation claims and litigation, including seeking advice where appropriate, and considers that it holds appropriate provisions.

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| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 5 | | | | |
| Dividends and distributions paid or provided for | | | | |
| (i) Dividends paid | | | | |
| Ordinary share capital and exchangeable shares | | | | |
| Final dividend paid (2017: \$2.80 (2016: \$2.40) per share) ⁽¹⁾ | 952 | 816 | 944 | 809 |
| Interim dividend paid (2018: \$2.05 (2017: \$1.90) per share) ⁽²⁾ | 697 | 646 | 691 | 640 |
| Total dividends paid (Note 28) | 1,649 | 1,462 | 1,635 | 1,449 |

(1) Final dividend paid by the Consolidated Entity includes \$8 million (2017: \$7 million) of dividend equivalent amount paid to Deferred Share Unit (DSU) holders as described in Note 32 – Employee equity participation.

(2) Interim dividend paid by the Consolidated Entity includes \$6 million (2017: \$6 million) of dividend equivalent amount paid to DSU holders as described in Note 32 – Employee equity participation.

The 2017 final and 2018 interim dividends paid during the financial year were franked at 45% based on tax paid at 30% (2016 final dividend franked at 40% based on tax paid at 30%; 2017 interim dividend franked at 45% based on tax paid at 30%). The dividends paid to the holders of the exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in Note 27 – Contributed equity.

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

Since the end of the financial year, the Directors have resolved to pay a 2018 final dividend of \$3.20 per fully paid ordinary share, 45% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 3 July 2018 from retained profits, but not recognised as a liability at the end of the financial year is \$1,088 million (net of \$1 million to be received on treasury shares (refer to Note 27 – Contributed equity for further details of these instruments)). This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 31 March 2018.

| | CONSOLIDATED | | COMPANY | |
|---|--------------|------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Cash dividend per ordinary share (distribution of current year profits) (\$ per share) | 5.25 | 4.70 | 5.25 | 4.70 |
| Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2017: 30%) (\$m) | 117 | 199 | 117 | 199 |

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year, and
- franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

| | CONSOLIDATED | | COMPANY | |
|---|--------------|-------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| (iii) Distributions paid or provided for | | | | |
| Macquarie Income Securities⁽¹⁾ | | | | |
| Distributions paid (net of distributions previously provided for) | 11 | 12 | – | – |
| Distributions provided for | 3 | 3 | – | – |
| Total distributions paid or provided for | 14 | 15 | – | – |

(1) The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Refer to Note 28 – Reserves, retained earnings and non-controlling interests for further details on MIS.

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NOTE 6

Earnings per share

Cents per share

| | | |
|-----------------------------------|--------------|-------|
| Basic earnings per share | 758.2 | 657.6 |
| Diluted earnings per share | 743.5 | 644.5 |

Reconciliation of earnings used in the calculation of basic and diluted earnings per share

\$m \$m

| | | |
|---|--------------|-------|
| Profit after income tax | 2,581 | 2,236 |
| Profit attributable to non-controlling interests: | | |
| Macquarie Income Securities | (14) | (15) |
| Other non-controlling interests | (10) | (4) |
| Total profit attributable to ordinary equity holders of MGL | 2,557 | 2,217 |
| Less: profit attributable to participating unvested MEREP awards | (112) | (105) |
| Total earnings used in the calculation of basic earnings per share | 2,445 | 2,112 |
| Add back: Profit attributable to dilutive participating unvested MEREP awards | 75 | 65 |
| Adjusted interest expense on loan capital | 90 | 115 |
| Total earnings used in the calculation of diluted earnings per share | 2,610 | 2,292 |

Number of shares

| | | |
|--|--------------------|-------------|
| Total weighted average number of equity shares (net of treasury shares) used in the calculation of basic earnings per share | 322,475,660 | 321,147,160 |
| Weighted average number of equity shares used in the calculation of diluted earnings per share: | | |
| Weighted average number of equity shares (net of treasury shares) | 322,475,660 | 321,147,160 |
| Potential equity shares: | | |
| Weighted average unvested MEREP awards ⁽¹⁾ | 12,625,725 | 12,658,678 |
| Weighted average loan capital ⁽²⁾ | 15,955,364 | 21,795,249 |
| Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share | 351,056,749 | 355,601,087 |

(1) For details of MEREP awards, refer to Note 32 – Employee equity participation.

(2) For details of loan capital, refer to Note 26 – Loan capital.

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| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 7 | | | | |
| Receivables from financial institutions | | | | |
| Cash and other receivables ⁽¹⁾ | 9,722 | 9,464 | - | - |
| Cash collateral on securities borrowed and reverse repurchase agreements ⁽²⁾ | 28,837 | 18,007 | - | - |
| Total receivables from financial institutions | 38,559 | 27,471 | - | - |

(1) Includes \$153 million (2017: \$147 million) provided as security against payables to other financial institutions.

(2) The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2018 is \$28,671 million (2017: \$18,205 million). For certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral that the Consolidated Entity is permitted to sell or re-pledge in the absence of default is \$28,671 million (2017: \$18,205 million), of which the fair value of collateral sold or re-pledged is \$11,750 million (2017: \$4,629 million).

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

NOTE 8

Trading portfolio assets

| | | | | |
|---|---------------|---------------|----------|----------|
| Equities | | | | |
| Listed | 4,494 | 12,121 | - | - |
| Unlisted | 391 | 11 | - | - |
| Debt securities | | | | |
| Commonwealth and Foreign government securities | 5,846 | 6,310 | - | - |
| Corporate loans and securities | 1,095 | 1,758 | - | - |
| Treasury notes | 611 | 1,061 | - | - |
| Other debt securities | 325 | 71 | - | - |
| Commodities | 2,823 | 5,601 | - | - |
| Total trading portfolio assets⁽¹⁾ | 15,585 | 26,933 | - | - |

(1) Includes \$2,837 million (2017: \$5,200 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending arrangements.

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

NOTE 9

Investment securities available for sale

| | | | | |
|---|--------------|--------------|----------|----------|
| Debt securities ⁽¹⁾ | 5,648 | 4,851 | - | - |
| Equity securities | | | | |
| Listed | 48 | 899 | - | - |
| Unlisted | 470 | 1,143 | - | - |
| Total investment securities available for sale | 6,166 | 6,893 | - | - |

(1) Includes \$517 million (2017: \$509 million) provided as security against payables to financial institutions.

Of the above amounts, \$2,874 million (2017: \$1,919 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

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|--|---------------|---------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 10 | | | | |
| Other assets | | | | |
| Security settlements | 7,343 | 6,529 | – | – |
| Debtors and prepayments | 6,444 | 5,609 | 4 | 26 |
| Assets of disposal groups and interests in associates held for sale ⁽¹⁾ | 3,341 | 2,802 | – | – |
| Life investment linked contracts and other unitholder assets | 647 | 721 | – | – |
| Income tax receivable | 376 | 471 | 8 | 44 |
| Other | 219 | 426 | – | – |
| Total other assets⁽²⁾ | 18,370 | 16,558 | 12 | 70 |

(1) Includes \$1,855 million (2017: \$1,733 million) relating to an indirect investment in a gas distribution network in the United Kingdom acquired during the financial year 31 March 2017 exclusively with an intention to sell. This investment is held in a consortium vehicle that forms part of the Consolidated Entity. Non-controlling interest for the amounts contributed by external investors to the consortium vehicle of \$1,254 million (2017: \$1,171 million) are included in Note 28 – Reserves, retained earnings and non-controlling interests.

(2) Includes \$510 million (2017: \$437 million) provided as security against payables to financial institutions.

Of the above amounts, \$18,019 million (2017: \$15,807 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$12 million (2017: \$70 million) by the Company.

| | CONSOLIDATED 2018 | | | CONSOLIDATED 2017 | | |
|--|-------------------|---|---------------|-------------------|---|---------------|
| | Gross \$m | Individually assessed provisions for impairment \$m | Net \$m | Gross \$m | Individually assessed provisions for impairment \$m | Net \$m |
| NOTE 11 | | | | | | |
| Loan assets held at amortised cost | | | | | | |
| Mortgages ⁽¹⁾ | 36,937 | (3) | 36,934 | 32,791 | (3) | 32,788 |
| Asset financing ⁽¹⁾ | 19,307 | (41) | 19,266 | 19,772 | (66) | 19,706 |
| Corporate, commercial and other lending | 15,157 | (133) | 15,024 | 15,928 | (347) | 15,581 |
| Margin money placed | 8,185 | – | 8,185 | 7,376 | – | 7,376 |
| Investment lending | 2,034 | – | 2,034 | 1,670 | (1) | 1,669 |
| Total loan assets before collective allowance for credit losses | 81,620 | (177) | 81,443 | 77,537 | (417) | 77,120 |
| Less collective allowance for credit losses | | | (293) | | | (457) |
| Total loan assets held at amortised cost⁽²⁾ | | | 81,150 | | | 76,663 |

(1) Includes loans of \$11,560 million (2017: \$16,332 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(2) Includes other loans of \$752 million (2017: \$767 million) provided as security against payables to financial institutions.

Of the above amounts, \$31,546 million (2017: \$28,765 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

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| | CONSOLIDATED | |
|--|--------------|--------------|
| | 2018 \$m | 2017 \$m |
| NOTE 11 | | |
| Loan assets held at amortised cost continued | | |
| Individually assessed provisions for impairment | | |
| Balance at the beginning of the financial year | 417 | 413 |
| Provided for during the financial year | 105 | 201 |
| Loan assets written off or sold, previously provided for | (325) | (206) |
| Recovery of loans previously provided for | (27) | (19) |
| Net transfer from collective provisions | 7 | 30 |
| Foreign exchange movements | - | (2) |
| Balance at the end of the financial year | 177 | 417 |
| Individually assessed provisions as a percentage of total gross loan assets | 0.22% | 0.54% |
| Collective allowance for credit losses | | |
| Balance at the beginning of the financial year | 457 | 520 |
| Reversed during the financial year | (151) | (20) |
| Disposal during the financial year | (9) | (7) |
| Net transfer to specific provisions | (7) | (30) |
| Foreign exchange movements | 3 | (6) |
| Balance at the end of the financial year | 293 | 457 |

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

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

| | CONSOLIDATED 2018 | | | CONSOLIDATED 2017 | | |
|---|--|---------------------------|--|--|---------------------------|--|
| | Gross investment in finance lease receivables \$m | Unearned income \$m | Present value of minimum lease payments receivable \$m | Gross investment in finance lease receivables \$m | Unearned income \$m | Present value of minimum lease payments receivable \$m |
| Not later than one year | 1,991 | (206) | 1,785 | 2,569 | (267) | 2,302 |
| Later than one year and not later than five years | 4,121 | (419) | 3,702 | 3,820 | (436) | 3,384 |
| Later than five years | 92 | (16) | 76 | 108 | (24) | 84 |
| Total | 6,204 | (641) | 5,563 | 6,497 | (727) | 5,770 |

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| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 12 | | | | |
| Impaired financial assets | | | | |
| Debt investment securities available for sale before cumulative impairment loss | 41 | 49 | - | - |
| Less: Cumulative impairment loss | (41) | (48) | - | - |
| Debt investment securities available for sale | - | 1 | - | - |
| Impaired loan assets and other financial assets before individually assessed provisions for impairment | 630 | 1,071 | - | - |
| Less: Individually assessed provisions for impairment | (270) | (501) | - | - |
| Loan assets and other financial assets after individually assessed provisions for impairment | 360 | 570 | - | - |
| Total impaired financial assets | 360 | 571 | - | - |

NOTE 13
Other financial assets at fair value through profit or loss

| | | | | |
|--|--------------|--------------|----------|----------|
| Investment securities | | | | |
| Equity | 891 | 869 | - | - |
| Debt | 103 | 72 | - | - |
| Loan assets | 440 | 561 | - | - |
| Total other financial assets at fair value through profit or loss⁽¹⁾ | 1,434 | 1,502 | - | - |

(1) Includes \$5 million (2017: \$10 million) provided as security against payables to financial institutions.

Of the above amounts, \$516 million (2017: \$788 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

| | CONSOLIDATED 2018 | | | CONSOLIDATED 2017 | | |
|--|-------------------|---|---------------------------------|-------------------|---|---------------------------------|
| | Cost \$m | Accumulated depreciation and impairment \$m | Written down value \$m | Cost \$m | Accumulated depreciation and impairment \$m | Written down value \$m |
| NOTE 14 | | | | | | |
| Property, plant and equipment | | | | | | |
| Assets for own use | | | | | | |
| Land and buildings | 279 | (19) | 260 | 278 | (13) | 265 |
| Furniture, fittings and leasehold improvements | 684 | (498) | 186 | 670 | (458) | 212 |
| Equipment | 127 | (95) | 32 | 114 | (81) | 33 |
| Infrastructure assets | 768 | (71) | 697 | 561 | (28) | 533 |
| Total assets for own use | 1,858 | (683) | 1,175 | 1,623 | (580) | 1,043 |
| Assets under operating lease | | | | | | |
| Aviation | 9,938 | (2,437) | 7,501 | 10,167 | (1,996) | 8,171 |
| Meters | 1,629 | (541) | 1,088 | 1,146 | (411) | 735 |
| Telecommunications | 963 | (255) | 708 | 208 | (20) | 188 |
| Rail cars | 862 | (176) | 686 | 762 | (129) | 633 |
| Others | 445 | (177) | 268 | 395 | (156) | 239 |
| Total assets under operating lease | 13,837 | (3,586) | 10,251 | 12,678 | (2,712) | 9,966 |
| Total property, plant and equipment | 15,695 | (4,269) | 11,426 | 14,301 | (3,292) | 11,009 |

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

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NOTE 14**Property, plant and equipment continued**

Movement in the Consolidated Entity's property, plant and equipment at their written down value:

| | Land and buildings \$m | Furniture, fittings and leasehold improvements \$m | Equipment \$m | Infrastructure assets \$m | Total \$m |
|--|------------------------------|--|------------------|---------------------------------|--------------|
| Assets for own use | | | | | |
| Balance as at 1 April 2016 | 269 | 224 | 44 | 427 | 964 |
| Acquisitions | 3 | 74 | 17 | 182 | 276 |
| Disposals | (2) | (15) | (1) | – | (18) |
| Foreign exchange movements | – | (3) | – | (60) | (63) |
| Depreciation expense | (5) | (68) | (27) | (16) | (116) |
| Balance as at 31 March 2017 | 265 | 212 | 33 | 533 | 1,043 |
| Acquisitions | 7 | 53 | 23 | 153 | 236 |
| Disposals | (1) | (10) | (1) | (12) | (24) |
| Reclassification and other adjustments | (5) | (1) | – | 17 | 11 |
| Impairments | – | – | – | (21) | (21) |
| Foreign exchange movements | – | 4 | 1 | 55 | 60 |
| Depreciation expense | (6) | (72) | (24) | (28) | (130) |
| Balance as at 31 March 2018 | 260 | 186 | 32 | 697 | 1,175 |

Included in the balance of assets for own use are assets pledged as security against payables to financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is \$50 million (2017: \$14 million).

| | Aviation \$m | Meters \$m | Telecom- munications \$m | Rail cars \$m | Other \$m | Total \$m |
|--|-----------------|---------------|--------------------------------|------------------|--------------|---------------|
| Assets under operating lease | | | | | | |
| Balance as at 1 April 2016 | 8,879 | 690 | 2 | 726 | 260 | 10,557 |
| Acquisitions | 43 | 272 | 206 | 3 | 46 | 570 |
| Disposals | (256) | – | – | – | (14) | (270) |
| Reclassification and other adjustments | 1 | (33) | – | – | 1 | (31) |
| Impairments | (19) | – | – | – | – | (19) |
| Foreign exchange movements | 44 | (91) | – | (68) | (1) | (116) |
| Depreciation expense (Note 2) | (521) | (103) | (20) | (28) | (53) | (725) |
| Balance as at 31 March 2017 | 8,171 | 735 | 188 | 633 | 239 | 9,966 |
| Acquisitions | 7 | 438 | 847 | – | 110 | 1,402 |
| Disposals | (104) | – | (65) | – | (14) | (183) |
| Reclassification and other adjustments | (42) | (48) | – | – | (1) | (91) |
| Impairments | (12) | – | – | – | – | (12) |
| Foreign exchange movements | (42) | 94 | – | 82 | 1 | 135 |
| Depreciation expense (Note 2) | (477) | (131) | (262) | (29) | (67) | (966) |
| Balance as at 31 March 2018 | 7,501 | 1,088 | 708 | 686 | 268 | 10,251 |

Included in the balance of assets under operating leases are assets pledged as security against payables to financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is \$2,765 million (2017: \$3,028 million).

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

| | CONSOLIDATED | |
|---|--------------|--------------|
| | 2018 \$m | 2017 \$m |
| Assets under operating lease | | |
| Not later than one year | 1,455 | 1,130 |
| Later than one year and not later than five years | 2,336 | 2,508 |
| Later than five years | 314 | 531 |
| Total future minimum lease payments receivable | 4,105 | 4,169 |

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 15 | | | | |
| Interests in associates and joint ventures | | | | |
| Loans and investments without provisions for impairment | 3,440 | 1,998 | – | – |
| Loans and investments with provisions for impairment | 950 | 241 | – | – |
| Less provisions for impairment | (335) | (144) | – | – |
| Loans and investments with provisions for impairment at recoverable amount | 615 | 97 | – | – |
| Total interests in associates and joint ventures^{(1),(2)} | 4,055 | 2,095 | – | – |

(1) Includes \$2,854 million (2017: \$1,690 million) relating to interests in associates and \$1,201 million (2017: \$405 million) relating to interests in joint ventures.

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

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

NOTE 16**Intangible assets****Goodwill**

| | | | | |
|----------------------------------|------------|------------|----------|----------|
| Cost | 685 | 605 | – | – |
| Less accumulated impairment loss | (216) | (163) | – | – |
| Total goodwill | 469 | 442 | – | – |

Intangible assets with indefinite lives

| | | | | |
|--|------------|------------|----------|----------|
| Cost | 269 | 270 | – | – |
| Less accumulated impairment loss | – | – | – | – |
| Total intangible assets with indefinite lives | 269 | 270 | – | – |

Customer and servicing contracts

| | | | | |
|---|-----------|-----------|----------|----------|
| Cost | 180 | 176 | – | – |
| Less accumulated amortisation and impairment loss | (140) | (124) | – | – |
| Total customer and servicing contracts | 40 | 52 | – | – |

Other identifiable intangible assets

| | | | | |
|---|------------|------------|----------|----------|
| Cost | 499 | 466 | – | – |
| Less accumulated amortisation and impairment loss | (284) | (221) | – | – |
| Total other identifiable intangible assets | 215 | 245 | – | – |

| | | | | |
|--------------------------------|------------|--------------|----------|----------|
| Total intangible assets | 993 | 1,009 | – | – |
|--------------------------------|------------|--------------|----------|----------|

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

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NOTE 16**Intangible assets continued****Movement in Consolidated Entity's intangible assets at their written down value:**

| | Goodwill \$m | Intangible assets with indefinite lives \$m | Customer and servicing contracts \$m | Other identifiable intangible assets \$m | Total \$m |
|--|-----------------|--|---|--|--------------|
| Balance as at 1 April 2016 | 525 | 270 | 67 | 216 | 1,078 |
| Acquisitions | 12 | – | 20 | 112 | 144 |
| Disposals, reclassifications and other adjustments | (25) | – | (18) | (45) | (88) |
| Impairments | (62) | – | – | (19) | (81) |
| Amortisation | – | – | (17) | (18) | (35) |
| Foreign exchange movements | (8) | – | – | (1) | (9) |
| Balance as at 31 March 2017 | 442 | 270 | 52 | 245 | 1,009 |
| Acquisitions | 81 | – | 7 | 131 | 219 |
| Disposals, reclassifications and other adjustments | (19) | – | (1) | (100) | (120) |
| Impairments | (39) | – | – | (5) | (44) |
| Amortisation ⁽¹⁾ | – | – | (16) | (61) | (77) |
| Foreign exchange movements | 4 | (1) | (2) | 5 | 6 |
| Balance as at 31 March 2018 | 469 | 269 | 40 | 215 | 993 |

(1) The balance includes amortisation of \$36m which is included in Net trading income.

Goodwill and Intangible assets with indefinite lives:

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

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

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

| | COMPANY | |
|--|---------------|---------------|
| | 2018 \$m | 2017 \$m |
| NOTE 17 | | |
| Investments in subsidiaries | | |
| Investments at cost without provisions for impairment | 13,384 | 13,382 |
| Investments at cost with provisions for impairment | 17,209 | 17,208 |
| Less provisions for impairment ⁽¹⁾ | (5,246) | (7,946) |
| Investments with provisions for impairment at recoverable amount | 11,963 | 9,262 |
| Total investments in subsidiaries | 25,347 | 22,644 |

(1) During the financial year the Company recognised an impairment reversal of \$2,700 million (2017: \$2,300) as a consequence of the continued improvement in the performance of its subsidiary, Macquarie Financial Holdings Pty Limited (Australia). The recoverable amount has been estimated using valuation techniques which incorporate the subsidiary's consolidated earnings and relevant earnings multiples.

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

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NOTE 17

Investments in subsidiaries continued

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

- Macquarie (UK) Group Services Limited (United Kingdom)
- Macquarie Agricultural Funds Management Limited (Australia)
- Macquarie B.H. Pty. Ltd (Australia)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited (Australia)
- Macquarie Capital (Australia) Limited (Australia)
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Capital (Singapore) Pte. Limited (Singapore)
- Macquarie Capital (USA) Inc (United States)
- Macquarie Capital Limited (Hong Kong)
- Macquarie Capital Markets Canada Ltd. (Canada)
- Macquarie Capital Securities (India) Private Limited (India)
- Macquarie Capital Securities (Singapore) Pte. Limited (Singapore)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Commodities Brasil S/A (Brazil)
- Macquarie Corporate Holdings Pty Limited (Australia)
- Macquarie Emerging Markets Asian Trading Pte Limited (Singapore)
- Macquarie Energy Canada Limited (Canada)
- Macquarie Energy LLC (United States)
- Macquarie Equities Limited (Australia)
- Macquarie Euro Limited (United Kingdom)
- Macquarie Finance Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Holdings Pty Limited (Australia)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Futures USA LLC (United States)
- Macquarie Group investments (UK) No.2 Limited (United Kingdom)
- Macquarie Group Services Australia Pty Limited (Australia)
- Macquarie Holdings (USA) Inc. (United States)
- Macquarie Inc. (United States)
- Macquarie Infrastructure and Real Assets (Europe) Limited (United Kingdom)
- Macquarie Infrastructure and Real Assets Inc. (United States)
- Macquarie Infrastructure Management (USA) Inc. (United States)
- Macquarie International Finance Limited (Australia)
- Macquarie Investment Holdings No.2 Pty. Limited (Australia)
- Macquarie Investment Management Australia Limited (Australia)
- Macquarie Investment Management Global Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty. Limited (Australia)
- Macquarie Management Holdings, Inc. (United States)
- Macquarie Physical Metals (USA) Inc. (United States)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Securities (Australia) Limited (Australia)
- Macquarie Securities (NZ) Limited (New Zealand)
- Macquarie Securities (Thailand) Limited
- Macquarie Securities Korea Limited (Republic of Korea)
- Macquarie Securities South Africa Limited (South Africa)
- Macquarie Securitisation Limited (Australia)
- Macquarie Specialised Asset Management Limited (Australia)
- MIF Holdings Limited (United Kingdom)
- Delaware Investments Management Company, LLC (United States)

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

Overseas subsidiaries conduct business predominantly in their place of incorporation, unless otherwise stated.

Beneficial interest in all material subsidiaries is 100%.

All material subsidiaries have a 31 March reporting date.

In accordance with ASIC instruments 13-0151, 13-0394, 15-0518, 16-0119 and 18-0145, the Consolidated Entity has been granted relief under section 340 of the Act from synchronising the year-end of the following consolidated entities to 31 March:

- Macquarie Mexico Real Estate Management, S.A. de C.V.
- Texas Municipal Gas Acquisition and Supply Corporation III
- Macquarie Energy Mexico, S. de R.L. de C.V. (formerly Macquarie Gas de Sonora S. De R.L. de C.V.)
- Comercializadora Energia de la Reforma S. de R.L. de C.V.
- Macquarie Servicios Electricos de Mexico S. de R.L. de C.V.

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| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 18 | | | | |
| Deferred tax assets/(liabilities) | | | | |
| The balance comprises temporary differences attributable to: | | | | |
| Other assets and liabilities | 810 | 1,046 | - | - |
| Tax losses | 403 | 421 | 24 | 28 |
| Investments | 121 | 143 | - | - |
| Fixed assets | 156 | 173 | - | - |
| Leasing and financial instruments | 37 | 7 | - | - |
| Intangibles | 18 | 23 | - | - |
| Set-off of deferred tax liabilities | (895) | (1,175) | (5) | (2) |
| Net deferred tax assets | 650 | 638 | 19 | 26 |
| Leasing and financial instruments | (1,082) | (1,092) | - | - |
| Other assets and liabilities | (432) | (336) | (5) | (2) |
| Intangible assets | (77) | (137) | - | - |
| Investments | (33) | (219) | - | - |
| Fixed assets | (20) | (12) | - | - |
| Set-off of deferred tax assets | 895 | 1,175 | 5 | 2 |
| Net deferred tax liabilities | (749) | (621) | - | - |

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

Potential tax assets of approximately \$312 million (2017: \$282 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable. Included in this amount are gross losses of \$32 million (2017: \$30 million) that will expire within 2 years, \$95 million (2017: \$87 million) that will expire in 2 – 5 years, \$50 million (2017: \$69 million) that will expire in 5 – 10 years and \$231 million (2017: \$201 million) that will expire in 10 – 20 years. \$918 million (2017: \$776 million of gross losses) do not expire and can be carried forward indefinitely.

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|---|---------------|---------------|--------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 19 | | | | |
| Trading portfolio liabilities | | | | |
| Equity securities | 7,663 | 4,404 | – | – |
| Debt Securities | | | | |
| Foreign government securities | 328 | 592 | – | – |
| Corporate securities | 70 | 71 | – | – |
| Total trading portfolio liabilities | 8,061 | 5,067 | – | – |
| NOTE 20 | | | | |
| Deposits | | | | |
| Interest bearing deposits | | | | |
| Call | 38,606 | 38,551 | – | – |
| Term | 7,133 | 7,154 | 24 | 11 |
| Client monies, segregated fund and margin money held | 11,017 | 10,182 | – | – |
| Non-interest bearing call deposits | 2,656 | 1,821 | – | – |
| Total deposits | 59,412 | 57,708 | 24 | 11 |
| NOTE 21 | | | | |
| Other liabilities | | | | |
| Security settlements | 6,993 | 6,588 | – | – |
| Accrued charges, income received in advance and other liabilities | 3,493 | 3,112 | 70 | 71 |
| Creditors | 3,329 | 3,103 | 14 | 7 |
| Aircraft and rail maintenance liabilities | 846 | 782 | – | – |
| Life investment linked contracts and other unitholder liabilities | 640 | 714 | – | – |
| Liabilities of disposal groups classified as held for sale | 523 | 520 | – | – |
| Income tax payable | 262 | 212 | 112 | 82 |
| Total other liabilities | 16,086 | 15,031 | 196 | 160 |
| NOTE 22 | | | | |
| Payables to financial institutions | | | | |
| Borrowings from banks | 10,057 | 10,125 | 3,191 | 2,413 |
| Cash collateral on securities lent and repurchase agreements | 5,383 | 6,947 | – | – |
| Total payables to financial institutions | 15,440 | 17,072 | 3,191 | 2,413 |

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| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 23 | | | | |
| Debt issued at amortised cost | | | | |
| Debt issued at amortised cost ⁽¹⁾ | 53,717 | 50,828 | 12,177 | 5,746 |
| Total debt issued at amortised cost | 53,717 | 50,828 | 12,177 | 5,746 |

(1) Includes issued to SPE note holders and debt holders of \$8,979 million (2017: \$13,430 million). The Consolidated Entity has not had any defaults of principal, interest or other breaches with respect to its debt during the financial years reported.

Reconciliation of debt issued at amortised cost by major currency

(In Australian dollar equivalent)

| | | | | |
|----------------------|---------------|---------------|---------------|--------------|
| United States dollar | 30,861 | 25,536 | 9,922 | 5,236 |
| Australian dollar | 13,093 | 14,887 | 1,011 | 7 |
| Euro | 5,742 | 5,650 | 797 | – |
| Swiss franc | 1,487 | 1,912 | – | – |
| Japanese yen | 1,029 | 1,222 | 447 | 503 |
| Great British pound | 727 | 767 | – | – |
| Yuan renminbi | 225 | 218 | – | – |
| Norwegian krone | 163 | 153 | – | – |
| Hong Kong dollar | 152 | 222 | – | – |
| Canadian dollar | 126 | 125 | – | – |
| Korean won | 112 | 107 | – | – |
| South African rand | – | 17 | – | – |
| Singapore dollar | – | 12 | – | – |
| Total | 53,717 | 50,828 | 12,177 | 5,746 |

The Consolidated Entity's and the Company's primary sources of domestic and international debt funding are their multi-currency, multi-jurisdictional Debt Instrument Program and domestic Negotiable Certificate of Deposits (NCD) issuance.

NOTE 24

Other debt issued at fair value through profit or loss

| | | | | |
|---|--------------|--------------|----------|----------|
| Structured notes ^{(1),(2)} | 2,363 | 2,404 | – | – |
| Total other debt issued at fair value through profit or loss | 2,363 | 2,404 | – | – |

(1) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or other assets.

(2) Includes cumulative fair value gain of \$25 million (2017: \$12 million loss) due to changes in the Consolidated Entity's credit risk.

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through profit or loss for the Consolidated Entity is \$3,193 million (2017: \$3,183 million).

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NOTE 24

Other debt issued at fair value through profit or loss continued

Reconciliation of other debt issued at fair value through profit or loss by major currency

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| <i>(In Australian dollar equivalent)</i> | | | | |
| United States dollar | 1,901 | 1,812 | – | – |
| South African rand | 371 | 513 | – | – |
| Australian dollar | 70 | 56 | – | – |
| Others | 21 | 23 | – | – |
| Total | 2,363 | 2,404 | – | – |

NOTE 25

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply the Basel III Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations. Level 3 consists of the Level 2 group, other bank entities excluded from Level 2 plus the non-bank group.

As an APRA authorised and regulated Non-Operating Holding Company (NOHC), the Company is required to maintain minimum regulatory capital calculated as the sum of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWA plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
- the non-bank group capital requirement, using the Consolidated Entity's ECAM. Transactions internal to the Consolidated Entity are excluded.

The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity has satisfied all internally and externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the financial year.

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NOTE 26

Loan capital

Subordinated debt

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

Macquarie Group Capital Notes (MCN)

On 7 June 2013, the Company issued 6 million MCN at face value of \$100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

MCN may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 7 June 2021. The MCN may also be exchanged earlier on an acquisition event (where a person acquires control of the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, MCN Holders will receive up to approximately \$101 worth of ordinary shares per MCN held. The total number of ordinary shares that would be issued if all MCN were exchanged at 31 March 2018 would be 5,800,733 (31 March 2017: 6,879,235). The maximum number of ordinary shares that can be issued on an exchange is 70,721,358.

The MCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 4.00% per annum, adjusted for franking credits, paid semi-annually in arrears. If interest is not paid on the MCN, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

Macquarie has announced that it intends to redeem MCN in June 2018. An offer of MCN3 hybrid securities, including a rollover offer for MCN holders and a security holder offer will be launched subsequent to 31 March 2018.

Macquarie Group Capital Notes 2 (MCN2)

On 18 December 2015, the Company issued 5.3 million MCN2 at face value of \$100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

MCN2 may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 18 March 2024. The MCN2 may also be exchanged earlier on an acquisition event (where a person acquires control of the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, MCN2 Holders will receive up to approximately \$101 worth of ordinary shares per MCN2 held. The total number of ordinary shares that would be issued if all MCN2 were exchanged at 31 March 2018 would be 5,133,572 (31 March 2017: 6,088,032). The maximum number of ordinary shares that can be issued on an exchange is 32,644,295.

The MCN2 pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 5.15% per annum, adjusted for franking credits, paid semi-annually in arrears. If interest is not paid on the MCN2, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

Macquarie Bank Capital Notes (BCN)

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

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

In the event of an exchange, BCN Holders will receive up to approximately \$101 worth of MGL ordinary shares per BCN held. The total number of ordinary shares that would be issued if all BCN were exchanged at 31 March 2018 would be 4,151,492 (31 March 2017: 4,923,360). The maximum number of ordinary shares that can be issued on an exchange is 37,056,481.

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

Macquarie Additional Capital Securities (MACS)

On 8 March 2017, MBL, acting through its London Branch, issued \$US750 million of MACS.

The MACS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 6.125% per annum, payable semi-annually in arrears, with the rate to be reset on the tenth anniversary (and each fifth anniversary thereafter), if the MACS remain outstanding after this time. If interest is not paid on the MACS, MBL will be restricted from paying dividends or returning capital on its ordinary shares until the next interest payment date.

The MACS may be exchanged on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL ordinary shares will be issued at a 1% discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange.

No MACS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if all MACS were exchanged at 31 March 2018 would be 9,469,528 (31 March 2017: 11,189,774). The maximum number of ordinary shares that can be issued on an exchange is 56,947,286.

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Loan capital continued

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

Exchangeable Capital Securities (ECS)

On 26 March 2012, MBL, acting through its London Branch, issued \$US250 million of ECS. During the current financial year, MBL bought back ECS and extinguished the entire \$US250 million.

Under their terms, the ECS, were unsecured subordinated notes, paid discretionary, non-cumulative interest of 10.25% per annum, payable semi-annually in arrears.

The ECS were exchangeable for a variable number of fully paid ordinary shares of the Company.

No ECS were exchanged during the period before their buyback.

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| Maturity of Loan Capital: | | | | |
| Accrued Interest payable as per terms of instruments: | | | | |
| Less than 12 months | 86 | 94 | 11 | 11 |
| Subordinate debt instruments with fixed repayment obligations: | | | | |
| 30 May 2019 | 1 | 1 | – | – |
| 21 September 2020 | 773 | 689 | – | – |
| 7 April 2021 | 1,088 | 1,149 | – | – |
| 10 June 2025 | 930 | 978 | – | – |
| Instruments with conditional repayment obligations: | | | | |
| MCN | 600 | 600 | 600 | 600 |
| MCN2 | 531 | 531 | 531 | 531 |
| BCN | 430 | 430 | – | – |
| MACS | 976 | 980 | – | – |
| ECS | – | 327 | – | – |
| | 5,415 | 5,779 | 1,142 | 1,142 |
| Less directly attributable issue cost | (23) | (31) | (7) | (12) |
| Total loan capital⁽¹⁾ | 5,392 | 5,748 | 1,135 | 1,130 |
| Reconciliation of loan capital by major currency: <i>(In Australian dollar equivalent)</i> | | | | |
| United States dollar | 3,047 | 3,498 | – | – |
| Australian dollar | 1,572 | 1,572 | 1,142 | 1,142 |
| Euro | 796 | 709 | – | – |
| | 5,415 | 5,779 | 1,142 | 1,142 |
| Less directly attributable issue cost | (23) | (31) | (7) | (12) |
| Total loan capital⁽¹⁾ | 5,392 | 5,748 | 1,135 | 1,130 |

(1) The balance includes fair value hedge accounting adjustments.

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

In accordance with APRA guidelines, the Consolidated Entity includes the BCN, ECS and MACS as Additional Tier 1 capital and the applicable portion of the remaining loan capital as Tier 2 capital.

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| | Notes | 2018 Number of shares | 2017 Number of shares | 2018 \$m | 2017 \$m |
|---|-------|-----------------------------|-----------------------------|----------------|----------------|
| NOTE 27 | | | | | |
| Contributed equity | | | | | |
| Ordinary share capital⁽¹⁾ | | | | | |
| CONSOLIDATED | | | | | |
| Opening balance of fully paid ordinary shares | | 340,351,731 | 340,302,389 | 7,467 | 7,446 |
| Issue of shares on exercise of MEREP awards | | – | 19,126 | – | 1 |
| Issue of shares on retraction of exchangeable shares | | 13,089 | 30,216 | 1 | 2 |
| For employee MEREP awards: | | | | | |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 28 | – | – | 293 | 277 |
| Transfer of additional deferred tax benefit on MEREP expense from share based payments reserve on vesting of MEREP awards | 28 | – | – | 40 | 39 |
| Transfer from treasury shares for awards withdrawn/exercised | | – | – | (296) | (284) |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 28 | – | – | (7) | (14) |
| Closing balance of fully paid ordinary shares | | 340,364,820 | 340,351,731 | 7,498 | 7,467 |
| Treasury shares^{(2),(3)} | | | | | |
| Opening balance | | (19,300,529) | (20,053,879) | (1,187) | (1,036) |
| Purchase of shares for employee MEREP awards | | (4,182,548) | (6,045,273) | (373) | (433) |
| Transfer to ordinary share capital for awards withdrawn/exercised | | 5,642,962 | 6,791,529 | 296 | 284 |
| Sale of shares for cash settled awards by MEREP Trust | | – | 7,094 | – | – |
| Purchase of shares for allocation under DRP scheme | | (1,501,424) | (1,550,824) | (140) | (121) |
| Allocation of shares under DRP scheme | | 1,501,424 | 1,550,824 | 140 | 121 |
| Purchase of shares for allocation under ESP scheme | | (11,090) | (10,670) | (1) | (1) |
| Allocation of shares under ESP scheme | | 11,090 | 10,670 | 1 | 1 |
| Valuation adjustment on treasury shares | | – | – | – | (2) |
| Closing balance of treasury shares | | (17,840,115) | (19,300,529) | (1,264) | (1,187) |
| Exchangeable shares⁽⁴⁾ | | | | | |
| Opening balance | | 138,835 | 170,846 | 10 | 12 |
| Retraction of exchangeable shares | | (13,867) | (32,011) | (1) | (2) |
| Closing balance of exchangeable shares | | 124,968 | 138,835 | 9 | 10 |
| Contributed equity | | | | 6,243 | 6,290 |

(1) Ordinary shares have no par value.

(2) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares. The Consolidated Entity has resolved to purchase additional Treasury shares to satisfy MEREP requirements of approximately \$460 million commencing on 14 May 2018. Ordinary shares will be issued if purchasing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 32 – Employee equity participation.

(3) During the year, the Board approved an on-market buyback of up to \$1 billion. As at 31 March 2018, no shares were purchased as part of this approval. The buyback program remains in place.

(4) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity in accordance with AASB 132 Financial Instruments: Presentation. As per the terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in the Company (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to the Company's dividends during their legal life. However, subsequent to the approval of consolidation of the Company's ordinary shares by the Company's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in the Company.

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| | Notes | 2018 Number of shares | 2017 Number of shares | 2018 \$m | 2017 \$m |
|---|-------|-----------------------------|-----------------------------|----------------|-------------|
| NOTE 27 | | | | | |
| Contributed equity continued | | | | | |
| Ordinary share capital⁽¹⁾ | | | | | |
| COMPANY | | | | | |
| Opening balance of fully paid ordinary shares | | 340,351,731 | 340,302,389 | 10,120 | 10,135 |
| Issue of shares on exercise of MEREP awards | | – | 19,126 | – | 1 |
| Issue of shares on retraction of exchangeable shares | | 13,089 | 30,216 | 1 | 2 |
| For employee MEREP awards: | | | | | |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 28 | – | – | 293 | 277 |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 28 | – | – | 2 | 3 |
| Transfer from treasury shares for awards withdrawn/exercised | | – | – | (296) | (284) |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 28 | – | – | (7) | (14) |
| Closing balance of fully paid ordinary shares | | 340,364,820 | 340,351,731 | 10,113 | 10,120 |
| Treasury shares^{(2),(3)} | | | | | |
| Opening balance | | (19,300,529) | (20,053,879) | (1,187) | (1,038) |
| Purchase of shares for employee MEREP awards | | (4,182,548) | (6,045,273) | (373) | (433) |
| Transfer to ordinary share capital for awards withdrawn/exercised | | 5,642,962 | 6,791,529 | 296 | 284 |
| Sale of shares for cash settled awards by MEREP Trust | | – | 7,094 | – | – |
| Closing balance of treasury shares | | (17,840,115) | (19,300,529) | (1,264) | (1,187) |
| Contributed equity | | | | 8,849 | 8,933 |

(1) Ordinary shares have no par value.

(2) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares. The Consolidated Entity has resolved to purchase additional Treasury shares to satisfy MEREP requirements of approximately \$460 million commencing on 14 May 2018. Ordinary shares will be issued if purchasing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 32 – Employee equity participation.

(3) During the year, the Board approved an on-market buyback of up to \$1 billion. As at 31 March 2018, no shares were purchased as part of this approval. The buyback program remains in place.

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| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|---------------|---------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 28 | | | | |
| Reserves, retained earnings and non-controlling interests | | | | |
| Reserves | | | | |
| Foreign currency translation reserve | | | | |
| Balance at the beginning of the financial year | 248 | 377 | - | - |
| Exchange differences on translation of foreign operations, net of hedge and tax | 127 | (129) | - | - |
| Balance at the end of the financial year | 375 | 248 | - | - |
| Available for sale reserve | | | | |
| Balance at the beginning of the financial year | 393 | 555 | - | - |
| Revaluation movements for the current year, net of tax | (129) | 129 | - | - |
| Transfer to income statement on: | | | | |
| Impairment, net of tax | 16 | 32 | - | - |
| Sale or reclassification, net of tax | (263) | (323) | - | - |
| Balance at the end of the financial year | 17 | 393 | - | - |
| Share-based payments reserve | | | | |
| Balance at the beginning of the financial year | 877 | 754 | 823 | 719 |
| MEREP expense for the financial year | 383 | 382 | - | - |
| Additional deferred tax benefit on MEREP expense | 37 | 57 | 3 | 2 |
| MEREP issued to employees of subsidiaries (Note 30) | - | - | 383 | 382 |
| Transfer to ordinary share capital on vesting of MEREP awards | (293) | (277) | (293) | (277) |
| Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards | (40) | (39) | (2) | (3) |
| Balance at the end of the financial year | 964 | 877 | 914 | 823 |
| Share-based payments capital reduction reserve | | | | |
| Balance at the beginning of the financial year | (19) | (33) | (19) | (33) |
| Transfer to ordinary share capital on vested and forfeited awards | 7 | 14 | 7 | 14 |
| Balance at the end of the financial year | (12) | (19) | (12) | (19) |
| Cash flow hedging reserve | | | | |
| Balance at the beginning of the financial year | (103) | (118) | - | - |
| Revaluation movement for the financial year, net of tax | 54 | 15 | - | - |
| Balance at the end of the financial year | (49) | (103) | - | - |
| Share of reserves of interests in associates and joint ventures | | | | |
| Balance at the beginning of the financial year | - | 1 | - | - |
| Share of other comprehensive (expense)/income of associates and joint ventures during the year, net of tax | 2 | (1) | - | - |
| Balance at the end of the financial year | 2 | - | - | - |
| Total reserves at the end of the financial year | 1,297 | 1,396 | 902 | 804 |
| Retained earnings | | | | |
| Balance at the beginning of the financial year | 7,877 | 7,158 | 12,607 | 10,047 |
| Profit attributable to ordinary equity holders of MGL | 2,557 | 2,217 | 4,357 | 4,009 |
| Dividends paid on ordinary share capital (Note 5) | (1,649) | (1,462) | (1,635) | (1,449) |
| Loss on change in non-controlling ownership interest | (5) | (6) | - | - |
| Fair value changes attributable to own credit risk on other debt issued at fair value through profit or loss, net of tax | 37 | (30) | - | - |
| Balance at the end of the financial year | 8,817 | 7,877 | 15,329 | 12,607 |

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NOTE 28**Reserves, retained earnings and non-controlling interests continued****Non-controlling interests****Macquarie Income Securities**

The MIS issued by MBL, a subsidiary, are redeemable (in whole or in part) at MBL's discretion. Interest is paid quarterly at a floating rate of BBSW plus 1.7% per annum (2017: 1.7% per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|-------------|-------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| Macquarie Income Securities | | | | |
| 4,000,000 Macquarie Income Securities of \$100 each | 400 | 400 | - | - |
| Less transaction costs for original placement | (9) | (9) | - | - |
| Total Macquarie Income Securities | 391 | 391 | - | - |
| Other non-controlling interests⁽¹⁾ | | | | |
| Share capital and partnership interests ⁽²⁾ | 1,352 | 1,360 | - | - |
| Foreign currency translation reserve | 124 | (12) | - | - |
| Accumulated losses | (44) | (32) | - | - |
| Total other non-controlling interests | 1,432 | 1,316 | - | - |
| Total non-controlling interests | 1,823 | 1,707 | - | - |

(1) Other non-controlling interests represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

(2) Includes non-controlling interest of \$1,254 million (2017: \$1,171 million) representing amounts contributed by external investors to a consortium vehicle that forms part of the Consolidated Entity. The consortium vehicle holds an indirect investment in a gas distribution network in the United Kingdom that is classified by the Consolidated Entity as held for sale, as disclosed in Note 10 - Other assets.

NOTE 29**Notes to the statements of cash flows****Reconciliation of cash and cash equivalents**

Cash and cash equivalents at the end of the financial year are reflected in the related items in the statements of financial position as follows:

| | | | | |
|---|---------------|---------------|----------|----------|
| Receivables from financial institutions ⁽¹⁾ | 9,381 | 9,135 | - | - |
| Trading portfolio assets ⁽²⁾ | 612 | 1,102 | - | - |
| Debt investment securities available for sale ⁽³⁾ | 1,197 | 324 | - | - |
| Loan assets held at amortised cost ⁽⁴⁾ | 1,815 | 1,193 | - | - |
| Cash and cash equivalents at the end of the financial year⁽⁵⁾ | 13,005 | 11,754 | - | - |

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

(3) Includes short-term debt securities.

(4) Includes margin balances at call.

(5) Cash and cash equivalents include \$4,479 million (2017: \$5,173 million) in escrow accounts which are restricted for use or held by collateralised securitisation vehicles in segregated deposit fund.

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| | CONSOLIDATED | | COMPANY | |
|--|--------------|----------------|--------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 29 | | | | |
| Notes to the statements of cash flows continued | | | | |
| Reconciliation of profit after income tax to net cash flows from/ (used in) operating activities | | | | |
| Profit after income tax | 2,581 | 2,236 | 4,357 | 4,009 |
| Adjustments to profit after income tax: | | | | |
| Depreciation and amortisation | 1,172 | 876 | - | - |
| Unrealised foreign exchange and fair value movement on financial assets and liabilities | (32) | (618) | (118) | 21 |
| Credit losses and impairment charges | 408 | 488 | - | - |
| Impairment reversal of investment in subsidiary | - | - | (2,700) | (2,300) |
| Investment income and gain on sale of operating lease assets and other non-financial assets | (1,122) | (1,334) | - | - |
| Share-based payments expense | 383 | 382 | - | - |
| Share of net profit of associates and joint ventures | (241) | (51) | - | - |
| Changes in assets and liabilities: | | | | |
| Change in carrying values of associates and joint ventures due to dividends received | 175 | 113 | - | - |
| Change in net interest payable and receivable | (18) | 134 | 29 | 62 |
| Change in fees and non-interest income receivable | (459) | 40 | - | - |
| Change in fees and commissions payable | (47) | (57) | - | - |
| Change in tax balances | 401 | 147 | (188) | (255) |
| Change in operating lease assets | (1,202) | (320) | - | - |
| Change in loan assets and balances with related entities | (3,610) | 1,013 | (6,712) | 1,522 |
| Change in margin money placed | (184) | (1,104) | - | - |
| Change in debtors, prepayments, accrued charges and creditors | 259 | 602 | - | - |
| Change in net trading portfolio assets and liabilities and net derivative financial instruments ⁽¹⁾ | 1,805 | 2,746 | 26 | 7 |
| Change in amounts due to financial institutions and other borrowings | 182 | (4,259) | 854 | (434) |
| Change in deposits | 1,499 | 5,561 | 13 | 3 |
| Change in debt issued at amortised cost | 2,500 | (12,303) | 6,447 | (753) |
| Net cash flows from/(used in) operating activities | 4,450 | (5,708) | 2,008 | 1,882 |

(1) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.

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NOTE 30

Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services and the provision of guarantees. Significant transactions between the Company and its subsidiaries are disclosed below.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms.

All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Company except when the parties have the legal right and intention to offset.

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

A list of material subsidiaries is set out in Note 17 – Investments in subsidiaries.

The Company as the ultimate parent entity of the Consolidated Entity, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in Note 1(vii) – Taxation. Due from subsidiaries in the Company's separate statement of financial position includes the amount of current tax asset assumed by MGL as the head entity and amount receivable by the Company under the tax funding agreement of the tax consolidated group.

The following income/(expense) resulted from transactions with subsidiaries during the financial year⁽¹⁾:

| | CONSOLIDATED | | COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Interest income | – | – | 479,042 | 445,826 |
| Interest expense | – | – | (52,391) | (57,720) |
| Fee and commission income | – | – | 9,359 | 9,747 |
| Dividends and distributions (Note 2) | – | – | 1,730,000 | 1,787,000 |
| The following balances with subsidiaries were outstanding as at financial year end ⁽²⁾ : | | | | |
| Amounts receivable | – | – | 17,269,299 | 10,009,030 |
| Amounts payable | – | – | (843,162) | (944,584) |

(1) Share based payments to employees of subsidiaries (Note 28) expensed during the financial year is \$383,243 thousand (2017: \$382,280 thousand).

(2) As described in Note 1(xxii) – Performance based remuneration, the Company has a liability as at 31 March 2018 of \$418,599 thousand (2017: \$398,731 thousand) for amounts received in advance as at 31 March 2018 from subsidiaries for MEREP offered to their employees net of share-based payment expense recognised by the subsidiary. To the extent that the awards vest, this amount will be retained by the Company as compensation for issuing and releasing the shares to the subsidiary employees.

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NOTE 30

Related party information continued

Associates and joint ventures

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

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

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

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Interest income | 146,136 | 73,523 | – | – |
| Fee and commission income ⁽¹⁾ | 1,003,976 | 609,157 | – | – |
| Brokerage, commission and trading-related expenses | (10,410) | (9,482) | – | – |
| Dividends and distributions ⁽²⁾ | 181,000 | 112,599 | – | – |
| Other (expense)/income | (12,321) | 2,220 | – | – |

(1) Includes \$449,250 thousand (2017: \$90,863 thousand) performance fees earned from the Consolidated Entity's associates.

(2) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 15 – Interests in associates and joint ventures):

| | | | | |
|------------------------------------|-----------|-----------|---|---|
| Amounts receivable | 854,947 | 463,890 | – | – |
| Amounts payable | (32,268) | (14,591) | – | – |
| Undrawn Commitments ⁽³⁾ | (681,371) | (245,695) | – | – |

(3) Undrawn commitments are included in Note 33: Contingent liabilities and commitments.

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NOTE 31

Key Management Personnel disclosure

Key Management Personnel

The following persons were Directors of the Company during the financial years ended 31 March 2018 and 31 March 2017, unless indicated.

Executive Voting Director⁽¹⁾

N.W. Moore CEO

Non-Executive Directors

P.H. Warne⁽²⁾ Chairman

G.R. Banks AO

G.M. Cairns

M.J. Coleman

P.A. Cross

D.J. Grady AM

M. J. Hawker AM

G.R. Stevens AC (appointed effective 1 November 2017)

N.M. Wakefield Evans

In addition to the Executive Director listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL during the past two financial years ended 31 March 2018 and 31 March 2017, unless otherwise indicated.

Current Executives⁽¹⁾

T.C. Bishop Head of Macquarie Capital

B.A. Brazil Co-Head of CAF

A.J. Downe Head of CGM

G.A. Farrell Co-Head of CAF

A. Harvey CFO, Head of FMG (appointed effective 1 January 2018)

N. O'Kane Head of CMF (appointed effective 15 June 2017)

M.J. Reemst Macquarie Bank CEO

N. Sorbara COO, Head of COG

P.C. Upfold⁽³⁾ CRO, Head of RMG

G.C. Ward Deputy Managing Director and Head of BFS

S. Wikramanayake Head of MAM

Former Executives

S.D. Allen Former CRO, Head of RMG (ceased to be a member of the Executive Committee on 31 December 2017)

M. McLaughlin Former Country Head, United States of America (ceased to be a member of the Executive Committee on 15 June 2017)

S. Vrcelj Former Head of MSG (ceased to be a member of the Executive Committee on 29 November 2016)

The remuneration arrangements for all of the persons listed above are described on pages 56 to 63 of the Remuneration Report, contained in the Directors' Report.

(1) Except where otherwise indicated, the CEO and all current Executives are members of the Consolidated Entity's Executive Committee as at 4 May 2018.

(2) P.H. Warne commenced as Chairman of the MGL Board effective 1 April 2016.

(3) P.C. Upfold was an Executive KMP for FY2018 but changed roles during the year, commencing as CRO, Head of RMG on 1 January 2018. He was formerly CFO, Head of FMG.

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NOTE 31**Key Management Personnel disclosure continued****Key Management Personnel remuneration**

The following tables detail the aggregate remuneration for KMP:

| | SHORT-TERM EMPLOYEE BENEFITS | | | LONG-TERM EMPLOYEE BENEFITS | SHARE-BASED PAYMENTS | | | Total remuneration \$ |
|----------------------------|---|--|-------------------|---------------------------------------|---|--|------------------------|-----------------------|
| | Salary and fees (including superannuation) \$ | Performance related remuneration ⁽¹⁾ \$ | Other benefits \$ | Total short-term Employee Benefits \$ | Restricted profit share including earnings on restricted profit share ⁽²⁾ \$ | Equity awards including shares ⁽³⁾ \$ | PSUs ⁽⁴⁾ \$ | |
| Executive Remuneration | | | | | | | | |
| 2018 | 9,152,206 | 40,246,664 | – | 49,398,870 | 18,440,174 | 46,507,506 | 22,134,653 | 136,481,203 |
| 2017 | 9,661,034 | 37,547,256 | – | 47,208,290 | 14,423,080 | 40,720,130 | 24,110,081 | 126,461,581 |
| Non-Executive Remuneration | | | | | | | | |
| 2018 | 3,618,083 | – | – | 3,618,083 | – | – | – | 3,618,083 |
| 2017 | 3,491,914 | – | 3,000 | 3,494,914 | – | – | – | 3,494,914 |

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

(2) The amount of retained profit share held via the Post-2009 DPS plan including earnings on notional investments from retained profit share in prior financial years.

(3) The current year amortisation for retained profit share calculated as described in Note 1(xxii) – Performance based remuneration.

(4) The current year amortisation for PSUs calculated as described in Note 1(xxii) – Performance based remuneration. Adjustments were made during the prior financial years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

Equity holdings of KMP and their related parties

The following tables set out details of MGL ordinary shares held during the financial year by KMP including their related parties, on a Consolidated Entity basis.

| | Number of shares held at 1 April | Number of shares held at appointment/retirement date (after 1 April) | Shares received on withdrawal from MEREP | Other changes ⁽¹⁾ | Number of shares held by former KMP at date of resignation/retirement (prior to 31 March) | Number of shares held at 31 March |
|-------------|----------------------------------|--|--|------------------------------|---|-----------------------------------|
| 2018 | 3,014,420 | 4,840 | 1,092,765 | (714,788) | – | 3,397,237 |
| 2017 | 2,729,089 | – | 1,103,328 | (817,997) | – | 3,014,420 |

(1) Includes on-market acquisitions and disposals.

MEREP RSU Awards of KMP and their related parties⁽¹⁾

The following tables set out details of the MEREP RSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 76 to 81. Further details in relation to the MEREP RSU awards are disclosed in Note 32 – Employee equity participation.

| | Number of RSU awards held at 1 April | Number of RSU awards held at appointment/retirement date (after 1 April) | RSU awards granted during the financial year ⁽¹⁾ | Vested RSU awards withdrawn from the MEREP during the financial year ⁽²⁾ | Number of RSU awards held by former KMP at date of resignation/retirement (prior to 31 March) | Number of RSU awards held at 31 March |
|-------------|--------------------------------------|--|---|---|---|---------------------------------------|
| 2018 | 2,903,611 | 433,732 | 680,830 | (615,747) | 223,714 | 3,178,712 |
| 2017 | 2,941,721 | 80,406 | 662,377 | (689,639) | 91,254 | 2,903,611 |

(1) RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above for 2018 relate to the Company's performance in 2017.

(2) Vested RSUs transferred to the KMP's shareholding.

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NOTE 31**Key Management Personnel disclosure continued****MEREP PSU Awards of KMP and their related parties⁽¹⁾**

The following tables set out details of MEREP PSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report on page 79 to 80. Further details in relation to the MEREP PSU awards are disclosed in Note 32 – Employee equity participation.

| | Number of PSU awards held at 1 April | Number of PSU awards held at appointment/retirement date (after 1 April) | PSU awards granted during the financial year ⁽¹⁾ | Vested PSU awards exchanged during the financial year | PSU awards not able to be exercised due to performance hurdles not met ⁽²⁾ | Number of PSU awards held by former KMP at date of resignation/retirement (prior to 31 March) | Number of PSU awards held at 31 March ⁽³⁾ |
|-------------|--------------------------------------|--|---|---|---|---|--|
| 2018 | 1,477,248 | – | 338,550 | (476,769) | – | 130,678 | 1,208,351 |
| 2017 | 1,502,467 | 101,963 | 415,168 | (413,211) | (16,908) | 112,231 | 1,477,248 |

(1) PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above for 2018 relate to the Company's performance in 2017.

(2) Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2016 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed in FY2017. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

(3) PSU awards vested and not exercised at 31 March 2018: Nil (2017: 70,211).

Details of share-based payment grant dates affecting compensation for the financial years ended 31 March 2018 and 31 March 2017.

| Financial year grant relates to | Type of grant | GRANT DATE | |
|---------------------------------|-------------------|-------------------|------------------|
| | | Managing Director | All other KMP |
| 2008 | Transition awards | 3 March 2010 | 3 March 2010 |
| | Retained DPS | 3 March 2010 | 3 March 2010 |
| 2009 | Retained DPS | 3 March 2010 | 3 March 2010 |
| | PSUs | 3 March 2010 | 3 March 2010 |
| 2010 | Retained DPS | 13 August 2010 | 30 June 2010 |
| | PSUs | 13 August 2010 | 13 August 2010 |
| 2011 | Retained DPS | 15 August 2011 | 15 February 2011 |
| | | | 20 June 2011 |
| | PSUs | 15 August 2011 | 15 August 2011 |
| 2012 | Retained DPS | 15 August 2012 | 7 June 2012 |
| | PSUs | 15 August 2012 | 15 August 2012 |
| 2013 | Retained DPS | 15 August 2013 | 25 June 2013 |
| | PSUs | 15 August 2013 | 15 August 2013 |
| 2014 | Retained DPS | 15 August 2014 | 25 June 2014 |
| | PSUs | 15 August 2014 | 15 August 2014 |
| 2015 | Retained DPS | 17 August 2015 | 6 July 2015 |
| | PSUs | 17 August 2015 | 17 August 2015 |
| 2016 | Retained DPS | 15 August 2016 | 17 June 2016 |
| | PSUs | 15 August 2016 | 15 August 2016 |
| 2017 | Retained DPS | 15 August 2017 | 22 June 2017 |
| | PSUs | 15 August 2017 | 15 August 2017 |

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NOTE 31**Key Management Personnel disclosure continued****Loans to Key Management Personnel and their related parties**

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

| | | Opening balance at 1 April \$'000 | Interest charged \$'000 | Write-downs \$'000 | Closing balance at 31 March \$'000 ⁽¹⁾ |
|---|-------------|--|-------------------------------|-----------------------|--|
| Total for Key Management Personnel and their related parties | 2018 | – | 3 | – | 464 |
| | 2017 | – | – | – | – |

(1) Number of persons included in the aggregate at 31 March 2018: 1 (2017: Nil).

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

Other transactions with Key Management Personnel and their related parties

Certain Key Management Personnel and their related parties have acquired investments in a number of products from subsidiaries within the Consolidated Entity. These products typically involve the issuance of investment units and have been financed with limited recourse loans. Some are accounted for as fee and commission income when acting on behalf of investors. This fee represents the service performed by the Consolidated Entity for transferring interest received from investors in exchange for their investment unit returns. The gross receipts by the Consolidated Entity were \$Nil (2017: \$2,700 thousand). Others are subject to swap agreements and are accounted for as derivatives by the Consolidated Entity. All the arrangements between the investor and Macquarie are subject to a legal right of set-off.

All transactions with Key Management Personnel (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees.

From an accounting perspective, amounts recognised by the Consolidated Entity in respect of these transactions are recognised net in either trading income or fee and commission income and have been disclosed below.

| | Consolidated 2018 \$'000 | Consolidated 2017 \$'000 |
|---|--------------------------------|--------------------------------|
| Aggregated amounts recognised by the Consolidated Entity | | |
| Trading income | – | 838 |
| Fee and commission income | – | 397 |

Contributions in respect of these products relate to the following Key Management Personnel: S. Wikramanayake. All products have matured or been redeemed during the year.

NOTE 32**Employee equity participation****MEREP**

The Consolidated Entity continues to operate the MEREP in conjunction with other remuneration arrangements.

Award Types under the MEREP**Restricted Share Units (RSUs)**

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

The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights 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 the Company 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. The Company 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, where permitted by lay 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 the Company in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of the Company's 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, or where PSUs are structured as DSUs (see PSUs). DSUs have been granted with an expiry period of up to eight years.

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NOTE 32**Employee equity participation continued**

Performance Share Units (PSUs)

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

Restricted Shares

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

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

| | Number of RSU Awards 2018 | Number of RSU Awards 2017 |
|---|---------------------------------|---------------------------------|
| RSUs on issue at the beginning of the financial year | 15,857,964 | 16,762,504 |
| Granted during the financial year | 3,874,717 | 5,210,587 |
| Vested RSUs withdrawn or sold from the MEREP during the financial year | (4,453,864) | (5,564,965) |
| Forfeited during the financial year | (447,482) | (550,162) |
| RSUs on issue at the end of the financial year | 14,831,335 | 15,857,964 |
| RSUs vested and not withdrawn from the MEREP at the end of the financial year | 28,660 | 6,945 |

The weighted average fair value of the RSU awards granted during the financial year was \$90.20 (2017: \$72.77).

| | Number of DSU Awards 2018 | Number of DSU Awards 2017 |
|--|---------------------------------|---------------------------------|
| DSUs on issue at the beginning of the financial year | 3,003,035 | 3,036,458 |
| Granted during the financial year | 876,982 | 1,112,093 |
| Exercised during the financial year | (798,552) | (1,061,207) |
| Forfeited during the financial year | (86,496) | (84,309) |
| DSUs on issue at the end of the financial year | 2,994,969 | 3,003,035 |
| DSUs exercisable at the end of the financial year | 572,456 | 487,800 |

The weighted average fair value of the DSU awards granted during the financial year was \$90.31 (2017: \$72.50).

| | Number of PSU Awards 2018 | Number of PSU Awards 2017 |
|--|---------------------------------|---------------------------------|
| PSUs on issue at the beginning of the financial year | 1,589,479 | 1,629,738 |
| Granted during the financial year | 346,006 | 415,168 |
| Exercised during the financial year | (526,639) | (437,000) |
| Expired during the financial year | - | (18,427) |
| PSUs on issue at the end of the financial year | 1,408,846 | 1,589,479 |
| PSUs exercisable at the end of the financial year | - | 70,211 |

The weighted average fair value of the PSU awards granted during the financial year was \$73.00 (2017: \$65.53).

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NOTE 32**Employee equity participation continued**

| | Number of Restricted Share Awards 2018 | Number of Restricted Share Awards 2017 |
|---|--|--|
| Restricted shares on issue at the beginning of the financial year | 54,650 | 118,155 |
| Granted during the financial year | 14,358 | 48,594 |
| Forfeited during the financial year | – | (7,069) |
| Released during the financial year | (42,837) | (105,030) |
| Restricted shares on issue at the end of the financial year | 26,171 | 54,650 |

The weighted average fair value of the Restricted Shares granted during the financial year was \$87.29 (2017: \$69.73).

The awards are measured at their grant dates based on their fair value⁽¹⁾ and for each PSU, the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution to the subsidiary where the Company is not reimbursed or as a prepaid asset in advance where the Company is reimbursed.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of 2017. The fair value of each of these grants is estimated using the Company's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 2.26% per annum
- expected vesting dates of PSUs: 1 July 2020 and 1 July 2021
- dividend yield: 5.07% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2018 will be granted during FY2019, the Consolidated Entity begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.58% per annum, expected vesting dates of PSUs of 1 July 2021 and 1 July 2022, and a dividend yield of 4.96% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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

For the financial year ended 31 March 2018, compensation expense relating to the MEREP totalled \$404,714 thousand (2017: \$412,246 thousand).

For the equity settled awards, the estimated future withholding tax outflow is \$267,262 thousand (2017: \$258,494 thousand). 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)
- Macquarie staff with retained commission (Commission Awards)
- Macquarie staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards)
- new Macquarie staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
- members of the MGL and MBL Executive Committees who are eligible for PSUs
- 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 Consolidated Entity upon the acquisition of their employer by a Macquarie entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

(1) For employees categorised as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV remuneration requirements, the fair value of the awards granted for performance periods after 1 April 2017 has been adjusted to take into account the prohibition of dividends on unvested awards.

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NOTE 32**Employee equity participation continued**

Vesting periods are as follows:

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

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

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

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

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

For Retained Profit Share awards representing 2017 retention, the allocation price was the weighted average price of the shares acquired for the 2017 purchase period, which was 16 May 2017 to 22 June 2017. That price was calculated to be \$89.25 (2016 retention: \$71.55).

PSUs

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

The hurdles are outlined below.

*Performance hurdle 1***REFERENCE GROUP**

| Hurdle | Granted after 31 March 2013 | Granted on or before 31 March 2013 |
|--|---|---|
| 50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three to four years) compared with a reference group of global financial institutions. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile. | The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG. | The reference group comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited). |

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NOTE 32

Employee equity participation continued

Performance hurdle 2

| Hurdle | REQUIRED RESULT | |
|---|--|--|
| | Granted after 31 March 2013 | Granted on or before 31 March 2013 |
| 50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years). | A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable. | A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9% and 100% at EPS CAGR of 13%. For example, if EPS CAGR were 11%, 75% of the relevant awards would become exercisable. |

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

Other arrangements

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

Compensation expense relating to these awards for the financial year ended 31 March 2018 was \$262 thousand (2017: \$463 thousand).

Employee Share Plan

The Consolidated Entity continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to \$1,000 worth of fully paid MGL ordinary shares for no cash consideration.

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

The latest offer under the ESP was made during November 2017. A total of 1,109 (2017: 970) staff participated in this offer. On 28 November 2017, the participants were each allocated 10 (2017: 11) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$99.33 (2017: \$84.13); a total of 11,090 (2017: 10,670) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2018, compensation expense relating to the ESP totalled \$1,097 thousand (2017: \$893 thousand).

Historical Share and Option Plans

Shares are no longer being issued under the Staff Share Acquisition Plan or the Non-Executive Director Share Acquisition plan. However, employees and Non-Executive Directors still hold shares issued in previous years.

Options over fully paid unissued ordinary shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

Other plans

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

Shares purchased on-market for the purpose of an employee incentive scheme

During the financial year ended 31 March 2018, the Consolidated Entity purchased 1,257,791 shares on-market (2017: 1,728,065 shares) and 2,924,757 shares via off-market transfer (2017: 4,317,208 shares) for MEREP. A further 11,090 shares were purchased on-market for the ESP (2017: 10,670 shares). The average price of all share purchases during the financial year was \$89.28 (2017: \$71.57) and the average price of the purchases made on-market was \$89.81 (2017: \$72.04).

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| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|--------------|--------------|
| | 2018 \$m | 2017 \$m | 2018 \$m | 2017 \$m |
| NOTE 33 | | | | |
| Contingent liabilities and commitments | | | | |
| Contingent liabilities exist in respect of: ^{(1),(2)} | | | | |
| Letters of credit | 1,087 | 843 | – | – |
| Guarantees ⁽³⁾ | 312 | 289 | 3,589 | 3,442 |
| Performance related contingents | 237 | 305 | – | – |
| Indemnities | 152 | 56 | – | – |
| Total contingent liabilities | 1,788 | 1,493 | 3,589 | 3,442 |
| Commitments exist in respect of: | | | | |
| Undrawn credit facilities and securities underwriting ⁽⁴⁾ | 8,439 | 9,156 | – | – |
| Forward asset purchases | 1,371 | 816 | – | – |
| Total commitments | 9,810 | 9,972 | – | – |
| Total contingent liabilities and commitments | 11,598 | 11,465 | 3,589 | 3,442 |

- (1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity and the Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.
- (2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
- (3) The Company guaranteed \$1,926 million (2017: \$1,964 million) of performance obligations of a consolidated structured entity in relation to their external obligations disclosed in Note 35 – Structured entities.
- (4) 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 Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

NOTE 34

Lease commitments

Non-cancellable operating leases expiring:

| | | | | |
|---|------------|------------|----------|----------|
| Not later than one year | 213 | 170 | – | – |
| Later than one year and not later than five years | 523 | 498 | – | – |
| Later than five years | 97 | 116 | – | – |
| Total operating lease commitments | 833 | 784 | – | – |

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

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NOTE 35**Structured entities**

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

Securitisations

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

Macquarie may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual income units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Asset-backed financing

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

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

SEs are consolidated when they meet the criteria described in Note 1 (ii) – Principles of consolidation.

Macquarie has contractually guaranteed the performance obligations of a consolidated SE that has borrowings from third parties. The notional value of the guarantee is \$1,926 million (2017: \$1,964 million), which is included in amounts of MGL guarantees disclosed in Note 33 – Contingent liabilities and commitments. For the Consolidated Entity, this contingent liability is replaced with the SE's borrowing of \$1,860 million (2017: \$1,912 million) owing to third parties, included in Note 23 – Debt issued at amortised cost.

Interests held in unconsolidated structured entities

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

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

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

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

| | CONSOLIDATED 2018 | | CONSOLIDATED 2017 | |
|---|------------------------|----------------------------------|------------------------|----------------------------------|
| | Securitisations \$m | Asset-backed financing \$m | Securitisations \$m | Asset-backed financing \$m |
| Carrying value of assets | | | | |
| Trading portfolio assets | 128 | 189 | 507 | 364 |
| Derivative assets | 110 | – | 33 | 6 |
| Investment securities available for sale ⁽¹⁾ | 1,366 | 215 | 1,068 | 47 |
| Loan assets held at amortised cost | 254 | 800 | 520 | 418 |
| Total carrying value of assets⁽²⁾ | 1,858 | 1,204 | 2,128 | 835 |
| Maximum exposure to loss⁽³⁾ | | | | |
| Debt, equity and derivatives held | 1,858 | 1,204 | 2,128 | 835 |
| Undrawn commitments | – | 7 | 3 | 37 |
| Total maximum exposure to loss | 1,858 | 1,211 | 2,131 | 872 |

(1) Securitisations includes \$1,158 million (2017: \$702 million) of investments that are managed by the Consolidated Entity under the liquid assets holdings policy described in Note 37.2 – Liquidity risk.

(2) Total carrying value of assets includes \$1,010 million (2017: \$718 million) in subordinated interests, of which \$47 million (2017: \$397 million) is included in securitisation activities and \$965 million (2017: \$321 million) included in asset backed financing activities. Of the subordinated asset-backed interests, the potential loss borne by others whose interests rank lower is \$825 million (2017: \$9 million).

(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments. The amounts for commitments are reduced for any liabilities already recognised.

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Structured entities continued

The subordinated securitisation interests are primarily trading positions that are typically managed under market risk described in Note 37.3 – Market risk. For these reasons, information on size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented. The subordinated asset backed interests that are included within investments available for sale and loan assets, involve unconsolidated SEs with a total size of \$4,174 million (2017: \$546 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

NOTE 36

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

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

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

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the Consolidated Entity, which is hedged with interest rate swaps. The Consolidated Entity is also exposed to:

- foreign currency exchange risk from foreign currency denominated issued debt and foreign currency denominated assets which are hedged with cross-currency swaps, and
- commodity price risk from forecasted future commodity sales hedged with commodity forward contracts.

At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$64 million negative value (2017: \$150 million negative value).

During the financial year the Consolidated Entity recognised a \$2 million gain (2017: \$3 million gain) in the income statement due to hedge ineffectiveness on cash flow hedges.

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

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

As at 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$227 million negative value (2017: \$1 million negative value).

During the financial year, a fair value loss from hedging instruments of \$226 million was recognised (2017: \$452 million loss), offset by a \$213 million gain (2017: \$436 million gain) on the hedged items.

Net investment in foreign operations hedges:

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

At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$116 million negative value (2017: \$176 million positive value). During the financial year the Consolidated Entity recognised \$nil (2017: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to \$11,429 million (2017: \$8,699 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of \$204 million (2017: \$67 million loss) on translation of the foreign currency borrowing to Australian dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are – Futures, Forwards and forward rate agreements, Swaps, Options.

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NOTE 37

Financial risk management

Risk Management Group (RMG)

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are credit, liquidity, market, equity, conduct, regulatory and compliance, reputation, operational, legal, tax, model, cyber and information security, environmental and social, and data risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of this Annual Report.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately.

RMG is independent of all other areas of the Consolidated Entity. RMG approval is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee.

Note 37.1 Credit risk

Credit risk is 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.

Analysis and limit approval

Responsibility for approval of credit exposures is delegated to specific individuals by the Board or CRO. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year or more frequently if required. Retail credit exposures are monitored on a portfolio basis.

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Derivative exposures are measured using high confidence potential future underlying asset prices. To mitigate credit risk, where appropriate, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance).

Ratings and reviews

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate which reflects the estimated economic loss in the event of default occurring.

Macquarie wholesale ratings broadly correspond to Standard & Poor's credit ratings as follows:

| Credit Grading | Internal Rating | External Equivalent |
|------------------------|-----------------|---------------------|
| Investment Grade | MQ1 to MQ8 | AAA to BBB- |
| Below Investment Grade | MQ9 to MQ16 | BB+ to C |
| Default ⁽¹⁾ | MQ99 | Default |

(1) The Default category primarily correlates to the 'past due more than 90 days not impaired' and 'individually impaired' balances disclosed in the following pages.

Retail pools are mapped to the corresponding rating grade based on their probability of default. All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure specific provisioning is adequate.

Portfolio and country risk

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is mitigated by political risk insurance.

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NOTE 37**Financial risk management continued****Note 37.1 Credit risk continued**

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

Maximum exposure to credit risk

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

| | Receivables from financial institutions ⁽¹⁾ \$m | Trading portfolio assets \$m | Derivative assets \$m | Debt investment securities available for sale \$m | Other financial assets ⁽²⁾ \$m | Loan assets held at amortised cost \$m | Other financial assets at fair value through profit or loss \$m | Credit commitments and contingent liabilities \$m | Total \$m |
|---|---|---------------------------------------|-----------------------------|--|--|--|--|--|----------------|
| CONSOLIDATED 2018 | | | | | | | | | |
| Australia | | | | | | | | | |
| Governments | – | 4,415 | 357 | 364 | 3 | 66 | – | – | 5,205 |
| Financial institutions | 7,005 | 160 | 1,009 | 3,909 | 1,103 | 2,210 | 2 | 119 | 15,517 |
| Other | – | 1 | 759 | 43 | 531 | 57,164 | 127 | 2,698 | 61,323 |
| Total Australia | 7,005 | 4,576 | 2,125 | 4,316 | 1,637 | 59,440 | 129 | 2,817 | 82,045 |
| Asia Pacific | | | | | | | | | |
| Governments | – | 1,191 | 7 | 165 | 413 | 16 | 70 | – | 1,862 |
| Financial institutions | 6,468 | 377 | 296 | 450 | 1,075 | 575 | – | 5 | 9,246 |
| Other | – | 292 | 385 | 13 | 923 | 1,182 | 2 | 359 | 3,156 |
| Total Asia Pacific | 6,468 | 1,860 | 688 | 628 | 2,411 | 1,773 | 72 | 364 | 14,264 |
| Europe, Middle East and Africa | | | | | | | | | |
| Governments | – | 130 | 2 | – | 135 | 19 | – | 13 | 299 |
| Financial institutions | 14,638 | 32 | 3,160 | 90 | 3,022 | 2,231 | 149 | 225 | 23,547 |
| Other | – | 68 | 1,311 | 100 | 1,369 | 6,475 | – | 3,845 | 13,168 |
| Total Europe, Middle East and Africa | 14,638 | 230 | 4,473 | 190 | 4,526 | 8,725 | 149 | 4,083 | 37,014 |
| Americas | | | | | | | | | |
| Governments | – | 865 | 155 | – | 32 | 82 | – | 6 | 1,140 |
| Financial institutions | 10,448 | 38 | 2,436 | 455 | 1,897 | 3,209 | 3 | 1,125 | 19,611 |
| Other | – | 308 | 3,060 | 59 | 2,018 | 7,921 | 190 | 3,203 | 16,759 |
| Total Americas | 10,448 | 1,211 | 5,651 | 514 | 3,947 | 11,212 | 193 | 4,334 | 37,510 |
| Total gross credit risk | 38,559 | 7,877 | 12,937 | 5,648 | 12,521 | 81,150 | 543 | 11,598 | 170,833 |

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

(2) This balance excludes other non-financial assets of \$5,202 million and Life Investment Linked contracts and other unitholder assets of \$647 million which are included in Note 10 – Other assets.

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NOTE 37**Financial risk management continued****Note 37.1 Credit risk continued****Maximum exposure to credit risk continued**

| | Receivables from financial institutions ⁽¹⁾ \$m | Trading portfolio assets \$m | Derivative assets \$m | Debt investment securities available for sale \$m | Other financial assets ⁽²⁾ \$m | Loan assets held at amortised cost \$m | Other financial assets at fair value through profit or loss \$m | Credit commitments and contingent liabilities \$m | Total \$m |
|---|--|---------------------------------------|-----------------------------|--|--|---|--|--|----------------|
| CONSOLIDATED 2017 | | | | | | | | | |
| Australia | | | | | | | | | |
| Governments | – | 4,868 | 461 | 852 | 11 | 56 | – | – | 6,248 |
| Financial institutions | 6,327 | 126 | 1,754 | 2,554 | 687 | 1,822 | 1 | 213 | 13,484 |
| Other | – | 3 | 1,194 | 58 | 388 | 52,950 | 121 | 2,331 | 57,045 |
| Total Australia | 6,327 | 4,997 | 3,409 | 3,464 | 1,086 | 54,828 | 122 | 2,544 | 76,777 |
| Asia Pacific | | | | | | | | | |
| Governments | – | 1,065 | 3 | 54 | 636 | 12 | 75 | – | 1,845 |
| Financial institutions | 2,031 | 383 | 174 | 394 | 381 | 590 | – | 10 | 3,963 |
| Other | – | 315 | 326 | 13 | 1,349 | 771 | 7 | 74 | 2,855 |
| Total Asia Pacific | 2,031 | 1,763 | 503 | 461 | 2,366 | 1,373 | 82 | 84 | 8,663 |
| Europe, Middle East and Africa | | | | | | | | | |
| Governments | – | 508 | 3 | 42 | 52 | 2 | – | 12 | 619 |
| Financial institutions | 5,608 | 160 | 3,192 | 316 | 2,060 | 2,726 | 237 | 185 | 14,484 |
| Other | – | 80 | 1,605 | 19 | 1,676 | 5,858 | 51 | 3,007 | 12,296 |
| Total Europe, Middle East and Africa | 5,608 | 748 | 4,800 | 377 | 3,788 | 8,586 | 288 | 3,204 | 27,399 |
| Americas | | | | | | | | | |
| Governments | – | 672 | 142 | – | 38 | 90 | – | 3 | 945 |
| Financial institutions | 13,505 | 132 | 2,127 | 383 | 2,320 | 2,692 | – | 431 | 21,590 |
| Other | – | 888 | 1,125 | 166 | 1,455 | 9,094 | 141 | 5,199 | 18,068 |
| Total Americas | 13,505 | 1,692 | 3,394 | 549 | 3,813 | 11,876 | 141 | 5,633 | 40,603 |
| Total gross credit risk | 27,471 | 9,200 | 12,106 | 4,851 | 11,053 | 76,663 | 633 | 11,465 | 153,442 |

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

(2) This balance excludes other non-financial assets of \$4,784 million and Life Investment Linked contracts and other unitholder assets of \$721 million which are included in Note 10 – Other assets.

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NOTE 37**Financial risk management continued****Note 37.1 Credit risk continued****Maximum exposure to credit risk continued**

| | Due from subsidiaries \$m | Credit commitments and contingent liabilities \$m | Total \$m |
|---|---------------------------------|---|---------------|
| COMPANY 2018 | | | |
| Australia | | | |
| Financial institutions | 3,430 | – | 3,430 |
| Other | 13,783 | 388 | 14,171 |
| Total Australia | 17,213 | 388 | 17,601 |
| Asia Pacific | | | |
| Financial institutions | – | – | – |
| Other | 23 | 430 | 453 |
| Total Asia Pacific | 23 | 430 | 453 |
| Europe, Middle East and Africa | | | |
| Financial institutions | – | 38 | 38 |
| Other | 3 | 497 | 500 |
| Total Europe, Middle East and Africa | 3 | 535 | 538 |
| Americas | | | |
| Financial institutions | – | – | – |
| Other | 30 | 2,236 | 2,266 |
| Total Americas | 30 | 2,236 | 2,266 |
| Total gross credit risk | 17,269 | 3,589 | 20,858 |
| COMPANY 2017 | | | |
| Australia | | | |
| Financial institutions | 11 | – | 11 |
| Other | 9,956 | 381 | 10,337 |
| Total Australia | 9,967 | 381 | 10,348 |
| Asia Pacific | | | |
| Financial institutions | – | – | – |
| Other | 20 | 425 | 445 |
| Total Asia Pacific | 20 | 425 | 445 |
| Europe, Middle East and Africa | | | |
| Financial institutions | – | 91 | 91 |
| Other | – | 492 | 492 |
| Total Europe, Middle East and Africa | – | 583 | 583 |
| Americas | | | |
| Financial institutions | – | – | – |
| Other | 22 | 2,053 | 2,075 |
| Total Americas | 22 | 2,053 | 2,075 |
| Total gross credit risk | 10,009 | 3,442 | 13,451 |

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NOTE 37**Financial risk management continued****Note 37.1 Credit risk continued****Credit quality of financial assets**

The table below details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements except as otherwise indicated (refer to section on collateral and credit enhancements).

| | Investment Grade \$m | Below Investment Grade \$m | Past due but not individually impaired ⁽⁴⁾ \$m | Individually impaired \$m | Total \$m |
|--|----------------------------|-------------------------------------|---|---------------------------------|----------------|
| CONSOLIDATED 2018 | | | | | |
| Receivables from financial institutions⁽¹⁾ | 33,956 | 4,603 | – | – | 38,559 |
| Trading portfolio assets | | | | | 7,877 |
| Governments | 6,515 | 86 | – | – | 6,601 |
| Financial institutions | 573 | 34 | – | – | 607 |
| Other | 158 | 478 | 33 | – | 669 |
| Derivative assets | | | | | 12,937 |
| Governments | 521 | – | – | – | 521 |
| Financial institutions | 6,254 | 647 | – | – | 6,901 |
| Other | 3,104 | 2,411 | – | – | 5,515 |
| Debt investment securities available for sale | | | | | 5,648 |
| Governments | 529 | – | – | – | 529 |
| Financial institutions | 4,689 | 215 | – | – | 4,904 |
| Other | 5 | 210 | – | – | 215 |
| Other financial assets⁽²⁾ | | | | | 12,521 |
| Governments | 532 | – | 51 | – | 583 |
| Financial institutions | 4,643 | 2,435 | 19 | – | 7,097 |
| Other | 2,518 | 2,192 | 120 | 11 | 4,841 |
| Loan assets held at amortised cost⁽³⁾ | | | | | 81,150 |
| Governments | 143 | 40 | – | – | 183 |
| Financial institutions | 6,766 | 1,458 | 1 | – | 8,225 |
| Other | 32,773 | 37,375 | 2,245 | 349 | 72,742 |
| Other financial assets at fair value through profit or loss | | | | | 543 |
| Governments | 70 | – | – | – | 70 |
| Financial institutions | – | 154 | – | – | 154 |
| Other | 71 | 223 | 25 | – | 319 |
| Total | 103,820 | 52,561 | 2,494 | 360 | 159,235 |

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$5,202 million and Life Investment Linked contracts and other unitholder assets \$647 million which are included in Note 10 – Other assets.

(3) Mortgages are classified as investment grade when the Consolidated Entity has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Consolidated Entity bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

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NOTE 37**Financial risk management continued****Note 37.1 Credit risk continued****Credit quality of financial assets continued**

| | Investment Grade \$m | Below Investment Grade \$m | Past due but not individually impaired ⁽⁴⁾ \$m | Individually impaired \$m | Total \$m |
|--|----------------------------|-------------------------------------|---|---------------------------------|----------------|
| CONSOLIDATED 2017 | | | | | |
| Receivables from financial institutions⁽¹⁾ | 24,685 | 2,786 | – | – | 27,471 |
| Trading portfolio assets | | | | | 9,200 |
| Governments | 6,979 | 134 | – | – | 7,113 |
| Financial institutions | 618 | 183 | – | – | 801 |
| Other | 309 | 937 | 40 | – | 1,286 |
| Derivative assets | | | | | 12,106 |
| Governments | 609 | – | – | – | 609 |
| Financial institutions | 7,049 | 198 | – | – | 7,247 |
| Other | 2,681 | 1,569 | – | – | 4,250 |
| Debt investment securities available for sale | | | | | 4,851 |
| Governments | 948 | – | – | – | 948 |
| Financial institutions | 3,456 | 191 | – | – | 3,647 |
| Other | 12 | 243 | – | 1 | 256 |
| Other financial assets⁽²⁾ | | | | | 11,053 |
| Governments | 695 | – | 42 | – | 737 |
| Financial institutions | 3,460 | 1,926 | 62 | – | 5,448 |
| Other | 2,463 | 2,303 | 80 | 22 | 4,868 |
| Loan assets held at amortised cost⁽³⁾ | | | | | 76,663 |
| Governments | 139 | 21 | – | – | 160 |
| Financial institutions | 6,157 | 1,673 | – | – | 7,830 |
| Other | 31,902 | 33,886 | 2,338 | 547 | 68,673 |
| Other financial assets at fair value through profit or loss | | | | | 633 |
| Governments | 75 | – | – | – | 75 |
| Financial institutions | – | 238 | – | – | 238 |
| Other | 122 | 190 | 7 | 1 | 320 |
| Total | 92,359 | 46,478 | 2,569 | 571 | 141,977 |

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$4,784 million and Life Investment Linked contracts and other unitholder assets \$721 million which are included in Note 10 – Other assets.

(3) Mortgages are classified as investment grade when the Consolidated Entity has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Consolidated Entity bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

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NOTE 37

Financial risk management continued

Note 37.1 Credit risk continued

Credit quality of financial assets continued

The table below details the credit quality of the Company's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer to section on collateral and credit enhancements).

| | Investment Grade \$m | Total \$m |
|------------------------------|----------------------------|---------------|
| COMPANY 2018 | | |
| Due from subsidiaries | | |
| Financial institutions | 3,430 | 3,430 |
| Other | 13,839 | 13,839 |
| Total | 17,269 | 17,269 |
| COMPANY 2017 | | |
| Due from subsidiaries | | |
| Financial institutions | 11 | 11 |
| Other | 9,998 | 9,998 |
| Total | 10,009 | 10,009 |

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

PAST DUE BUT NOT INDIVIDUALLY IMPAIRED

| Class of financial asset | Less than | 31 to 60 | 61 to 90 | More than | Total past | Individually impaired \$m | Total \$m |
|--|----------------|-------------|-------------|----------------|--|---------------------------------|--------------|
| | 30 days \$m | days \$m | days \$m | 90 days \$m | due but not individually impaired \$m | | |
| CONSOLIDATED 2018 | | | | | | | |
| Debt investment securities available for sale | | | | | | | |
| Other | - | - | - | - | - | - | - |
| Other financial assets | | | | | | | |
| Government | 26 | 3 | 2 | 20 | 51 | - | 51 |
| Financial institutions | 6 | 2 | 1 | 10 | 19 | - | 19 |
| Other | 71 | 20 | 8 | 21 | 120 | 11 | 131 |
| Loan assets held at amortised cost | | | | | | | |
| Financial institutions | 1 | - | - | - | 1 | - | 1 |
| Other | 1,332 | 333 | 135 | 445 | 2,245 | 349 | 2,594 |
| Trading portfolio assets | | | | | | | |
| Other | - | - | - | 33 | 33 | - | 33 |
| Other financial assets at fair value through profit or loss | | | | | | | |
| Other | - | 25 | - | - | 25 | - | 25 |
| Total | 1,436 | 383 | 146 | 529 | 2,494 | 360 | 2,854 |

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NOTE 37**Financial risk management continued****Note 37.1 Credit risk continued****Ageing analysis of assets past due but not individually impaired and individually impaired assets continued****PAST DUE BUT NOT INDIVIDUALLY IMPAIRED**

| Class of financial asset | Less than | 31 to 60 | 61 to 90 | More than | Total past | Individually | Total |
|--|--------------|------------|------------|------------|--------------|--------------|--------------|
| | 30 days | days | days | 90 days | due but not | impaired | \$m |
| | \$m | \$m | \$m | \$m | individually | \$m | \$m |
| | | | | | impaired | | |
| | | | | | \$m | | |
| CONSOLIDATED 2017 | | | | | | | |
| Debt investment securities available for sale | | | | | | | |
| Other | – | – | – | – | – | 1 | 1 |
| Other financial assets | | | | | | | |
| Government | 12 | 4 | 3 | 23 | 42 | – | 42 |
| Financial institutions | 50 | 2 | 1 | 9 | 62 | – | 62 |
| Other | 52 | 12 | 3 | 13 | 80 | 22 | 102 |
| Loan assets held at amortised cost | | | | | | | |
| Other | 1,333 | 314 | 132 | 559 | 2,338 | 547 | 2,885 |
| Trading portfolio assets | | | | | | | |
| Other | – | – | – | 40 | 40 | – | 40 |
| Other financial assets at fair value through profit or loss | | | | | | | |
| Other | – | 7 | – | – | 7 | 1 | 8 |
| Total | 1,447 | 339 | 139 | 644 | 2,569 | 571 | 3,140 |

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 Consolidated Entity when determining whether an asset is impaired are set out in Note 1(xv) – Impairment.

Of the collateral held against past due or impaired balances for loan assets held at amortised cost, \$1,630 million (2017: \$1,704 million) relates to collateral held against past due or impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due or impaired balances for other assets primarily represents equity securities held as security against failed trade settlements.

Repossessed collateral

In the event of a customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. During the financial year, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of \$66 million (2017: \$50 million).

Collateral and credit enhancements held**Receivables from financial institutions**

Cash collateral on securities borrowed and reverse repurchase agreements balances are included in receivables from financial institutions. For details, refer to Note 7 – Receivables from financial institutions.

Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

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NOTE 37**Financial risk management continued****Note 37.1 Credit risk continued**

Loan assets held at amortised cost

Mortgage loans

Mortgages are secured by fixed charges over a borrower's property. Further, to cover a substantial portion of the mortgage portfolio against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest, prior to April 2017 the Consolidated Entity obtained LMI from an investment grade counterparty. Since April 2017, the Consolidated Entity has purchased risk protection from a panel of investment grade companies via an excess of loss structure. The mortgage loan balance includes \$11,560 million (2017: \$16,332 million) which has been securitised by consolidated SPEs.

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the most recent valuation of mortgaged assets in response to variation in the loan request.

| | 2018 | | | 2017 | | |
|------------------------------|------------------|--------------|---------------|------------------|--------------|---------------|
| | Australia \$m | EMEA \$m | Total \$m | Australia \$m | EMEA \$m | Total \$m |
| Fully collateralised | | | | | | |
| Loan to value ratio | | | | | | |
| <=25% | 1,255 | 11 | 1,266 | 1,018 | 13 | 1,031 |
| >25% to 50% | 5,942 | 125 | 6,067 | 4,535 | 168 | 4,703 |
| >50% to 70% | 11,730 | 461 | 12,191 | 9,054 | 464 | 9,518 |
| >70% to 80% | 12,190 | 315 | 12,505 | 11,402 | 225 | 11,627 |
| >80% to 90% | 3,961 | 75 | 4,036 | 4,625 | 132 | 4,757 |
| >90% to 100% | 804 | 19 | 823 | 985 | 123 | 1,108 |
| Partly collateralised | 40 | 6 | 46 | 44 | – | 44 |
| Total mortgages | 35,922 | 1,012 | 36,934 | 31,663 | 1,125 | 32,788 |

Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of \$19,266 million (2017: \$19,706 million), the credit exposure after considering the depreciated value of collateral is \$8,570 million (2017: \$8,648 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. Of the term lending of \$15,024 million (2017: \$15,581 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$3,448 million (2017: \$3,915 million).

Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral, or holds security by way of a registered pledge over the underlying investment. Of the investment lending portfolio of \$2,034 million (2017: \$1,669 million), \$2,034 million (2017: \$1,669 million) is fully collateralised.

Additional collateral

The Consolidated Entity also holds other types of collateral, such as unsupported guarantees. While such mitigants have value, as a credit risk mitigant, often providing rights in insolvency, their

assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit or loss include financing provided to clients for investing. Financing may be unsecured or secured (partially or fully). Collateral is generally comprised of underlying securities investments or cash deposits of the investors.

Derivative financial instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over The Counter (OTC) derivatives. The Consolidated Entity's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house. The clearing house is responsible for managing the risk associated with the process on behalf of their members and ensuring it has adequate resources to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values as at 31 March 2018 of \$669 million (2017: \$1,418 million).

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NOTE 37

Financial risk management continued

Note 37.1 Credit risk continued

For OTC derivative contracts, the Consolidated Entity often has master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements. In the event of default, they require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity also often executes a Credit Support Annex in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2018, the Consolidated Entity held OTC contracts with a positive replacement value of \$12,268 million (2017: \$10,688 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$6,697 million (2017: \$6,670 million) and margins held (excluding the impact of over-collateralisation) of \$1,400 million (2017: \$1,344 million).

Debt investment securities available for sale

This classification mainly includes debt securities held by Group Treasury for liquidity management purposes as well as certain asset-backed securities.

The Consolidated Entity utilises Credit Default Swaps (CDS), Guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to credit risk.

Other assets

Security settlements of \$7,343 million (2017: \$6,529 million) are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Security settlements are collateralised with the underlying equity securities or cash held by the Consolidated Entity until date of settlement.

Credit commitments

Undrawn facilities and lending commitments of \$4,679 million (2017: \$5,670 million) are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of \$8,439 million (2017: \$9,156 million).

Note 37.2 Liquidity risk

Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

Liquidity policy and risk appetite

The *MGL and MBL Liquidity Policy* is designed so that each of Macquarie, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due. MGL provides funding predominantly to the Non-Bank Group. As such, the *MGL and MBL Liquidity Policy* outlines the liquidity requirements for the Non-Bank Group. Macquarie's liquidity risk appetite is set to ensure that Macquarie is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie's franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding.

MBL is an ADI and is funded mainly with capital, long-term liabilities and deposits.

Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan*, which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details:

- factors that may constitute a crisis
- the officer responsible for enacting the contingency management
- a committee of senior executives responsible for managing a crisis
- the information required to effectively manage a crisis
- a communications strategy
- a high level checklist of possible actions to conserve or raise additional liquidity
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

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

The *Liquidity Contingency Plan* is subject to regular review by both Group Treasury and RMG. It is submitted to the ALCO and MGL and MBL Boards for approval.

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the *Liquidity Contingency Plan* contains a supplement providing the specific information required for those branches or subsidiaries.

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NOTE 37

Financial risk management continued

Note 37.2 Liquidity risk continued

Funding strategy

Macquarie prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by the ALCO and approved by the respective Boards.

Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to the regulatory defined scenarios, Group Treasury models a number of additional liquidity scenarios covering both market-wide and Macquarie-specific crises.

The scenarios are run over a number of timeframes and a range of conservative assumptions are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie name-specific crisis over a twelve month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets (HQLA) or be an asset type that is eligible as collateral in the Reserve Bank of Australia's (RBA) Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for Macquarie as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

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NOTE 37**Financial risk management continued****Note 37.2 Liquidity risk continued****Contractual undiscounted cash flows**

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivative liabilities (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

| | On demand \$m | Less than 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | More than 5 years \$m | Total \$m |
|--|------------------|------------------------------|--------------------------|------------------------|-----------------------------|----------------|
| CONSOLIDATED 2018 | | | | | | |
| Trading portfolio liabilities | – | 8,061 | – | – | – | 8,061 |
| Derivative liabilities (trading) | – | 11,398 | – | – | – | 11,398 |
| Derivative liabilities (hedging relationship) ⁽¹⁾ | | | | | | |
| Contractual amounts payable | – | 1,133 | 1,430 | 1,147 | 140 | 3,850 |
| Contractual amounts receivable | – | (1,014) | (1,263) | (858) | (18) | (3,153) |
| Deposits | 52,148 | 4,188 | 2,715 | 366 | 48 | 59,465 |
| Other financial liabilities ⁽²⁾ | 640 | 9,847 | – | – | – | 10,487 |
| Payables to financial institutions ⁽³⁾ | 6,169 | 2,260 | 543 | 5,320 | 1,754 | 16,046 |
| Debt issued at amortised cost ⁽⁴⁾ | – | 7,603 | 11,234 | 23,439 | 19,377 | 61,653 |
| Other debt issued at fair value through profit or loss | 13 | 198 | 353 | 269 | 2,479 | 3,312 |
| Loan capital ⁽⁵⁾ | – | 748 | 307 | 3,557 | 2,301 | 6,913 |
| Total undiscounted cash flows | 58,970 | 44,422 | 15,319 | 33,240 | 26,081 | 178,032 |
| Contingent liabilities | – | 1,788 | – | – | – | 1,788 |
| Commitments | 1,072 | 2,244 | 1,335 | 2,883 | 2,276 | 9,810 |
| Total undiscounted contingent liabilities and commitments⁽⁶⁾ | 1,072 | 4,032 | 1,335 | 2,883 | 2,276 | 11,598 |

(1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions. This balance includes \$640 million of life investment linked contracts and other unitholder liabilities which are included in Note 21 – Other liabilities.

(3) Subsequent to 31 March 2018, as part of refinancing, contractual maturities for \$820 million primarily in 1 to 5 years maturity category have been extended to more than 5 years. A further \$3,200 million facility for maturity beyond 5 years has been put in place and remains undrawn.

(4) Includes \$12,335 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.

(5) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 26 – Loan capital.

(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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NOTE 37

Financial risk management continued

Note 37.2 Liquidity risk continued

| | On demand \$m | Less than 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | More than 5 years \$m | Total \$m |
|--|------------------|------------------------------|--------------------------|------------------------|-----------------------------|----------------|
| CONSOLIDATED 2017 | | | | | | |
| Trading portfolio liabilities | – | 5,067 | – | – | – | 5,067 |
| Derivative liabilities (trading) | – | 10,386 | – | – | – | 10,386 |
| Derivative liabilities (hedging relationship) ⁽¹⁾ | | | | | | |
| Contractual amounts payable | – | 3,111 | 2,611 | 4,873 | 1,712 | 12,307 |
| Contractual amounts receivable | – | (2,944) | (2,404) | (4,039) | (1,426) | (10,813) |
| Deposits | 50,418 | 4,228 | 2,580 | 470 | 66 | 57,762 |
| Other financial liabilities ⁽²⁾ | 714 | 9,396 | – | – | – | 10,110 |
| Payables to financial institutions | 5,065 | 2,476 | 1,858 | 6,194 | 2,322 | 17,915 |
| Debt issued at amortised cost ⁽³⁾ | – | 7,379 | 9,131 | 26,411 | 16,154 | 59,075 |
| Other debt issued at fair value through profit or loss | – | 160 | 366 | 278 | 2,379 | 3,183 |
| Loan capital ⁽⁴⁾ | – | 477 | 297 | 4,238 | 2,412 | 7,424 |
| Total undiscounted cash flows | 56,197 | 39,736 | 14,439 | 38,425 | 23,619 | 172,416 |
| Contingent liabilities | – | 1,493 | – | – | – | 1,493 |
| Commitments | 2,745 | 2,595 | 559 | 2,308 | 1,765 | 9,972 |
| Total undiscounted contingent liabilities and commitments⁽⁵⁾ | 2,745 | 4,088 | 559 | 2,308 | 1,765 | 11,465 |

(1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(3) Includes \$18,192 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.

(4) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 26 – Loan capital.

(5) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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NOTE 37

Financial risk management continued

Note 37.2 Liquidity risk continued

| | On demand \$m | Less than 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | More than 5 years \$m | Total \$m |
|--|------------------|------------------------------|--------------------------|------------------------|-----------------------------|---------------|
| COMPANY 2018 | | | | | | |
| Payables to financial institutions | – | 25 | 75 | 3,501 | – | 3,601 |
| Deposits | – | – | – | 27 | – | 27 |
| Due to subsidiaries ⁽¹⁾ | – | 511 | – | – | – | 511 |
| Debt issued at amortised cost | – | 158 | 1,724 | 5,170 | 6,963 | 14,015 |
| Loan Capital ⁽²⁾ | – | 615 | 32 | 596 | – | 1,243 |
| Total undiscounted cash flows | – | 1,309 | 1,831 | 9,294 | 6,963 | 19,397 |
| Contingent liabilities | – | 3,589 | – | – | – | 3,589 |
| Total undiscounted contingent liabilities⁽³⁾ | – | 3,589 | – | – | – | 3,589 |
| COMPANY 2017 | | | | | | |
| Payables to financial institutions | – | 14 | 43 | 2,107 | 415 | 2,579 |
| Deposits | – | – | – | 11 | – | 11 |
| Due to subsidiaries ⁽¹⁾ | – | 546 | – | – | – | 546 |
| Debt issued at amortised cost | – | 71 | 984 | 5,196 | 165 | 6,416 |
| Loan Capital ⁽²⁾ | – | 15 | 47 | 1,242 | – | 1,304 |
| Total undiscounted cash flows | – | 646 | 1,074 | 8,556 | 580 | 10,856 |
| Contingent liabilities | – | 3,442 | – | – | – | 3,442 |
| Total undiscounted contingent liabilities⁽³⁾ | – | 3,442 | – | – | – | 3,442 |

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 26 – Loan capital.

(3) Cash flows on contingent liabilities are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 37.3 Market risk

Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading portfolios from changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion:** changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices
- **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices
- **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products

The Consolidated Entity is also exposed to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

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NOTE 37

Financial risk management continued

Note 37.3 Market risk continued

Value-at-Risk figures (1-day, 99% confidence level)

The table below shows the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is based on a one-day holding period. The aggregated VaR is on a correlated basis.

| | 2018 | | | 2017 | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Average \$m | Maximum \$m | Minimum \$m | Average \$m | Maximum \$m | Minimum \$m |
| Equities | 7.23 | 11.00 | 2.62 | 9.72 | 12.93 | 5.31 |
| Interest rates | 4.10 | 8.13 | 2.66 | 5.60 | 8.59 | 3.26 |
| Foreign exchange and bullion | 1.73 | 3.40 | 0.70 | 1.94 | 4.04 | 0.66 |
| Commodities | 8.79 | 13.94 | 3.40 | 6.81 | 16.03 | 3.74 |
| Aggregate | 11.75 | 15.18 | 7.94 | 11.71 | 19.39 | 6.69 |

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99% level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Non-traded market risk

The Consolidated Entity has exposure to non-traded market risks arising from transactions entered into during its normal course of business and as a result of its investments in foreign operations. These risks include:

- **Interest rate:** changes in the level, shape and volatility of yield curves, and/or client behaviour given these changes
- **Foreign exchange:** changes in the spot exchange rates

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

Investments in foreign operations

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the *Foreign Exchange Hedging Policy* of the Consolidated Entity is to reduce the sensitivity of regulatory capital ratios to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital. This aligns the currency of capital supply with capital requirements.

As a result of this foreign exchange policy, the Consolidated Entity is therefore partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Apart from this there is no material non-trading foreign exchange risk in the income statement.

Accounting considerations arising from hedging activities

The use of derivative instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting set out in Note 1 (xi) and (xii).

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The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally. Those with the most impact on the sensitivity analysis are United States dollar, Great British pound, Euro and Canadian dollar as shown below.

| | 2018 | | 2017 | |
|----------------------|------------------------------|-------------------------------------|------------------------------|-------------------------------------|
| | Movement in exchange rates % | Sensitivity of equity after tax \$m | Movement in exchange rates % | Sensitivity of equity after tax \$m |
| CONSOLIDATED | | | | |
| United States dollar | +10 | (486) | +10 | (488) |
| Great British pound | +10 | (102) | +10 | (73) |
| Euro | +10 | (38) | +10 | (33) |
| Canadian dollar | +10 | (17) | +10 | (17) |
| Total | | (643) | | (611) |
| United States dollar | -10 | 594 | -10 | 597 |
| Great British pound | -10 | 125 | -10 | 90 |
| Euro | -10 | 46 | -10 | 40 |
| Canadian dollar | -10 | 21 | -10 | 21 |
| Total | | 786 | | 748 |

Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure at 31 March on its non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement (as a result of a change in the fair value of financial assets designated at fair value) due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

| Geographic region | 2018 | | | 2017 | | |
|--------------------------------|------------------------------|-------------------------------------|-------------------------------------|------------------------------|-------------------------------------|-------------------------------------|
| | Movement in exchange rates % | Sensitivity of profit after tax \$m | Sensitivity of equity after tax \$m | Movement in exchange rates % | Sensitivity of profit after tax \$m | Sensitivity of equity after tax \$m |
| CONSOLIDATED | | | | | | |
| Listed | | | | | | |
| Australia | +10 | - | 1 | +10 | - | 24 |
| Americas | +10 | 5 | - | +10 | 4 | 31 |
| Europe, Middle East and Africa | +10 | - | 2 | +10 | 2 | 4 |
| Asia Pacific | +10 | - | - | +10 | 2 | - |
| Unlisted | +10 | 25 | 33 | +10 | 16 | 85 |
| Total | | 30 | 36 | | 24 | 144 |
| Listed | | | | | | |
| Australia | -10 | - | (1) | -10 | - | (24) |
| Americas | -10 | (5) | - | -10 | (4) | (31) |
| Europe, Middle East and Africa | -10 | - | (2) | -10 | (2) | (4) |
| Asia Pacific | -10 | - | - | -10 | (2) | - |
| Unlisted | -10 | (25) | (33) | -10 | (16) | (85) |
| Total | | (30) | (36) | | (24) | (144) |

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NOTE 38

Fair value of financial assets and financial liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

| | |
|---------|---|
| Level 1 | quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) |
| Level 3 | inputs for the asset or liability that are not based on observable market data (unobservable inputs) |

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair Value Measurement* requires use of the price within the bid-offer spread that is most representative of fair value. Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
 - the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
 - the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
 - the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower
 - the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread
 - substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.
- The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are measured at fair value:
- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
 - investment securities classified as available for sale are measured at fair value by reference to active quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised 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
 - fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
 - for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
 - for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
 - for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

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NOTE 38**Fair value of financial assets and financial liabilities continued**

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (for example for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

The fair values calculated for financial assets which are carried on the statement of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described below, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

The tables below summarise the carrying value and fair value of financial assets and financial liabilities held at amortised cost. Fair values are calculated for disclosure purpose only.

| | 2018 | | 2017 | |
|--|-----------------------|-------------------|-----------------------|-------------------|
| | Carrying value \$m | Fair value \$m | Carrying value \$m | Fair value \$m |
| CONSOLIDATED | | | | |
| Assets | | | | |
| Receivables from financial institutions | 38,559 | 38,559 | 27,471 | 27,471 |
| Other financial assets ⁽¹⁾ | 12,521 | 12,521 | 11,053 | 11,053 |
| Loan assets held at amortised cost | 81,150 | 81,438 | 76,663 | 77,060 |
| Total assets | 132,230 | 132,518 | 115,187 | 115,584 |
| Liabilities | | | | |
| Deposits | 59,412 | 59,429 | 57,708 | 57,722 |
| Other financial liabilities ⁽²⁾ | 9,847 | 9,847 | 9,396 | 9,396 |
| Payables to financial institutions | 15,440 | 15,485 | 17,072 | 17,157 |
| Debt issued at amortised cost | 53,717 | 54,157 | 50,828 | 51,468 |
| Loan capital | 5,392 | 5,593 | 5,748 | 5,965 |
| Total liabilities | 143,808 | 144,511 | 140,752 | 141,708 |
| COMPANY | | | | |
| Assets | | | | |
| Due from subsidiaries | 17,242 | 17,306 | 9,613 | 10,020 |
| Total assets | 17,242 | 17,306 | 9,613 | 10,020 |
| Liabilities | | | | |
| Deposits | 24 | 24 | 11 | 11 |
| Payables to financial institutions | 3,191 | 3,201 | 2,413 | 2,442 |
| Due to subsidiaries | 843 | 843 | 911 | 911 |
| Debt issued at amortised cost | 12,177 | 12,256 | 5,746 | 6,112 |
| Loan capital | 1,135 | 1,169 | 1,130 | 1,187 |
| Total liabilities | 17,370 | 17,493 | 10,211 | 10,663 |

(1) Excludes other non-financial assets of \$5,202 million (2017: \$4,784 million) and Life investment linked contracts and other unitholder assets of \$647 million (2017: \$721 million) which are included in Note 10 – Other assets.

(2) Excludes other non-financial liabilities of \$5,599 million (2017: \$4,921 million) and Life investment linked contracts and other unitholder liabilities of \$640 million (2017: \$714 million) which are included in Note 21 – Other liabilities.

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NOTE 38

Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|---|----------------|----------------|----------------|----------------|
| CONSOLIDATED 2018 | | | | |
| Assets | | | | |
| Receivables from financial institutions | 9,680 | 28,879 | – | 38,559 |
| Other financial assets | – | 12,521 | – | 12,521 |
| Loan assets held at amortised cost | 8,152 | 8,330 | 64,956 | 81,438 |
| Total assets | 17,832 | 49,730 | 64,956 | 132,518 |
| Liabilities | | | | |
| Deposits | 51,633 | 7,796 | – | 59,429 |
| Other financial liabilities | – | 9,847 | – | 9,847 |
| Payables to financial institutions | 2,106 | 11,109 | 2,270 | 15,485 |
| Debt issued at amortised cost | – | 49,218 | 4,939 | 54,157 |
| Loan capital | 2,549 | 3,044 | – | 5,593 |
| Total liabilities | 56,288 | 81,014 | 7,209 | 144,511 |
| CONSOLIDATED 2017 | | | | |
| Assets | | | | |
| Receivables from financial institutions | 9,298 | 18,173 | – | 27,471 |
| Other financial assets | – | 11,053 | – | 11,053 |
| Loan assets held at amortised cost | 7,376 | 7,101 | 62,583 | 77,060 |
| Total assets | 16,674 | 36,327 | 62,583 | 115,584 |
| Liabilities | | | | |
| Deposits | 50,568 | 7,154 | – | 57,722 |
| Other financial liabilities | – | 9,396 | – | 9,396 |
| Payables to financial institutions | 1,054 | 13,496 | 2,607 | 17,157 |
| Debt issued at amortised cost | – | 45,505 | 5,963 | 51,468 |
| Loan capital | 2,933 | 3,032 | – | 5,965 |
| Total liabilities | 54,555 | 78,583 | 8,570 | 141,708 |

The financial assets and liabilities held at amortised cost in the Company as at 31 March 2018 and 31 March 2017 are predominantly classified as Level 2 in the fair value hierarchy except for 'Loan capital' classified as Level 1.

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NOTE 38**Fair value of financial assets and financial liabilities continued**

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|---|----------------|----------------|----------------|---------------|
| CONSOLIDATED 2018 | | | | |
| Assets | | | | |
| Trading portfolio assets | 10,079 | 5,049 | 457 | 15,585 |
| Derivative assets | 460 | 11,827 | 650 | 12,937 |
| Investment securities available for sale | 3,923 | 1,360 | 883 | 6,166 |
| Other financial assets at fair value through profit or loss | 213 | 1,065 | 156 | 1,434 |
| Other financial assets ⁽¹⁾ | 30 | 616 | 1 | 647 |
| Total assets | 14,705 | 19,917 | 2,147 | 36,769 |
| Liabilities | | | | |
| Trading portfolio liabilities | 6,409 | 1,652 | – | 8,061 |
| Derivative liabilities | 633 | 10,943 | 349 | 11,925 |
| Other debt issued at fair value through profit or loss | – | 2,357 | 6 | 2,363 |
| Other financial liabilities ⁽²⁾ | – | 639 | 1 | 640 |
| Total liabilities | 7,042 | 15,591 | 356 | 22,989 |
| CONSOLIDATED 2017 | | | | |
| Assets | | | | |
| Trading portfolio assets | 18,075 | 8,444 | 414 | 26,933 |
| Derivative assets | 770 | 10,987 | 349 | 12,106 |
| Investment securities available for sale | 3,997 | 1,640 | 1,256 | 6,893 |
| Other financial assets at fair value through profit or loss | 109 | 1,325 | 68 | 1,502 |
| Other financial assets ⁽¹⁾ | 23 | 691 | 7 | 721 |
| Total assets | 22,974 | 23,087 | 2,094 | 48,155 |
| Liabilities | | | | |
| Trading portfolio liabilities | 3,250 | 1,817 | – | 5,067 |
| Derivative liabilities | 686 | 10,239 | 203 | 11,128 |
| Other debt issued at fair value through profit or loss | – | 2,347 | 57 | 2,404 |
| Other financial liabilities ⁽²⁾ | – | 707 | 7 | 714 |
| Total liabilities | 3,936 | 15,110 | 267 | 19,313 |

(1) This balance represents \$647 million (2017: \$721 million) of life investment linked contracts and other unitholder assets which are included in Note 10 – Other assets.

(2) This balance represents \$640 million (2017: \$714 million) of life investment linked contracts and other unitholder liabilities which are included in Note 21 – Other liabilities.

The Company does not hold financial instruments measured at fair value.

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NOTE 38

Fair value of financial assets and financial liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial years ended 31 March 2018 and 31 March 2017:

| | Trading portfolio assets \$m | Investment securities available for sale \$m |
|--|------------------------------------|--|
| Balance as at 1 April 2016 | 807 | 1,968 |
| Purchases | 224 | 162 |
| Sales | (521) | (387) |
| Settlements | – | (237) |
| Transfers into Level 3 | 126 | 2 |
| Transfers out of Level 3 | (218) | (177) |
| Fair value (losses)/gains recognised in the income statement ⁽¹⁾ | (4) | 87 |
| Fair value losses recognised in other comprehensive income ⁽¹⁾ | – | (162) |
| Balance as at 31 March 2017 | 414 | 1,256 |
| Fair value (losses)/gains for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽¹⁾ | – | (7) |
| Balance as at 1 April 2017 | 414 | 1,256 |
| Purchases | 344 | 156 |
| Sales | (377) | (308) |
| Settlements | – | (42) |
| Transfers into Level 3 | 80 | 20 |
| Transfers out of Level 3 | (2) | (56) |
| Fair value (losses)/gains recognised in the income statement ⁽¹⁾ | (2) | 5 |
| Fair value losses recognised in other comprehensive income ⁽¹⁾ | – | (148) |
| Balance as at 31 March 2018 | 457 | 883 |
| Fair value (losses)/gains for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽¹⁾ | (2) | (9) |

(1) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses of assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$650 million (2017: \$349 million) and derivative liabilities are \$349 million (2017: \$203 million).

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| Other financial assets at fair value through profit or loss \$m | Other financial assets \$m | Other debt issued at fair value through profit or loss \$m | Other financial liabilities \$m | Derivative financial instruments (net replacement values) ⁽²⁾ \$m | Total \$m |
|--|-------------------------------|---|------------------------------------|---|--------------|
| CONSOLIDATED 2017 | | | | | |
| 46 | 79 | (54) | (7) | 209 | 3,048 |
| 29 | – | – | – | 92 | 507 |
| (8) | (72) | – | – | (124) | (1,112) |
| – | – | – | – | – | (237) |
| – | – | – | – | 8 | 136 |
| – | – | – | – | (35) | (430) |
| 1 | – | (3) | – | (4) | 77 |
| – | – | – | – | – | (162) |
| 68 | 7 | (57) | (7) | 146 | 1,827 |
| 5 | – | (5) | – | (3) | (10) |
| CONSOLIDATED 2018 | | | | | |
| 68 | 7 | (57) | (7) | 146 | 1,827 |
| 130 | – | – | – | 180 | 810 |
| (29) | (6) | 51 | 6 | (10) | (673) |
| (1) | – | – | – | – | (43) |
| 34 | – | – | – | 6 | 140 |
| (88) | – | – | – | (3) | (149) |
| 42 | – | – | – | (18) | 27 |
| – | – | – | – | – | (148) |
| 156 | 1 | (6) | (1) | 301 | 1,791 |
| 13 | – | – | – | (18) | (16) |

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NOTE 38

Fair value of financial assets and financial liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity did not have significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year. Transfers between levels are deemed to have occurred as of the beginning of the reporting period in which the instrument has been transferred.

Unrecognised gain

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

| | CONSOLIDATED | |
|---|--------------|-------------|
| | 2018 \$m | 2017 \$m |
| Balance at the beginning of the financial year | 185 | 153 |
| Deferral on new transactions | 34 | 88 |
| Amounts recognised in the income statements during the financial year | (41) | (56) |
| Balance at the end of the financial year | 178 | 185 |

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

| | FAVOURABLE CHANGES | | UNFAVOURABLE CHANGES | |
|-----------------------------------|--------------------------|---------------|--------------------------|---------------|
| | Profit or loss \$m | Equity \$m | Profit or loss \$m | Equity \$m |
| | CONSOLIDATED 2018 | | | |
| Product type | | | | |
| Equity and equity linked products | 13 | 58 | (13) | (55) |
| Commodities and other products | 88 | 5 | (92) | (5) |
| Total | 101 | 63 | (105) | (60) |
| | CONSOLIDATED 2017 | | | |
| Product type | | | | |
| Equity and equity linked products | 9 | 89 | (9) | (82) |
| Commodities and other products | 78 | 8 | (102) | (8) |
| Total | 87 | 97 | (111) | (90) |

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NOTE 38**Fair value of financial assets and financial liabilities continued****Significant unobservable inputs**

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

| | Assets \$m | Liabilities \$m | Valuation technique(s) | Significant unobservable inputs | RANGE OF INPUTS | |
|--------------------------------------|---------------|--------------------|---------------------------|---------------------------------------|------------------|------------------|
| | | | | | Minimum value | Maximum value |
| CONSOLIDATED 2018 | | | | | | |
| Equity and equity linked products | 651 | 32 | Discounted cash flows | Discount rate | 5.0% | 11.0% |
| | | | Pricing model | Earnings multiple | 2x | 13.9x |
| | | | Market comparability | Price in % ⁽¹⁾ | | |
| Commodities and other products | 1,496 | 324 | Discounted cash flows | Discount rate | 4.0% | 10.0% |
| | | | Pricing model | Volatility | 5.0% | 178.3% |
| | | | Market comparability | Correlation | (40.0%) | 100.0% |
| | | | | Price in % ⁽¹⁾ | | |
| Total | 2,147 | 356 | | | | |
| CONSOLIDATED 2017 | | | | | | |
| Equity and equity linked products | 855 | 19 | Discounted cash flows | Discount rate | 8.0% | 11.0% |
| | | | Pricing model | Earnings multiple | 1.0x | 21.2x |
| | | | Market comparability | Price in % ⁽¹⁾ | | |
| Commodities and other products | 1,239 | 248 | Discounted cash flows | Discount rate | 4.0% | 10.0% |
| | | | Pricing model | Volatility | 6.0% | 108.0% |
| | | | Market comparability | Correlation | (40.0%) | 100.0% |
| | | | | Price in % ⁽¹⁾ | | |
| Total | 2,094 | 267 | | | | |

(1) The range of inputs relating to market comparability is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple, discount rate and forecast earnings of the investee companies.

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NOTE 39**Offsetting financial assets and financial liabilities**

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the statement of financial position when they meet the criteria described in Note 1(xxvi) – Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the statement of financial position. 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 effects on the Consolidated Entity and Company's financial position in that circumstance is to settle as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity, refer to Note 37.1 – Credit risk for information on credit risk management.

AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS

| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | RELATED AMOUNTS NOT OFFSET ⁽⁷⁾ | | | Net amount | Amounts not subject to enforceable netting arrangements | Statement of financial position total |
|---|--|-----------------|---|---|--|----------------|---|---------------------------------------|
| | Gross amounts | Amounts offset | Net amount presented | Other recognised financial instruments ⁽⁵⁾ | Cash and other financial collateral ⁽⁶⁾ | | | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| CONSOLIDATED 2018 | | | | | | | | |
| Receivables from financial institutions ⁽¹⁾ | 29,062 | (1,099) | 27,963 | (1,664) | (25,772) | 527 | 10,596 | 38,559 |
| Derivative assets | 18,103 | (6,146) | 11,957 | (6,697) | (2,069) | 3,191 | 980 | 12,937 |
| Other assets ⁽²⁾ | 4,747 | (2,825) | 1,922 | (17) | – | 1,905 | 11,246 | 13,168 |
| Other financial assets at fair value through profit or loss | 373 | (244) | 129 | – | – | 129 | 1,305 | 1,434 |
| Total assets | 52,285 | (10,314) | 41,971 | (8,378) | (27,841) | 5,752 | 24,127 | 66,098 |
| Derivative liabilities | (17,348) | 6,146 | (11,202) | 6,697 | 2,191 | (2,314) | (723) | (11,925) |
| Deposits | (273) | 244 | (29) | – | – | (29) | (59,383) | (59,412) |
| Other liabilities ⁽³⁾ | (4,455) | 2,825 | (1,630) | 17 | – | (1,613) | (8,857) | (10,487) |
| Payables to financial institutions ⁽⁴⁾ | (6,464) | 1,099 | (5,365) | 1,664 | 3,382 | (319) | (10,075) | (15,440) |
| Total liabilities | (28,540) | 10,314 | (18,226) | 8,378 | 5,573 | (4,275) | (79,038) | (97,264) |

(1) Includes repurchase arrangements and other similar secured lending.

(2) Excludes other non-financial assets of \$5,202 million which is included in Note 10 – Other assets.

(3) Excludes other non-financial liabilities of \$5,599 million which is included in Note 21 – Other liabilities.

(4) Includes repurchase arrangements and other similar secured borrowing.

(5) Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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NOTE 39**Offsetting financial assets and financial liabilities continued****AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS**

| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNTS NOT OFFSET ⁽⁷⁾ | | Net amount \$m | Amounts not subject to enforceable netting arrangements \$m | Statement of financial position total \$m |
|---|--|-----------------------|-----------------------------|--|---|-------------------|--|--|
| | Gross amounts \$m | Amounts offset \$m | Net amount presented \$m | Other recognised financial instruments ⁽⁵⁾ \$m | Cash and other financial collateral ⁽⁶⁾ \$m | | | |
| CONSOLIDATED 2017 | | | | | | | | |
| Receivables from financial institutions ⁽¹⁾ | 17,558 | – | 17,558 | (1,075) | (16,217) | 266 | 9,913 | 27,471 |
| Derivative assets | 16,907 | (5,354) | 11,553 | (6,670) | (2,762) | 2,121 | 553 | 12,106 |
| Other assets ⁽²⁾ | 5,835 | (3,059) | 2,776 | (29) | – | 2,747 | 8,998 | 11,774 |
| Other financial assets at fair value through profit or loss | 442 | (314) | 128 | – | – | 128 | 1,374 | 1,502 |
| Total assets | 40,742 | (8,727) | 32,015 | (7,774) | (18,979) | 5,262 | 20,838 | 52,853 |
| Derivative liabilities | (15,378) | 5,354 | (10,024) | 6,670 | 2,350 | (1,004) | (1,104) | (11,128) |
| Deposits | (246) | 219 | (27) | – | – | (27) | (57,681) | (57,708) |
| Other liabilities ⁽³⁾ | (5,560) | 3,059 | (2,501) | 29 | – | (2,472) | (7,609) | (10,110) |
| Payables to financial institutions ⁽⁴⁾ | (6,921) | – | (6,921) | 1,075 | 5,596 | (250) | (10,151) | (17,072) |
| Other debt issued at fair value through profit or loss | (97) | 95 | (2) | – | – | (2) | (2,402) | (2,404) |
| Total liabilities | (28,202) | 8,727 | (19,475) | 7,774 | 7,946 | (3,755) | (78,947) | (98,422) |

(1) Includes reverse repurchase arrangements and other similar secured lending.

(2) Excludes other non-financial assets of \$4,784 million which is included in Note 10 – Other assets.

(3) Excludes other non-financial liabilities of \$4,921 million which is included in Note 21 – Other liabilities.

(4) Includes repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS

| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNTS NOT OFFSET | | Net amount \$m | Amounts not subject to enforceable netting arrangements \$m | Statement of financial position total \$m |
|-----------------------|--|-----------------------|-----------------------------|---|--|-------------------|--|--|
| | Gross amounts \$m | Amounts offset \$m | Net amount presented \$m | Other recognised financial instruments \$m | Cash and other financial collateral \$m | | | |
| COMPANY 2018 | | | | | | | | |
| Due from subsidiaries | 20,116 | (2,875) | 17,241 | – | – | 17,241 | 28 | 17,269 |
| Due to subsidiaries | (3,687) | 2,875 | (812) | – | – | (812) | (31) | (843) |
| COMPANY 2017 | | | | | | | | |
| Due from subsidiaries | 12,702 | (2,714) | 9,988 | – | – | 9,988 | 21 | 10,009 |
| Due to subsidiaries | (3,629) | 2,714 | (915) | – | – | (915) | (30) | (945) |

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NOTE 40**Transfers of financial assets**

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets recognised in the statement of financial position to other entities. Depending on the criteria discussed in Note 1 (ix) – Recognition and derecognition of financial instruments, the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of continuing involvement.

Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. For the years ending 31 March 2018 and 31 March 2017, there were no material transfers of financial assets where the Consolidated Entity or Company retained a continuing involvement in the transferred asset.

Transferred financial assets that are not derecognised

The Consolidated Entity and the Company did not recognise financial assets only to the extent of continuing involvement in the years ending 31 March 2018 and 31 March 2017. The following transactions typically result in the transferred assets continuing to be recognised in full.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the required collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

**FOR THOSE LIABILITIES THAT ONLY HAVE
RECOURSE TO THE TRANSFERRED ASSETS**

| | Carrying amount of transferred assets \$m | Carrying amount of associated liabilities \$m | Fair Value of transferred assets \$m | Fair Value of associated liabilities \$m | Net Fair value \$m |
|---|---|---|---|---|--------------------------|
| CONSOLIDATED 2018 | | | | | |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading portfolio assets | 2,690 | (2,654) | – | – | – |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Investment securities available for sale | 517 | (485) | – | – | – |
| Other financial assets not derecognised: | | | | | |
| Loan assets held at amortised cost | 749 | (762) | 756 | (768) | (12) |
| Total financial assets not derecognised | 3,956 | (3,901) | 756 | (768) | (12) |
| CONSOLIDATED 2017 | | | | | |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading portfolio assets | 4,874 | (4,997) | – | – | – |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Investment securities available for sale | 509 | (475) | – | – | – |
| Other financial assets not derecognised: | | | | | |
| Loan assets held at amortised cost | 594 | (594) | 606 | (588) | 18 |
| Total financial assets not derecognised | 5,977 | (6,066) | 606 | (588) | 18 |

There were no material transfers of financial assets for the Company where the financial assets are not derecognised as at 31 March 2018 and at 31 March 2017.

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NOTE 41**Audit and other services provided by PricewaterhouseCoopers**

During the financial year, the auditor of the Consolidated Entity and the Company, PwC and its network firms earned the following remuneration:

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| PwC – Australia | | | | |
| Audit of the Group and controlled entities | 13,283 | 11,586 | – | – |
| Other assurance services ⁽¹⁾ | 5,548 | 3,863 | – | – |
| Advisory services | 483 | 32 | – | – |
| Taxation | 241 | 484 | – | – |
| Total non-audit services | 6,272 | 4,379 | – | – |
| Total remuneration paid to PwC Australia | 19,555 | 15,965 | – | – |
| Network firms of PwC Australia | | | | |
| Audit of the Group and controlled entities | 12,260 | 14,001 | – | – |
| Other assurance services ⁽¹⁾ | 1,190 | 1,220 | – | – |
| Advisory services | 668 | 1,359 | – | – |
| Taxation | 1,699 | 3,082 | – | – |
| Total non-audit services | 3,557 | 5,661 | – | – |
| Total remuneration paid to network firms of PwC Australia | 15,817 | 19,662 | – | – |
| Total Audit Services remuneration paid to PwC | 25,543 | 25,587 | – | – |
| Total Non-Audit Services remuneration paid to PwC | 9,829 | 10,040 | – | – |
| Total remuneration paid to PwC (Note 2) | 35,372 | 35,627 | – | – |

(1) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include regulatory compliance, accounting advice, comfort letters on debt issuance programs, certifications, due diligence and reviews of controls, and other agreed upon procedures.

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

NOTE 42**Acquisitions and disposals of subsidiaries and businesses****Significant entities or businesses consolidated due to acquisition of control:**

There were no significant entities or businesses consolidated due to acquisition of control during the current financial year.

Other entities or businesses consolidated due to acquisition of control:

UK Green Investment Bank Plc, Cargill, Inc.'s global oil trading business (Cargill Petroleum), Cargill, Inc.'s North American natural gas and electricity business (Cargill North American Power and Gas), Acacia Renewables K.K., Hirasawa Power West GK, M-Icheon Company Limited, M-Daon Company Limited, M-Haman Company Limited, Achim Solar Co Ltd., Norte III Power S.A.P.I. de C.V, PropertyIQ Pty. Ltd, PropertyIQ Strata Pty. Ltd., ADL Software Pty Ltd.

On 17 August 2017, Macquarie acquired UK Green Investment Bank Plc (GIB) from the Government of United Kingdom. GIB comprises of a portfolio of green infrastructure equity and debt investments and wholly owns UK Green Investment Bank Financial Services Ltd ("GIB FS"), a regulated and licenced fund manager.

During the financial year ended 31 March 2017, other entities or businesses acquired or consolidated due to acquisition of control were:

Re-Clean Co. Ltd, Sparks Battery Holdings, LLC, Hybrid-Electric Building Technologies Irvine 1, LLC, Hybrid-Electric Building Technologies Irvine 2, LLC, Hybrid-Electric Building Technologies West Los Angeles 1, LLC and Hybrid-Electric Building Technologies, West Los Angeles 2, LLC.

Aggregate details of the entities and businesses consolidated due to acquisition of control are as follows:

| | 2018 \$m | 2017 \$m |
|--|----------------|-------------|
| Fair value of net assets acquired | | |
| Receivables from financial institutions | 101 | 6 |
| Property, plant and equipment | 36 | 3 |
| Other Intangible assets | 83 | 80 |
| Interests in associates and joint ventures | 24 | – |
| Other assets ⁽¹⁾ | 1,722 | 2 |
| Other financial assets | 250 | – |
| Payables, provisions, borrowings and other liabilities | (437) | (27) |
| Non-controlling interests | (1) | – |
| Total fair value of net assets acquired | 1,778 | 64 |
| Consideration | | |
| Cash consideration (including transaction costs) | 1,856 | 72 |
| Deferred consideration | 1 | 4 |
| Fair value of equity interest held before the acquisition date | 2 | – |
| Total consideration | 1,859 | 76 |
| Goodwill recognised on acquisition | 81 | 12 |
| Net cash flow | | |
| Cash consideration | (1,856) | (72) |
| Less: cash and cash equivalents acquired | 101 | 6 |
| Net cash outflow | (1,755) | (66) |

(1) Includes assets classified as held for sale and other non-financial assets.

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NOTE 42**Acquisitions and disposals of subsidiaries and businesses continued****Significant entities or businesses disposed of or deconsolidated due to loss of control:**

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

Other entities or businesses disposed of or deconsolidated due to loss of control:

Macquarie Financial Ltd., Levantera Development Limited, New Zoom Inc, Reclean Holdings and its Subsidiaries, Chaptre Investments Limited, Chaptre GreenCo Limited, EIH PPP Limited, Eriugena Investments Limited, Eriugena Holdings Limited, Eriugena Designated Activity Company, Haiding One International Investment Co. Ltd., Haiding Two International Investment Co. Ltd., Haiding Three International Investment Co. Ltd., Hirasawa Power West Godo Kaisha, Norte III Power, S.A.P.I. de C.V, Advantage Funding Receivables LLC, Advantage Funding Commercial Capital Corp., Advantage Funding Services LLC, Advantage Funding Management Co. Inc., Advantage Funding Leasing LLC, Advantage Funding Auto Trust, Advantage Title Agent LLC.

During the financial year ended 31 March 2017, other entities or businesses disposed of or deconsolidated due to loss of control were:

Firebolt RB Holdings Limited, Macquarie Life's risk insurance business, US Mortgages, Macquarie Equities New Zealand Limited, Macquarie Equity Custodians Limited, International Life Solutions Proprietary Limited, Macquarie APTT Management PTE Limited,

Noctua Square Investments B.V, NACH B.V, Brek Manufacturing Co, Godo Kaisha ACMP2 and Godo Kaisha ACMP3.

Aggregate details of the entities or businesses disposed of or deconsolidated are as follows:

| | 2018 \$m | 2017 \$m |
|---|--------------|--------------|
| Carrying value of assets and liabilities disposed of or deconsolidated | | |
| Receivables from financial institutions | 55 | 48 |
| Property, plant and equipment | 81 | 17 |
| Other Intangible assets | 16 | 50 |
| Interests in associates and joint ventures | – | 1,294 |
| Other assets | 707 | 175 |
| Other financial assets | 1,003 | 535 |
| Payables, provisions, borrowings and other liabilities | (1,264) | (1,153) |
| Non-controlling interests | (2) | (174) |
| Total carrying value of net assets disposed of or deconsolidated | 596 | 792 |
| Consideration | | |
| Cash consideration (net of cost of disposal) | 376 | 937 |
| Consideration receivable | 416 | 151 |
| Fair value remeasurement of investment retained | 218 | 133 |
| Total consideration | 1,010 | 1,221 |
| Direct costs relating to disposal | (5) | (21) |
| Net cash flow | | |
| Cash consideration | 376 | 937 |
| Less cash and cash equivalents disposed of or deconsolidated | (55) | (46) |
| Cash outflow on direct costs related to disposal | – | (10) |
| Net cash inflow | 321 | 881 |

NOTE 43**Events after the reporting date**

There were no material events subsequent to 31 March 2018 that have not been reflected in the financial statements.

MACQUARIE GROUP LIMITED
DIRECTORS' DECLARATION

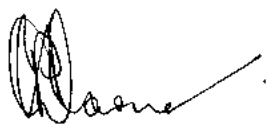
In the Directors' opinion:

- a) the financial statements and notes set out on pages 84 to 175 are in accordance with the *Corporations Act 2001* (Cth) including:
- (i) complying with the Australian accounting standards, and
 - (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2018 and their performance for the financial year ended on that date, and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

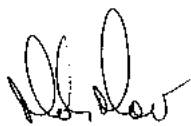
Note 1(i) includes a statement that the financial report complies with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth).

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



Peter Warne
Independent Director and Chairman



Nicholas Moore
Managing Director and Chief Executive Officer

Sydney
4 May 2018

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACQUARIE GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Our opinion

In our opinion:

The accompanying financial report of Macquarie Group Limited (the Company) and its controlled entities (together the Consolidated Entity) is in accordance with the *Corporations Act 2001* (Cth), including:

- (a) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 March 2018 and of their financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

What we have audited

Macquarie Group Limited's financial report comprises:

- the Company and the Consolidated Entity statements of financial position as at 31 March 2018
- the Company and the Consolidated Entity income statements for the year then ended
- the Company and the Consolidated Entity statements of comprehensive income for the year then ended
- the Company and the Consolidated Entity statements of changes in equity for the year then ended
- the Company and the Consolidated Entity statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies, and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

The Consolidated Entity is structured into five global operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram, Jacksonville and Manila which undertake operational activities that are important to the financial reporting processes. The Consolidated Entity's financial report is a consolidation of the five global operating groups and the corporate segment.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls and the industry in which it operates.



Consolidated Entity materiality

For the purpose of our Consolidated Entity audit we used overall materiality of \$150 million, which represents approximately 5% of the Consolidated Entity's profit before tax. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Consolidated Entity is most commonly measured. We selected 5% based on our professional judgement, noting it is within the range of commonly accepted thresholds.

Consolidated Entity audit scope

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial report, including areas where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of key controls.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACQUARIE GROUP LIMITED

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We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the five global operating groups and the corporate segment. These component audit teams established an audit strategy tailored for each operating group and the corporate segment, in consultation with the group audit team.

Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other PwC firms in overseas locations to perform audit procedures ranging from an audit of financial information to specified risk focussed audit procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn, instructed. As part of the overall supervision of our audit and to develop our understanding of the Consolidated Entity's global operations, the group audit team or the component audit teams also visited overseas locations, including Geneva, Gurugram, Hong Kong, Houston, Jacksonville, London, Manila, New York, San Francisco, Singapore and Tokyo.

The work performed by the component audit teams and the overseas audit teams, together with additional audit procedures performed by the group audit team such as procedures over the Consolidated Entity's consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity's financial report as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We have communicated the key audit matters to the Board Audit Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. The key audit matters identified below relate to both the Company and the Consolidated Entity audits conducted, unless otherwise noted.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Provisions for loan losses Refer to Note 11</p> <p>The Consolidated Entity holds both specific and collective impairment provisions over loan assets. Specific impairment provisions are created when the impairment of an individual loan is recognised. The collective impairment provision is intended to cover losses in the existing overall loan portfolio which have not yet been individually identified.</p> <p>The identification of loans that are deteriorating and the assessment of the present value of expected future cash flows from the loans in determining specific impairment provisions are inherently uncertain, involving various assumptions and judgments.</p> <p>In estimating the collective impairment provisions, judgement is required in the design of the models used and the selection of assumptions adopted, such as the estimate of the likelihood of default and the potential loss given default. A management overlay is also included in the overall collective provision to reflect emerging trends or particular situations which are not captured by these models.</p> <p>Given the extent of judgment involved, we considered this to be a key audit matter.</p> | <p>Our procedures included assessing the design and operating effectiveness of certain controls relating to the timely recognition and measurement of impairments for loan losses.</p> <p>For specific loan loss provisions, we examined a sample of individual loan exposures. We applied judgment in selecting this sample, including consideration of sectors that may pose an increased risk of uncertainty and certain geographic regions of the Australian property market. We also evaluated a sample of loan assets written off or disposed of to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately estimate specific loan loss provisions.</p> <p>For the collective provisions, assisted by our experts, we tested on a sample basis:</p> <ul style="list-style-type: none"> – the appropriateness of the design and use of the models used by the Consolidated Entity, and – the appropriateness of the assumptions adopted and data used in the models, by using our knowledge of industry developments and the actual loss experience of the Consolidated Entity. <p>We also examined and assessed the analysis performed by the Consolidated Entity in determining the management overlay.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p> |

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| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Valuation of financial assets and liabilities held at fair value Refer to Note 38</p> <p>The Consolidated Entity exercises judgement in valuing certain assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments.</p> <p>For the Consolidated Entity, these Level 3 financial instruments predominantly consist of derivatives and unlisted equity and debt investments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs.</p> <p>Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.</p> | <p>Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over:</p> <ul style="list-style-type: none"> – approval and validation of the models adopted – accuracy of data feeds and inputs to models – the Consolidated Entity's process for testing valuations, and – governance and review. <p>For derivatives, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations.</p> <p>For a sample of unlisted equity and debt investments, we assessed the appropriateness of the valuation methodologies applied, and assessed the sensitivity of the Consolidated Entity's valuations to alternative methodologies and assumptions where appropriate. We also evaluated a sample of disposals to assess, with the benefit of hindsight, the Consolidated Entity's ability to estimate fair values.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p> |
| <p>Impairment of assets Refer to Note 2 and 14</p> <p>The Consolidated Entity holds certain assets where the recoverable amount is required to be considered under AASB 136. At year end, the Consolidated Entity considered whether there were any indicators that these assets might be impaired. Where indicators existed, the Consolidated Entity then compared carrying amounts of the relevant assets to the higher of their estimated value-in-use and fair value less costs of disposal in accordance with AASB 136. Value-in-use is the calculation of the net present value of the cash flows expected from the Consolidated Entity's use of an asset. This calculation requires an estimation of the expected future cash flows associated with the use of an asset and the determination of certain assumptions such as discount rates and growth rates.</p> <p>In respect of its portfolio of aircraft assets, the Consolidated Entity also obtained independent valuation reports for certain aircraft from external appraisers to assist in developing their estimates of the recoverable amounts of these assets.</p> <p>Given the extent of judgement required in respect of impairment of assets we considered this to be a key audit matter.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> – updating our understanding of prevailing market conditions and factors that could materially affect the fair value and usage of the relevant assets, and considering whether these may represent indicators of impairment – evaluating the appropriateness of the impairment assessment methodology and the assumptions applied in the value-in-use calculations, and – engaging PwC valuation experts where relevant. <p>In respect of the aircraft assets, our procedures also included:</p> <ul style="list-style-type: none"> – assessing the competency, capability and objectivity of external appraisers, as well as the appropriateness of methodologies and assumptions used by the appraisers, and – comparing the realised value of certain aircraft sold during the year against the carrying value to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately make estimates. <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p> |
| <p>IT systems and controls over financial reporting</p> <p>The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include:</p> <ul style="list-style-type: none"> – the framework of governance over IT systems – controls over program development and changes – access to programs, data and IT operations, and – governance over generic and privileged user accounts. <p>Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter.</p> | <p>Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.</p> <p>When considered appropriate we performed alternative audit procedures on the financial information that was key to our audit testing produced by the IT systems.</p> |



INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MACQUARIE GROUP LIMITED
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| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Provisions for tax payable and deferred tax liabilities Refer to Note 18 and 21</p> <p>The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid.</p> <p>Given the extent of judgement involved, we considered this to be a key audit matter.</p> | <p>Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities.</p> <p>Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provisions for tax. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p> |
| <p>Disclosure of the impact of AASB 9 Refer to Note 1</p> <p>On 1 April 2018 the Consolidated Entity transitioned to financial instruments accounting standard AASB 9 which replaced AASB 139. AASB 9 relates to impairment, classification and measurement of financial instruments and hedge accounting. Disclosure has been included in these 31 March 2018 financial statements which is intended to provide users with an understanding of the estimated transition impact of the new standard. As required, further disclosure will be included in the 2019 financial statements.</p> <p>Under the new AASB 9 impairment model, losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic environments. The complexity involved required the Consolidated Entity to develop new models involving the use of significant judgements, post model adjustments and a large increase in the data inputs required by these models.</p> <p>Separately, the standard introduces new requirements around the classification and measurement of financial instruments, and the qualifying criteria for hedge accounting.</p> <p>Given this is a new and complex accounting standard which requires considerable judgement, we considered the transition disclosure to be a key audit matter.</p> | <p>Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the impairment transition adjustment focusing on:</p> <ul style="list-style-type: none"> - model development, validation and approval to support compliance with AASB 9 requirements - review and approval of key assumptions, judgements and forward looking information prior to use in the models - the integrity of data used as input into the models including the transfer of data between source systems and the models - review and approval of post model adjustments, and - review and approval of the output of the models and related transition impacts. <p>We examined and assessed the ECL models developed by the Consolidated Entity, including using PwC credit modelling experts in our assessment of judgements and assumptions supporting the ECL requirements of AASB 9. We assessed the reasonableness of forward looking information incorporated into the impairment calculations by using PwC experts to challenge the multiple economic scenarios chosen by the Consolidated Entity and the weighting applied to capture non-linear losses. We assessed the post model adjustments in the context of key model and data limitations identified by the Consolidated Entity, considered their rationale and recalculated where necessary.</p> <p>We examined and assessed the controls and judgements relating to the classification and measurement of financial instruments.</p> <p>We also examined the controls and judgements relating to the designation and documentation of the eligible hedging relationships and their prospective hedging effectiveness. We assessed the appropriateness of the Consolidated Entity's transition disclosure in the financial statements.</p> |

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| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Reversal of impairment on investment in subsidiary (Company only) Refer to Note 17</p> <p>At year end, the Company considered whether there were any indicators that an impairment loss recognised in prior periods on an investment in subsidiary no longer existed, or had decreased.</p> <p>Given the improved performance of the subsidiary an indicator of impairment reversal was determined to exist. Accordingly an estimate of the investment's recoverable amount was calculated by determining the higher of the value-in-use and fair value less cost of disposal for relevant investment.</p> <p>An impairment reversal was recognised for the amount by which the recoverable amount of the investment exceeded the carrying amount. Given the quantum of the investment and the judgement involved in determining the recoverable amount, we considered this to be a key audit matter.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> – evaluating and testing certain controls relating to the recognition and measurement of impairment and the reversal of impairment in investment in subsidiaries – evaluating the methodology applied in the impairment reversal assessment conducted – assessing certain underlying data used in determining the carrying value and recoverable amount for the investment in subsidiary with the impairment reversal, and – engaging PwC valuation experts where relevant. <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p> |



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACQUARIE GROUP LIMITED

CONTINUED

Other information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 31 March 2018, including About Macquarie, Chairman's and Managing Director's Letter, Financial Highlights, Operating and Financial Review, Corporate Governance, Diversity Report, ESG Report, Macquarie Group Foundation, Risk Management Report, Directors' Report, Additional Investor Information, 10 year history and Glossary but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* (Cth) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

PricewaterhouseCoopers

K.G. Smith

Partner

Sydney

4 May 2018

Liability limited by a scheme approved under Professional Standards Legislation.

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar1.pdf for the Consolidated Entity and at www.auasb.gov.au/auditors_responsibilities/ar2.pdf for the Company. This description forms part of our audit report.

REPORT ON THE REMUNERATION REPORT

Our opinion on the remuneration report

We have audited the remuneration report included in pages 50 to 82 of the Directors' Report for the year ended 31 March 2018.

In our opinion, the remuneration report of Macquarie Group Limited for the year ended 31 March 2018 complies with section 300A of the *Corporations Act 2001* (Cth).

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Additional Investor Information
Glossary



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FURTHER INFORMATION

ADDITIONAL INVESTOR INFORMATION

SHAREHOLDER CALENDAR 2018

| Date | Event |
|----------------------------|--|
| 4 May | Full-year result announcement |
| 14 May | Ex-dividend date for final ordinary dividend |
| 15 May | Record date for final ordinary dividend |
| 7 June | Payment date for MCN distribution |
| 3 July | Payment date for final ordinary dividend |
| 26 July | AGM |
| 17 September | Payment date for MCN2 distribution |
| 30 September | Financial half-year end |
| 2 November ⁽¹⁾ | Half-year result announcement |
| 12 November ⁽¹⁾ | Ex-dividend date for interim ordinary dividend |
| 13 November ⁽¹⁾ | Record date for interim ordinary dividend |
| 7 December | Payment date for MCN distribution |
| 18 December ⁽¹⁾ | Payment date for interim ordinary dividend |

(1) These dates are subject to change.

2019

| Date | Event |
|----------|------------------------------------|
| 18 March | Payment date for MCN2 distribution |
| 31 March | Financial year end |

2018 ANNUAL GENERAL MEETING

Macquarie Group Limited's 2018 AGM will be held at 10:30 am on Thursday, 26 July 2018 at the Hyatt Regency Sydney, Maritime Ballroom, 161 Sussex St, Sydney NSW 2000. Details of the business of the meeting will be forwarded to shareholders separately.

DIVIDEND DETAILS

Macquarie generally pays a dividend on its fully paid ordinary shares twice a year following the interim and final results announcements. The proposed dates for the 2018 calendar year are in the calendar above.

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie ordinary shares rather than receiving dividends in cash.

STOCK EXCHANGE LISTING

| Equity or hybrid security | Stock exchange listing | Trading code |
|--|------------------------|--------------|
| Macquarie Group Limited Securities | | |
| Macquarie ordinary shares | ASX | MQG |
| Macquarie Group Capital Notes (MCN) | ASX | MQGPA |
| Macquarie Group Capital Notes 2 (MCN2) | ASX | MQGPB |
| Macquarie Bank Limited Convertible Securities | | |
| Macquarie Bank Capital Notes (BCN) | ASX | MBLPA |
| Macquarie Additional Capital Securities (MACS) | SGX | 6F6B |

Macquarie also has debt securities quoted on the London Stock Exchange.

EQUITY AND HYBRID SECURITIES

The following information is correct as at 31 March 2018.

MACQUARIE GROUP LIMITED SECURITIES

Fully paid ordinary shares

Voting Rights

At meetings of members or classes of members, each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands, every person present who is a member or a proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

- i) one vote for each fully paid share held by the member, and
- ii) that proportion of a vote for any partly paid ordinary share calculated in accordance with clause 8.18 of the MGL Constitution.



20 largest holders

| Registered holder | Number of ordinary shares held | % of ordinary shares |
|--|--------------------------------|----------------------|
| HSBC Custody Nominees (Australia) Limited | 106,021,217 | 31.15 |
| JP Morgan Nominees Australia Limited | 56,825,700 | 16.70 |
| Citicorp Nominees Pty Limited | 18,728,594 | 5.50 |
| National Nominees Limited | 14,902,457 | 4.38 |
| Bond Street Custodians Limited <MEREPA Trustee-RSU Allocated> | 14,891,693 | 4.38 |
| BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 10,058,370 | 2.96 |
| BNP Paribas Noms Pty Ltd <DRP> | 5,044,934 | 1.48 |
| Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 4,939,458 | 1.45 |
| Bond Street Custodians Limited <MEREPA Trustee – Unallocated> | 2,973,133 | 0.87 |
| HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C> | 2,684,011 | 0.79 |
| Argo Investments Limited | 2,458,151 | 0.72 |
| Nicholas Moore ⁽²⁾ | 1,945,681 | 0.57 |
| Bond Street Custodians Limited <Solium Nominees Aus Pty Ltd> | 1,347,889 | 0.40 |
| AMP Life Limited | 1,185,001 | 0.35 |
| National Nominees Limited <N A/C> | 838,200 | 0.25 |
| Australian Foundation Investment Company Limited | 773,508 | 0.23 |
| Milton Corporation Limited | 659,990 | 0.19 |
| HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C> | 655,306 | 0.19 |
| EG Holdings Pty Limited | 519,090 | 0.15 |
| Netwealth Investments Limited <Wrap Services A/C> | 469,504 | 0.14 |
| Total | 247,921,887 | 72.84 |

(2) This is the aggregate of a number of holdings held by Mr Moore in his own name. He also has a relevant interest in shares held by Venamay Pty Limited, as well as his MEREPA holdings.

Substantial shareholders

The following holders are registered by MGL as a substantial shareholder, having declared a relevant interest in accordance with the Act, in the voting shares below:

| Registered holder | Number of ordinary shares held |
|-------------------------|--------------------------------|
| Macquarie Group Limited | 24,677,240 |
| BlackRock Group | 20,601,274 |

Spread of shareholdings

| Range | Number of shareholders | Number of shares |
|-------------------------|------------------------|--------------------|
| 1 – 1,000 | 103,429 | 28,686,661 |
| 1,001 – 5,000 | 16,741 | 32,067,594 |
| 5,001 – 10,000 | 1,103 | 7,573,519 |
| 10,001 – 100,000 | 573 | 14,512,940 |
| 100,001 shares and over | 68 | 257,524,106 |
| Total | 121,914 | 340,364,820 |

No shareholders held less than a marketable parcel.

ADDITIONAL INVESTOR INFORMATION

CONTINUED

Macquarie Group Capital Notes (MCN)**Voting Rights**

MCN may convert into a variable number of MGL ordinary shares on 7 June 2021 or at other times, subject to various conditions. Holders of MCN have no voting rights in respect of meetings of members of MGL prior to conversion.

20 largest holders

| Registered holder | Number of MCN held | % of MCN |
|---|--------------------|--------------|
| IOOF Investment Management Limited <IPS Super A/C> | 380,911 | 6.35 |
| HSBC Custody Nominees (Australia) Limited | 149,121 | 2.49 |
| National Nominees Limited | 134,678 | 2.24 |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 81,425 | 1.36 |
| IOOF Investment Management Limited <IPS IDPS A/C> | 77,917 | 1.30 |
| Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C> | 73,729 | 1.23 |
| Australian Executor Trustees Limited <No 1 Account> | 56,767 | 0.95 |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 54,176 | 0.90 |
| Mutual Trust Pty Ltd | 51,659 | 0.86 |
| Adtec No 2 Pty Ltd | 48,640 | 0.81 |
| BNP Paribas Noms Pty Ltd <DRP> | 47,105 | 0.79 |
| JP Morgan Nominees Australia Limited | 42,147 | 0.70 |
| Longhurst Management Services Pty Ltd | 38,152 | 0.64 |
| Netwealth Investments Limited <Wrap Services A/C> | 32,849 | 0.55 |
| BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP | 31,142 | 0.52 |
| BT Portfolio Services Limited <Namrog Investments P/L A/C> | 30,000 | 0.50 |
| Sir Moses Montefiore Jewish Home <Income A/C> | 28,000 | 0.47 |
| Citicorp Nominees Pty Limited | 21,788 | 0.36 |
| PCI Pty Ltd | 19,535 | 0.33 |
| Federation University Australia | 16,944 | 0.28 |
| Total | 1,416,685 | 23.61 |

Spread of noteholdings

| Range | Number of MCN holders | Number of MCN |
|------------------------|-----------------------|------------------|
| 1 – 1,000 | 8,241 | 2,773,869 |
| 1,001 – 5,000 | 635 | 1,351,688 |
| 5,001 – 10,000 | 41 | 327,652 |
| 10,001 – 100,000 | 26 | 882,081 |
| 100,001 notes and over | 3 | 664,710 |
| Total | 8,946 | 6,000,000 |

There were 4 noteholders (representing 12 notes) who held less than a marketable parcel.

Macquarie Group Capital Notes 2 (MCN2)**Voting Rights**

MCN2 may convert into a variable number of MGL ordinary shares on 18 March 2024 or at other times, subject to various conditions. Holders of MCN2 have no voting rights in respect meetings of members of MGL prior to conversion.

20 largest holders

| Registered holder | Number of MCN2 held | % of MCN2 |
|---|---------------------|--------------|
| HSBC Custody Nominees (Australia) Limited | 376,832 | 7.10 |
| IOOF Investment Management Limited <IPS Super A/C> | 99,200 | 1.87 |
| National Nominees Limited | 83,435 | 1.57 |
| Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C> | 80,636 | 1.52 |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 79,676 | 1.50 |
| Dimbulu Pty Ltd | 50,000 | 0.94 |
| G Harvey Nominees Pty Ltd <Harvey 1995 A/C> | 50,000 | 0.94 |
| Citicorp Nominees Pty Limited | 43,162 | 0.81 |
| BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd DRP | 41,460 | 0.78 |
| Board of Benevolence and of Aged Masons Widows <Orphans Fund A/C> | 34,500 | 0.65 |
| IOOF Investment Management Limited <IPS IDPS A/C> | 28,831 | 0.54 |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 28,335 | 0.53 |
| Sellers Holdings Pty Limited | 26,072 | 0.49 |
| JP Morgan Nominees Australia Limited | 25,454 | 0.48 |
| Netwealth Investments Limited <Wrap Services A/C> | 24,830 | 0.47 |
| Aust Executor Trustees Ltd <Charitable Foundation> | 24,259 | 0.46 |
| Federation University Australia | 22,910 | 0.43 |
| Servcorp Holdings Pty Ltd | 18,550 | 0.35 |
| GCF Investments Pty Ltd | 18,000 | 0.34 |
| AK Plastics Pty Ltd <Andrew Kohn Staff S/F A/C> | 15,000 | 0.28 |
| Total | 1,171,142 | 22.06 |

Spread of noteholdings

| Range | Number of MCN2 holders | Number of MCN2 |
|------------------------|------------------------|------------------|
| 1 – 1,000 | 6,711 | 2,221,653 |
| 1,001 – 5,000 | 660 | 1,370,463 |
| 5,001 – 10,000 | 48 | 357,804 |
| 10,001 – 100,000 | 34 | 983,169 |
| 100,001 notes and over | 1 | 376,832 |
| Total | 7,454 | 5,309,921 |

There were 2 noteholders (representing 4 notes) who held less than a marketable parcel.

ADDITIONAL INVESTOR INFORMATION

CONTINUED

MACQUARIE BANK LIMITED CONVERTIBLE SECURITIES

Macquarie Bank Capital Notes (BCN)

Voting Rights

BCN are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible into MGL ordinary shares in certain limited circumstances. BCN holders have no voting rights in respect of meetings of members of MBL, and have no voting rights in respect of meetings of members of MGL prior to conversion. As at 31 March 2018, there were 6,892 registered holders of BCN.

Macquarie Additional Capital Securities (MACS)

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL, and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

Single Shareholder

As at 31 March 2018, the \$US750 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

UNLISTED SECURITIES

The following information is correct as at 31 March 2018.

Exchangeable shares

81,663 exchangeable shares on issue are held by 12 former employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of a MGL ordinary share. They reached their 10-year anniversary in November 2017, upon which the scheme conditions remain in place, however a redemption date may be set at any time and carry no voting rights in respect of meetings of members of MGL, prior to exchange.

43,305 exchangeable shares on issue are held by 10 former employees of Tristone Capital Global Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of a MGL ordinary share. They will reach their 10-year anniversary in August 2019, upon which the scheme conditions remain in place, however a redemption date can be set at any time and carry no voting rights in respect of meetings of members of MGL prior to exchange.

MEREP

2,994,925 DSUs held by 481 participants and 1,408,846 PSUs held by 13 participants in the MEREP.

American Depository Receipt (ADR) program

Macquarie ADRs are negotiable certificates issued by BNY Mellon, with one ADR representing one MGL ordinary share. They are traded under the symbol MQBKY and are classified as Level 1. They are not listed on any exchange and are only traded over-the-counter via brokers.

BNY Mellon:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516 USA

Toll-free telephone number for domestic callers:
1 888 BNY ADRs

Telephone number for international callers: +1 201 680 6825
Further information can be found at: adrbnymellon.com/resources/individual-investors

ENQUIRIES

Investors who wish to enquire about any administrative matter relating to their MGL shareholding, MCN, MCN2, MIS or BCN security holding are invited to contact the Share Registry at:

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000 Australia

Telephone: +61 1300 554 096
Email: macquarie@linkmarketservices.com.au
Website: linkmarketservices.com.au

All other enquiries relating to a MGL share investment can be directed to:

Investor Relations

Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

Macquarie's Company Secretary, Dennis Leong, may be contacted on the above number and email address.

Website



GLOSSARY

| Defined term | Definition |
|---------------------|---|
| A | |
| AASB | Australian Accounting Standards Board |
| the Act | Corporations Act 2001 (Cth) |
| ADI | authorised deposit-taking institution |
| ADR | American Depository Receipt |
| AEC | Australian Electoral Commission |
| AGM | Annual General Meeting |
| AICD | Australian Institute of Company Directors |
| ALCO | Asset and Liability Committee |
| AMA | Advanced Measurement Approach |
| Annual Report | MGL's 2018 Annual Report |
| ANZ | Australia and New Zealand |
| APRA | Australian Prudential Regulation Authority |
| ASIC | Australian Securities & Investments Commission |
| ASX | Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited |
| ASX Recommendations | ASX Corporate Governance Council Principles & Recommendations |
| ATO | Australian Taxation Office |
| AUM | assets under management |

| | |
|----------------------------|---|
| B | |
| BAC | Board Audit Committee |
| Bank Group | MBL and its subsidiaries |
| BBSW | Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc. |
| BCN | Macquarie Bank Capital Notes |
| BFS | Banking and Financial Services Group |
| BGCC | Board Governance and Compliance Committee |
| BNC | Board Nominating Committee |
| the Board, Macquarie Board | The Board of Voting Directors of Macquarie Group Limited |
| BRC | Board Remuneration Committee |
| BRiC | Board Risk Committee |
| Businesses | the areas within the Operating Groups carrying out various operations |

| | |
|------------------------|---|
| C | |
| CAF | Corporate and Asset Finance Group |
| CAGR | compound annual growth rate |
| CCB | capital conservation buffer |
| CDP | Carbon Disclosure Project |
| Central Service Groups | the Central Service Groups consist of RMG, LGL, FMG and COG |

| Defined term | Definition |
|--|---|
| CEO | Managing Director and Chief Executive Officer |
| CGM | Commodities and Global Markets Group |
| CFO | Chief Financial Officer |
| COG | Corporate Operations Group |
| the Company, MGL | Macquarie Group Limited ABN 94 122 169 279 |
| Comparable Key Management Personnel (Comparable KMP) | Executive KMP who were members of the Executive Committee for the full year in both FY2017 and FY2016 |
| the Consolidated Entity, Macquarie | MGL and its subsidiaries |
| Corporate | head office and central support functions including Group Treasury |
| CRO | Chief Risk Officer |
| CVA | credit valuation adjustments |

| | |
|-----------|--|
| D | |
| Deed | Deed of Access, Indemnity, Insurance and Disclosure |
| Deed Poll | Indemnity and Insurance Deed Poll dated 12 September 2007 |
| Directors | the Voting Directors of MGL (unless the context indicates otherwise) |
| Divisions | named divisions within Macquarie |
| DPS Plan | Directors' Profit Share Plan |
| DRP | Dividend Reinvestment Plan |
| DSU | Deferred Share Unit issued under the MEREP |
| DVA | debit valuation adjustments |

| | |
|-------------------------------------|--|
| E | |
| ECAM | Economic Capital Adequacy Model |
| ECL | expected credit losses |
| EMEA | Europe, Middle East and Africa |
| Environmental Management Plan (EMP) | Macquarie's internal framework of actions and targets to manage and reduce the environmental impact of its direct operations. The Plan covers Macquarie's corporate offices and associated corporate activities such as travel and procurement |
| EPS | earnings per share |
| ESP | Macquarie Group Employee Share Plan |
| ESG | Environmental, Social and Governance |
| ESR | Environmental and Social Risk |
| Executive Director | Macquarie's most senior level of employee including Group Heads, Division Heads and senior business unit managers |

| Defined term | Definition |
|--|---|
| Executive Key Management Personnel (Executive KMP) | Members of the Executive Committee of MGL |
| Executive Voting Director | an executive Board member |

F

| | |
|----------------|--|
| FIRB | Foundation Internal Ratings Based Approach |
| FMG | Financial Management Group |
| the Foundation | Macquarie Group Foundation |
| Funds | Macquarie-managed fund(s) |
| FVA | funding value adjustment |

G

| | |
|-----|-----------------------------|
| GRI | Global Reporting Initiative |
|-----|-----------------------------|

H – J

| | |
|------|---|
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |

K

| | |
|--------------------------------|--|
| Key Management Personnel (KMP) | all Voting Directors and members of the Executive Committee of MGL |
|--------------------------------|--|

L

| | |
|-----------------------------------|---|
| LGBTI | Lesbian Gay Bisexual Transgender and Intersex |
| LGL | Legal and Governance Group |
| LMI | lender's mortgage insurance |
| Loss Given Default (LGD) Estimate | Macquarie's estimated economic loss should a counterparty default occur |
| LTIFR | Lost Time Injury Frequency Rate |
| LVR | loan to value ratio |

M

| | |
|------------------------------------|--|
| M&A | mergers and acquisitions |
| Macquarie Bank, MBL | Macquarie Bank Limited ABN 46 008 583 542 |
| Macquarie Board, the Board | the Board of Voting Directors of MGL |
| Macquarie ECS, ECS | Macquarie Exchangeable Capital Securities |
| MGL ordinary shares, MQG | MGL fully paid ordinary shares |
| Macquarie, the Consolidated Entity | MGL and its subsidiaries |

| Defined term | Definition |
|------------------|---|
| Malus | The discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement |
| MAM | Macquarie Asset Management Group |
| Management | Division Directors and Executive Directors who have management or risk responsibility for a Division or business area |
| MCN | Macquarie Group Capital Notes |
| MCN2 | Macquarie Group Capital Notes 2 |
| MEREP | Macquarie Group Employee Retained Equity Plan |
| MGL, the Company | Macquarie Group Limited ABN 94 122 162 279 |
| MIDIS | Macquarie Infrastructure Debt Investment Solutions |
| MIM | Macquarie Investment Management |
| MIPS | Macquarie Income Preferred Securities |
| MIRA | Macquarie Infrastructure and Real Assets |
| MIS | Macquarie Income Securities |
| MPPM | Macquarie Private Portfolio Management |
| MSIS | Macquarie Specialised Investment Solutions |

N

| | |
|----------------|------------------------------------|
| NCD | negotiable certificates of deposit |
| NCI | non-controlling interests |
| NED | Non-Executive Director |
| NOHC | non-operating holding company |
| Non-Bank Group | MGL, MFHPL and its subsidiaries |
| NPAT | net profit after tax |

O

| | |
|------------------|---|
| OECD | Organisation for Economic Co-operation and Development |
| Operating Groups | The Operating Groups consist of MAM, CAF, BFS, CGM and MacCap |
| OTC | over-the-counter |

GLOSSARY

CONTINUED

| Defined term | Definition |
|---|---|
| P | |
| Post-2009 DPS | retained directors' profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity |
| Probability of Default (PD) Estimate or MQ Rating | An estimate of the likelihood of the rated entity defaulting on its financial obligations to Macquarie over the period of a year and should look 'through the cycle' – i.e. represent the probability of default in natural economic conditions |
| PSU | Performance Share Unit issued under the MEREP |
| PwC | PricewaterhouseCoopers |
| Q - R | |
| RAS | Risk Appetite Statement |
| RMG | Risk Management Group |
| ROE | return on ordinary equity |
| RSU | Restricted Share Unit issued under the MEREP |
| RWA | risk-weighted assets |
| S | |
| S&P | Standard & Poor's |
| Senior Executive | Macquarie's combined Division Director and Executive Director population |
| Senior Management | Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation |
| SEs | structured entities |
| SFE | Sydney Futures Exchange |
| SGX | Singapore Stock Exchange |
| SYD | ASX-listed Sydney Airport |
| T | |
| tCO ₂ -e (Carbon dioxide equivalent in tonnes) | metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency) |
| TJ | terajoules |
| TSR | total shareholder return |
| U - V | |
| VaR | Value-at-Risk |
| Voting Directors | the Voting Directors of MGL as defined in the MGL Constitution |
| W - Z | |
| WHS | Work Health and Safety |
| WHSE | work health, safety and environmental |

Contact details

**Macquarie Group
Principal Administrative Office**

50 Martin Place
Sydney NSW 2000
Australia

**Registered Office
Macquarie Group Limited**

Level 6, 50 Martin Place
Sydney NSW 2000
Australia

