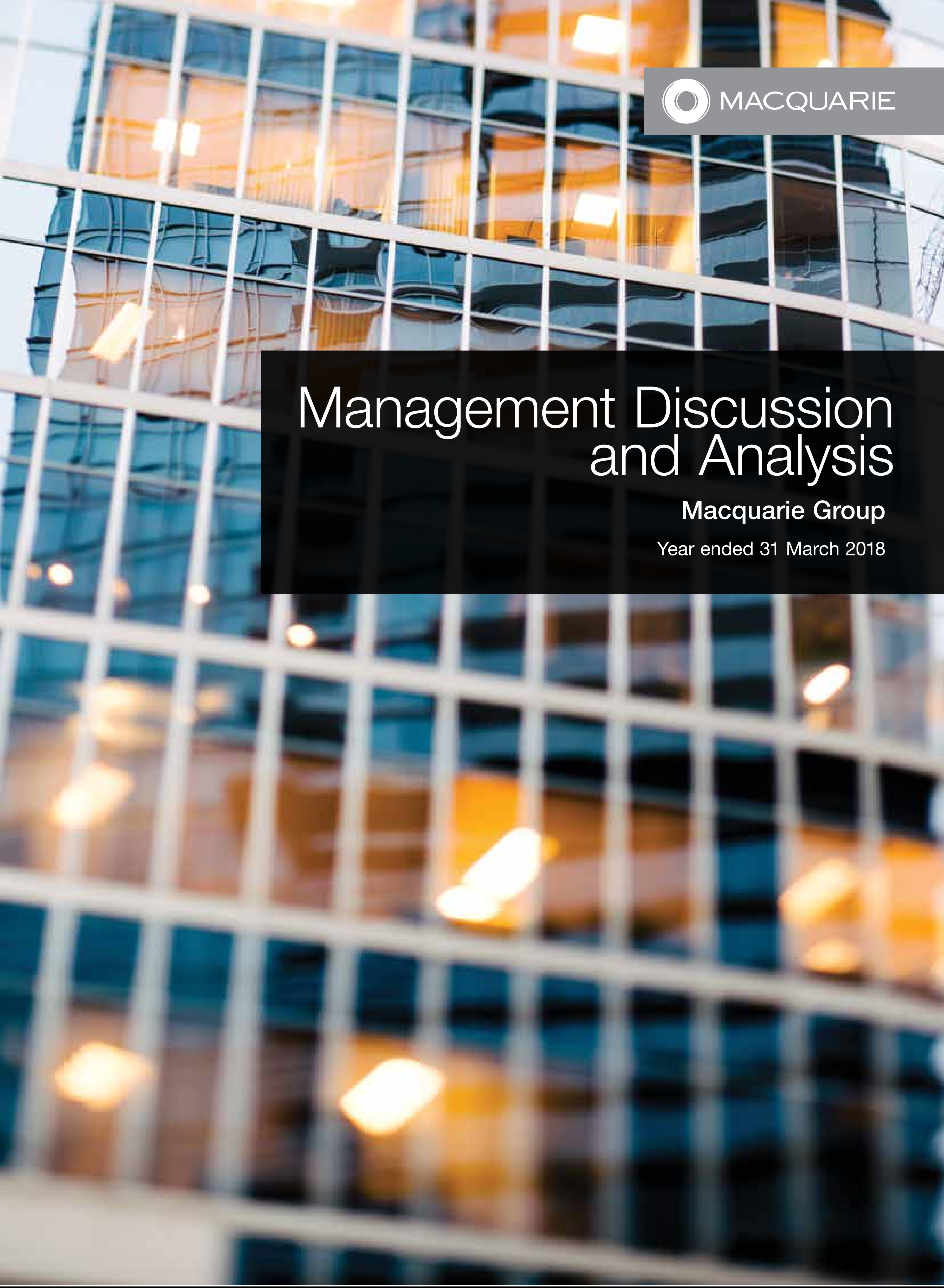

MACQUARIE

Management Discussion and Analysis

Macquarie Group

Year ended 31 March 2018

MACQUARIE GROUP LIMITED ACN 122 169 279

Notice to readers

The purpose of this report is to provide information supplementary to the Financial Report within the Macquarie Group Annual Report ("the Financial Report") for the year ended 31 March 2018, including further detail in relation to key elements of Macquarie Group Limited and its subsidiaries' ("Macquarie", "the Consolidated Entity") financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

Certain financial information in this report is prepared on a different basis to that contained in the Financial Report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards, reconciliation to the statutory information is provided.

Date of this report

This report has been prepared for the year ended 31 March 2018 and is current as at 4 May 2018.

Comparative information and conventions

Where necessary, comparative figures have been restated to conform to changes in current year financial presentation and group structures.

References to the prior year are to the 12 months ended 31 March 2017.

References to the first half are to the six months ended 30 September 2017.

References to the second half are to the six months ended 31 March 2018.

In the financial tables throughout this document "*" indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

Independent auditor's report

This document should be read in conjunction with the Financial Report for the year ended 31 March 2018, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's report to the members of Macquarie Group Limited dated 4 May 2018 was unqualified.

Any additional financial information in this document which is not included in the Financial Report was not subject to independent audit by PricewaterhouseCoopers.

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.

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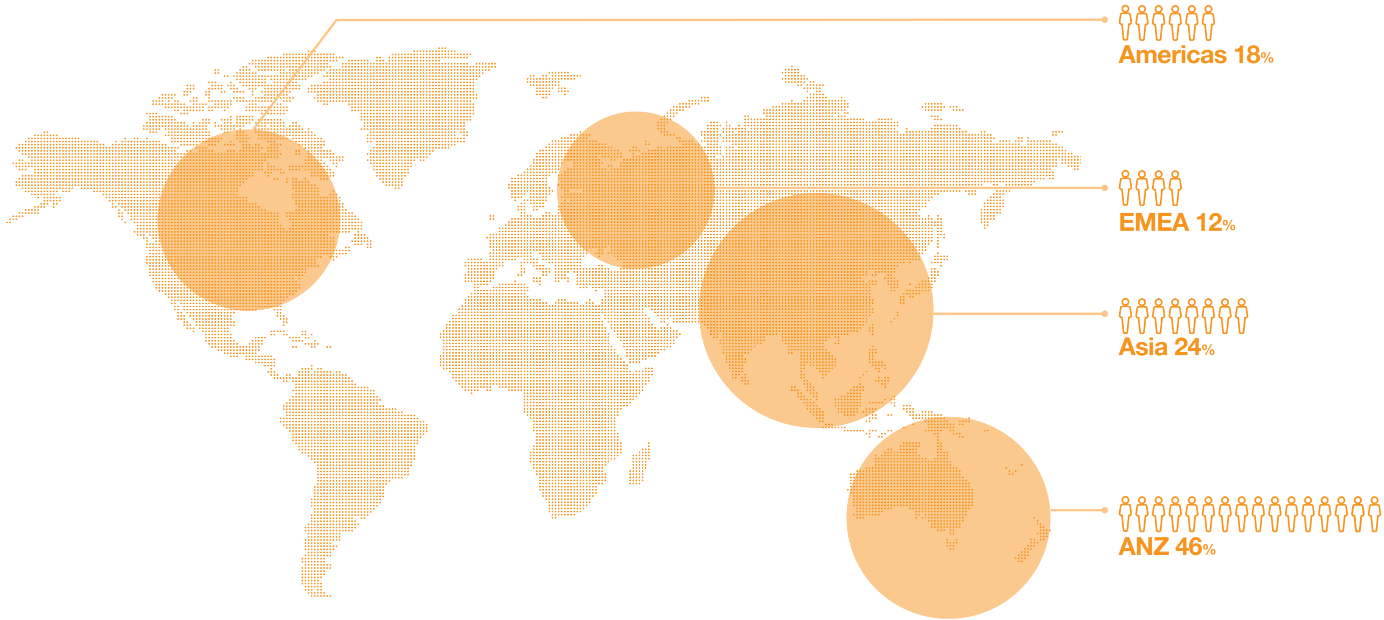
1 RESULT OVERVIEW

Macquarie (MGL and its subsidiaries, the Consolidated Entity) is a global diversified financial group with offices in 25 countries.

Macquarie now employs over
14,400 people
globally

across
25 countries



Macquarie Group Limited (MGL, the Company) is listed in Australia and is regulated by the Australian Prudential Regulation Authority (APRA), the Australian banking regulator, as a non-operating holding company of Macquarie Bank Limited (MBL), an authorised deposit-taking institution (ADI). Macquarie's activities are also subject to supervision by various other regulatory agencies around the world.

Founded in 1969, Macquarie now employs over 14,400 people globally, has total assets of $A191.3 billion and total equity of $A18.2 billion as at 31 March 2018.

Macquarie's breadth of expertise covers asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. The diversity of our operations, combined with a strong capital position and robust risk management framework, has contributed to Macquarie's 49 year record of unbroken profitability.

Macquarie acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to our clients. We have established leading market positions as a global specialist in a wide range of sectors, including resources and commodities, green energy, conventional energy, financial institutions, infrastructure and real estate and have a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client focused business, demonstrated by our willingness to both invest alongside clients and closely align the interests of our shareholders and staff.

RESULT OVERVIEW
CONTINUED

1.1 EXECUTIVE SUMMARY

FY2018 Net profit contribution[1] by Operating Group

Annuity-style businesses

MACQUARIE ASSET MANAGEMENT
33%

CORPORATE AND ASSET FINANCE
24%

BANKING AND FINANCIAL SERVICES
11%

Capital markets facing businesses

COMMODITIES AND GLOBAL MARKETS
18%

MACQUARIE CAPITAL
14%

(1) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

Annuity-style businesses

Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) generated a combined net profit contribution for the year ended 31 March 2018 of $A3,451 million, up 6% on the prior year.

MACQUARIE ASSET MANAGEMENT

$A1,685m
↑10% on prior year

- base fees broadly in line driven by higher AUM, offset by foreign exchange movements
- increased performance fee income primarily from Macquarie European Infrastructure Fund III (MEIF3)
- investment-related income broadly in line with a strong prior year.

Partially offset by:

- increased impairments largely reflects the write-down of MIRA's investment in Macquarie Infrastructure Corporation (MIC).

CORPORATE AND ASSET FINANCE

$A1,206m
↑1% on prior year

- increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio
- lower charges for provisions and impairments reflecting the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios
- Asset Finance contribution increased due to stronger underlying net operating lease income in Aviation and income from Vehicles which included the sale of the US commercial vehicles financing business. The remaining portfolios continued to perform well.

Partially offset by:

- lower interest income as a result of the reduction in the Principal Finance portfolio size.

BANKING AND FINANCIAL SERVICES

$A560m
↑9% on prior year

- growth in Australian loan, deposit and platform average volumes
- the non-recurrence of expenses recognised in the prior year, including impairment charges predominately on certain equity positions, intangible assets and expenses in relation to the Core Banking platform.

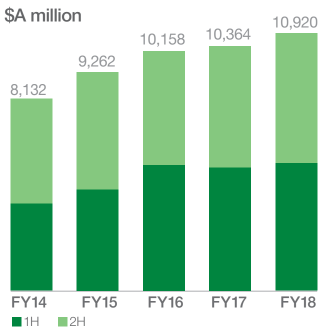
Partially offset by:

- the non-recurrence of the net overall gain on the disposal of Macquarie Life's risk insurance business to Zurich Australia Limited and the US mortgages portfolio in the prior year.

FY2018 Net operating income

$A10,920m

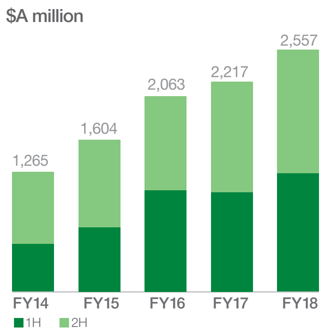
↑5% on prior year



FY2018 Net profit

$A2,557m

↑15% on prior year



FY2018 Return on equity

16.8%

↑ from 15.2% in prior year

FY2018 Operating expenses

$A7,456m

↑3% on prior year

Capital markets facing businesses

Commodities and Global Markets (CGM) and Macquarie Capital delivered a combined net profit contribution for the year ended 31 March 2018 of $A1,610 million, up 11% on the prior year.

COMMODITIES AND GLOBAL MARKETS

$A910m

↓6% on prior year

- timing of income recognition relating to tolling agreements and capacity contracts
- sustained low volatility and tighter credit spreads impacting income from interest rate and credit products
- reduced income from the sale of investments, mainly in energy and related sectors.

Partially offset by:

- improved results across the equities platform driven by rallying prices and increased volatility, notably in Asia
- reduction in impairments in commodity related sectors
- increased client demand for structured foreign exchange solutions in Asia and North America
- significant opportunities for the North American Gas and Power business to capitalise on price dislocations across regions.

MACQUARIE CAPITAL

$A700m

↑45% on prior year

- increased investment-related income due to asset realisations, particularly in green energy, conventional energy and infrastructure
- higher fee income from debt capital markets in the US due to increased market share and client activity
- lower provisions and impairment charges compared to the prior year.

Partially offset by:

- lower mergers and acquisitions and equity capital markets fee income
- higher funding costs for balance sheet positions.

RESULT OVERVIEW
CONTINUED

1.1 EXECUTIVE SUMMARY CONTINUED

Profit attributable to ordinary equity holders

$A2,557m

↑15% on prior year

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Financial performance summary						
Net interest income	**975**	1,011	*(4)*	**1,986**	2,185	*(9)*
Fee and commission income	**2,102**	2,568	*(18)*	**4,670**	4,331	*8*
Net trading income	**1,076**	881	*22*	**1,957**	1,758	*11*
Net operating lease income	**466**	469	*(1)*	**935**	921	*2*
Share of net profits of associates and joint ventures accounted for using the equity method	**138**	103	*34*	**241**	51	*
Other operating income and charges	**766**	365	*110*	**1,131**	1,118	*1*
Net operating income	**5,523**	5,397	*2*	**10,920**	10,364	*5*
Employment expenses	**(2,232)**	(2,261)	*(1)*	**(4,493)**	(4,379)	*3*
Brokerage, commission and trading-related expenses	**(408)**	(422)	*(3)*	**(830)**	(852)	*(3)*
Occupancy expenses	**(203)**	(199)	*2*	**(402)**	(392)	*3*
Non-salary technology expenses	**(309)**	(295)	*5*	**(604)**	(644)	*(6)*
Other operating expenses	**(611)**	(516)	*18*	**(1,127)**	(993)	*13*
Total operating expenses	**(3,763)**	(3,693)	*2*	**(7,456)**	(7,260)	*3*
Operating profit before income tax	**1,760**	1,704	*3*	**3,464**	3,104	*12*
Income tax expense	**(435)**	(448)	*(3)*	**(883)**	(868)	*2*
Profit after income tax	**1,325**	1,256	*5*	**2,581**	2,236	*15*
Profit attributable to non-controlling interests	**(16)**	(8)	*100*	**(24)**	(19)	*26*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**1,309**	1,248	*5*	**2,557**	2,217	*15*
Key metrics						
Expense to income ratio (%)	**68.1**	68.4		**68.3**	70.1	
Compensation ratio (%)	**37.9**	39.5		**38.7**	39.8	
Effective tax rate (%)	**24.9**	26.4		**25.7**	28.1	
Basic earnings per share (cents per share)	**387.5**	370.4		**758.2**	657.6	
Diluted earnings per share (cents per share)	**379.9**	360.2		**743.5**	644.5	
Ordinary dividends per share (cents per share)	**320.0**	205.0		**525.0**	470.0	
Ordinary dividend payout ratio (%)	**83.1**	55.9		**69.8**	72.0	
Annualised return on equity (%)	**16.9**	16.7		**16.8**	15.2	

1.1 EXECUTIVE SUMMARY CONTINUED

Net operating income

Net operating income of $A10,920 million for the year ended 31 March 2018 increased 5% from $A10,364 million in the prior year. Increases across fee and commission income, equity accounted income and reduced charges for provisions were partially offset by impairments and lower investment income.

Key drivers included:

Net interest and trading income

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
3,943	3,943

in line with prior year

- growth in average Australian loan portfolio and deposit volumes in BFS
- lower costs of holding long-term liquidity in Corporate.

Offset by:

- lower interest income as a result of the reduction in the Principal Finance portfolio size in CAF
- sustained low volatility and tighter credit spreads impacting income from interest rate and credit products in CGM
- higher funding costs for balance sheet positions in Macquarie Capital
- impact of Australian Government Major Bank Levy.

Fee and commission income

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
4,670	4,331

↑ 8% on prior year

- increased performance fee income primarily from MEIF3 in MAM
- base fees broadly in line driven by higher AUM, offset by foreign exchange movements
- higher debt capital markets fee income in Macquarie Capital reflected increased market share and client activity in the US.

Partially offset by:

- lower mergers and acquisitions and equity capital markets fee income in Macquarie Capital.

Net operating lease income

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
935	921

↑ 2% on prior year

- improved underlying income from the Aviation, Energy and Technology portfolios in CAF.

Share of net profits of associates and joint ventures accounted for using the equity method

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
241	51

↑ significantly on prior year

- increased income was primarily due to MAM's share of net profits from the sale of a number of underlying assets within equity accounted investments.

Other operating income and charges

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
1,131	1,118

↑ 1% on prior year

- lower charges for impairments and provisions across most Operating Groups due to improved credit conditions, partially offset by the write-down of the investment in MIC
- higher other income driven by the sale of certain CAF Principal Finance assets in the US and increased investing activity in Macquarie Capital.

Partially offset by:

- lower investment income mainly due to the non-recurrence of gains in the prior year including the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in BFS and gains on sale on listed funds and unlisted infrastructure assets in MAM. This was partially offset by increased investment-related income in the current year due to asset realisations, particularly in green energy, conventional energy and infrastructure in Macquarie Capital.

RESULT OVERVIEW
CONTINUED

1.1 EXECUTIVE SUMMARY CONTINUED

Operating expenses

Total operating expenses of $A7,456 million for the year ended 31 March 2018 increased 3% from $A7,260 million in the prior year.

Key drivers included:

Employment expenses

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
4,493	4,379

↑ **3%** on prior year

– higher performance-related profit share expense, driven by the improved overall performance of the Operating Groups

– higher average headcount.

Partially offset by:

– favourable foreign currency movements.

Brokerage, commission and trading-related expenses

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
830	852

↓ **3%** on prior year

– decrease mainly driven by reduced physical metals inventory levels in CGM.

Non-salary technology expenses

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
604	644

↓ **6%** on prior year

– the prior year included non-recurring technology expenses in relation to the Core Banking platform in BFS.

Occupancy and Other operating expenses

FULL-YEAR TO	
Mar 18 $Am	Mar 17 $Am
1,529	1,385

↑ **10%** on prior year

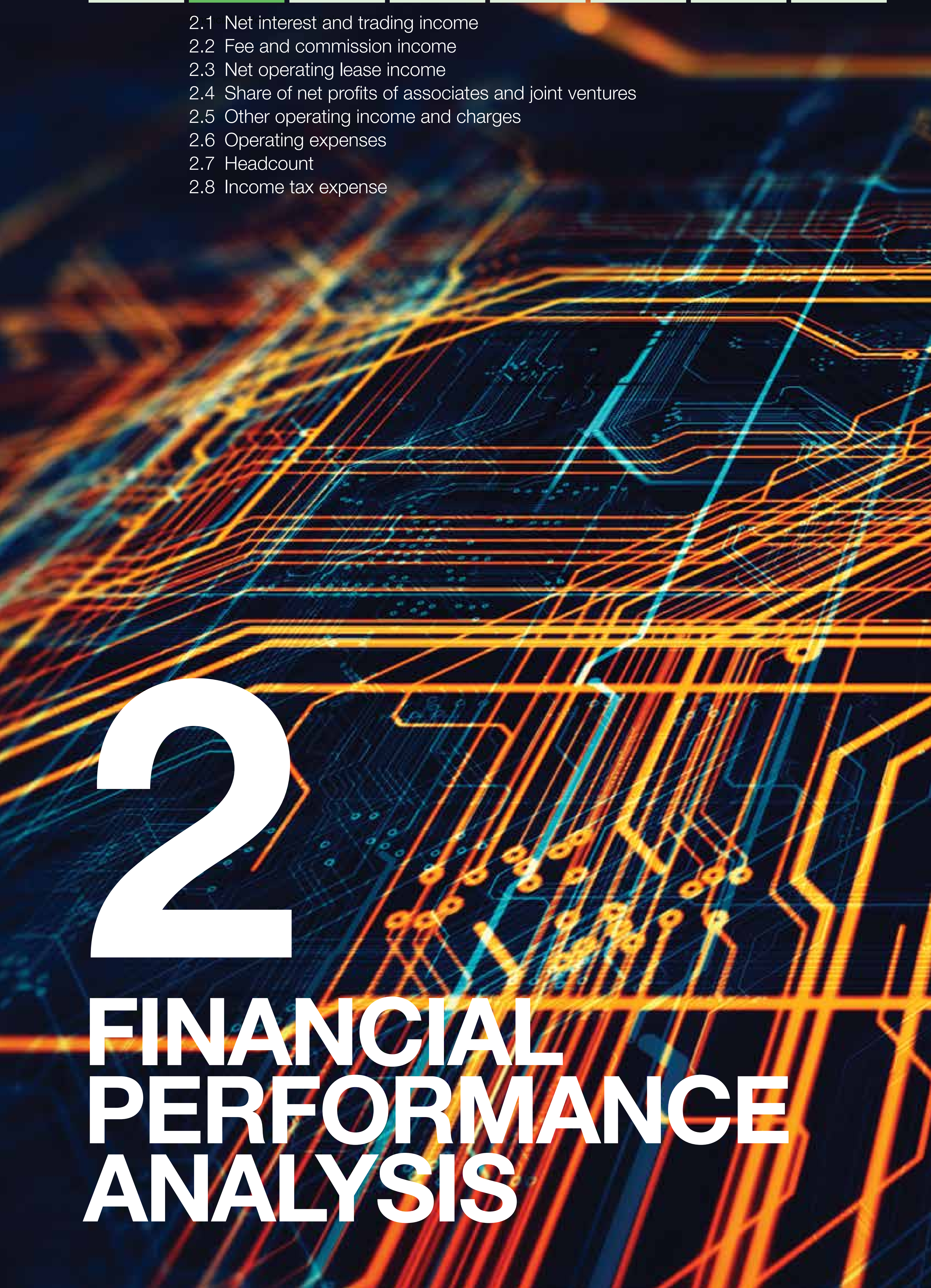
– higher transaction and integration costs from acquisitions and increased business activity

– occupancy expenses broadly in line with prior year.

Income tax expense

Income tax expense for the year ended 31 March 2018 was $A883 million, a 2% increase from $A868 million in the prior year. The effective tax rate for the year ended 31 March 2018 was 25.7%, down from 28.1% in the prior year.

The increase in tax expense was mainly due to higher profit before tax, offset in part by increased benefit from permanent tax differences. The reduced effective tax rate was mainly driven by change in geographic composition and nature of earnings.



2.1 Net interest and trading income
2.2 Fee and commission income
2.3 Net operating lease income
2.4 Share of net profits of associates and joint ventures
2.5 Other operating income and charges
2.6 Operating expenses
2.7 Headcount
2.8 Income tax expense

2 FINANCIAL PERFORMANCE ANALYSIS

FINANCIAL PERFORMANCE ANALYSIS

2.1 NET INTEREST AND TRADING INCOME

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Net interest income	**975**	1,011	*(4)*	**1,986**	2,185	*(9)*
Net trading income	**1,076**	881	*22*	**1,957**	1,758	*11*
Net interest and trading income	**2,051**	1,892	*8*	**3,943**	3,943	–

Net interest income and net trading income are recorded in accordance with Australian Accounting Standards, with net interest income brought to account using the effective interest method and net trading income predominately comprising gains and losses relating to trading activities.

For CGM, which predominately earns income from trading-related activities, the relative contribution of net interest income and net trading income from those activities can vary from period to period depending on the underlying trading strategies undertaken by the Consolidated Entity and its clients.

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 Consolidated Entity level.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, CAF's interest rate swaps are entered into to hedge the interest rate risk associated with loan assets. The interest income and associated funding costs are recognised in net interest income, however the related swap is recognised in net trading income. Accordingly, net interest income and net trading income are presented and discussed below in aggregate for each Operating Group, which management believes presents a more consistent overview of business performance and allows for a better analysis of the underlying activities and drivers.

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
MAM	**(35)**	(17)	*106*	**(52)**	(42)	*24*
CAF	**246**	336	*(27)*	**582**	712	*(18)*
BFS	**598**	584	*2*	**1,182**	1,049	*13*
CGM						
Commodities						
Risk management products	**420**	285	*47*	**705**	748	*(6)*
Lending and financing	**129**	108	*19*	**237**	260	*(9)*
Inventory management, transport and storage	**109**	42	*160*	**151**	124	*22*
Credit, interest rates and foreign exchange	**225**	283	*(20)*	**508**	621	*(18)*
Equities	**173**	186	*(7)*	**359**	307	*17*
Macquarie Capital	**(15)**	(57)	*(74)*	**(72)**	3	*
Corporate	**201**	142	*42*	**343**	161	*113*
Net interest and trading income	**2,051**	1,892	*8*	**3,943**	3,943	–

2.1 NET INTEREST AND TRADING INCOME CONTINUED

Net interest and trading income of $A3,943 million for the year ended 31 March 2018 was in line with the prior year.

MAM

Net interest and trading expense in MAM includes funding costs of financial assets, principal investments and assets associated with acquired businesses, offset by income on specialised retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading expense of $A52 million for the year ended 31 March 2018 increased 24% from an expense of $A42 million in the prior year, driven by higher funding costs for MIRA.

CAF

Net interest and trading income in CAF predominately relates to net income from the loan and finance lease (including vehicles and equipment financing) portfolios and the funding costs associated with the operating lease portfolios (including aviation, mining and energy assets) and Principal Finance equity investments.

Net interest and trading income of $A582 million for the year ended 31 March 2018 decreased 18% from $A712 million in the prior year, mainly as a result of the reduction in the Principal Finance portfolio.

The loan and finance lease portfolio was $A24.3 billion at 31 March 2018, a decrease of 8% from $A26.5 billion at 31 March 2017. The decrease was mainly in Principal Finance, as well as the sale of the US commercial vehicles financing business in March 2018.

BFS

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

Net interest and trading income of $A1,182 million for the year ended 31 March 2018 increased 13% from $A1,049 million in the prior year primarily due to a 6% growth in average Australian loan portfolio volumes and a 7% growth in average BFS deposits. This was partially offset by a $A16 million allocation of the Australian Government Major Bank Levy that came into effect from 1 July 2017.

At 31 March 2018 the Australian loan and deposit portfolio included:

- Australian mortgage volumes of $A32.7 billion, a 14% increase from $A28.7 billion at 31 March 2017;
- business lending volumes of $A7.3 billion, a 12% increase from $A6.5 billion at 31 March 2017; and
- BFS deposits of $A45.7 billion, a 3% increase from $A44.5 billion at 31 March 2017.

The remaining legacy loan portfolios were sold during the year, down from $A0.5 billion at 31 March 2017.

FINANCIAL PERFORMANCE ANALYSIS
CONTINUED

2.1 NET INTEREST AND TRADING INCOME CONTINUED

CGM

Commodities

i) Risk management products

Income from risk management products is generated from the provision of hedging and risk management services to clients. Risk management products income is mainly driven by client volumes, which are influenced by the level of price volatility in the markets in which those clients operate.

Risk management products income of $A705 million for the year ended 31 March 2018 decreased 6% from $A748 million in the prior year. The current year included mixed results across the commodities platform. Continued subdued volatility impacted client hedging activity and trading opportunities in Global Oil which were partially offset by strong results in North American Gas and Power due to an increase in volatility and customer activity, Bulk Commodities from volatility in iron ore and Commodity Investor Products driven by continued client growth.

ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including base and precious metals, energy and agriculture.

Lending and financing income of $A237 million for the year ended 31 March 2018 decreased 9% from $A260 million in the prior year largely due to a reduction in average loan balances on the wind down of legacy portfolios in the oil and gas sectors and a decreased contribution from metals financing largely due to margin compression.

iii) Inventory management, transport and storage

CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is dislocation between the supply and demand for energy. Tolling agreements, storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some volatility with timing of reported income.

Inventory management, transport and storage income of $A151 million for the year ended 31 March 2018 increased 22% from $A124 million from the prior year. Significant opportunities arose in the current year for the North American Gas and Power business to benefit from price dislocations across regions, primarily due to excess energy supply in certain producer regions. However, the timing of income recognition relating to tolling agreements and capacity contracts results in a net $A144 million of income being recognised in future years.

Credit, interest rates and foreign exchange

Net interest and trading income from credit, interest rates and foreign exchange related activities is generated from the provision of trading and hedging services to a range of corporate and institutional clients globally, in addition to making secondary markets in corporate debt securities, syndicated bank loans and middle market loans and providing specialty lending.

Net interest and trading income from credit, interest rates and foreign exchange related activities of $A508 million for the year ended 31 March 2018 decreased 18% from $A621 million in the prior year. Revenues were impacted by sustained low volatility and tighter credit spreads in interest rate and credit products. This was partially offset by strong client activity in structured foreign exchange products.

Equities

Equities net interest and trading income is generated from the issue of derivative products in key locations, the provision of equity finance solutions to institutional clients and the conduct of risk management and trading activities.

Equities net interest and trading income of $A359 million for the year ended 31 March 2018 increased 17% from $A307 million in the prior year. This reflects more favourable conditions in Asia including rallying equities, some increase in volatility, and strong demand for warrants and structured client capital solutions.

Macquarie Capital

Net interest and trading (expense)/income includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios.

Net interest and trading expense of $A72 million for the year ended 31 March 2018 decreased significantly from $A3 million income in the prior year. This was primarily due to higher funding costs for balance sheet positions reflecting increased activity, including the acquisition of Green Investment Group (GIG).

Corporate

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for Macquarie, earnings on capital, funding costs associated with non-core investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where designated hedge accounting is unable to be achieved for accounting purposes.

Net interest and trading income of $A343 million for the year ended 31 March 2018 increased substantially from $A161 million in the prior year primarily due to lower costs of holding long-term liquidity and the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting. In addition, higher earnings on capital was driven by increased average capital volumes and higher USD interest rates.

2.2 FEE AND COMMISSION INCOME

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	Movement %	Mar 18 $Am	Mar 17 $Am	Movement %
Base fees	**828**	804	*3*	**1,632**	1,580	*3*
Performance fees	**58**	537	*(89)*	**595**	264	*125*
Mergers and acquisitions, advisory and underwriting fees	**462**	458	*1*	**920**	963	*(4)*
Brokerage and commissions	**388**	386	*1*	**774**	813	*(5)*
Other fee and commission income	**366**	383	*(4)*	**749**	711	*5*
Total fee and commission income	**2,102**	2,568	*(18)*	**4,670**	4,331	*8*

Total fee and commission income of $A4,670 million for the year ended 31 March 2018 increased 8% from $A4,331 million in the prior year largely due to higher performance fees from MIRA-managed funds and assets outperforming their respective benchmarks. This was partially offset by lower fees from mergers and acquisitions and equity capital markets reflecting a sustained period of lower deal activity in Australia as well as lower brokerage and commission fee income driven by reduced brokerage commission rates due to the trend towards lower margin platforms in CGM.

Base and performance fees

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	Movement %	Mar 18 $Am	Mar 17 $Am	Movement %
Base fees						
MAM						
MIM	**468**	450	*4*	**918**	891	*3*
MIRA	**325**	325	–	**650**	644	*1*
MSIS	**20**	20	–	**40**	39	*3*
Total MAM	**813**	795	*2*	**1,608**	1,574	*2*
Other Operating Groups	**15**	9	*67*	**24**	6	*300*
Total base fee income	**828**	804	*3*	**1,632**	1,580	*3*
Performance fees						
MAM						
MIM	**21**	7	*200*	**28**	10	*180*
MIRA	**37**	530	*(93)*	**567**	254	*123*
Total MAM	**58**	537	*(89)*	**595**	264	*125*
Total performance fee income	**58**	537	*(89)*	**595**	264	*125*

FINANCIAL PERFORMANCE ANALYSIS
CONTINUED

2.2 FEE AND COMMISSION INCOME CONTINUED

Base fees
Base fees of $A1,632 million for the year ended 31 March 2018 increased 3% from $A1,580 million in the prior year.

Base fees, which are typically generated from funds management activities, are mainly attributable to MAM, where base fees of $A1,608 million for the year ended 31 March 2018 increased 2% from $A1,574 million in the prior year. Base fee income benefited from positive market movements in MIM AUM and investments made by MIRA-managed funds, partially offset by asset realisations by MIRA-managed funds, net flow impacts in the MIM business and foreign exchange.

Refer to Section 7 for further details of MAM's Assets under Management (AUM) and Equity under Management (EUM).

Performance fees
Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A595 million for the year ended 31 March 2018 increased significantly from $A264 million in the prior year. The year ended 31 March 2018 included performance fees from MEIF3, Macquarie Atlas Roads (MQA) and other managed funds, Australian managed accounts and Listed Equities. The prior year included performance fees from a broad range of funds, Australian managed accounts and from co-investors in respect of infrastructure assets.

Mergers and acquisitions, advisory and underwriting fees
Mergers and acquisitions, advisory and underwriting fees of $A920 million for the year ended 31 March 2018 decreased 4% from $A963 million in the prior year.

Mergers and acquisitions, advisory and underwriting fees which are mainly attributable to Macquarie Capital, of $A878 million for the year ended 31 March 2018 was broadly in line with $A887 million in the prior year. Higher debt capital markets fee income reflected increased market share and client activity in the US. This was offset by lower fee income from mergers and acquisitions, across most regions excluding Europe, and lower fee income from equity capital markets, which reflected a sustained period of lower deal activity in Australia.

Brokerage and commissions
Brokerage and commissions income of $A774 million for the year ended 31 March 2018 decreased 5% from $A813 million in the prior year.

The decrease was mainly in fee and commission income from equities-related activities driven by reduced brokerage commission rates due to the trend towards lower margin platforms in CGM.

Other fee and commission income
Other fee and commission income includes fees earned on a range of BFS' products and services including the Wrap and Vision platforms, deposits, provision of wealth services in Australia, mortgages, credit cards and business loans. MAM includes distribution service fees, structuring fees, capital protection fees and income from True Index products, while CGM includes advisory, underwriting, lending services and income on structured products.

Other fee and commission income of $A749 million for the year ended 31 March 2018 increased 5% from $A711 million in the prior year due to demand for advisory and structured products primarily in Asia and North America in CGM. Increased platform commissions from higher funds on the Wrap and Vision platforms were offset by lower Life insurance income due to the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in September 2016 by BFS, while lower income from MIM Americas and MSIS Closed-end funds were partially offset by higher MSIS Retail in MAM.

2.3 NET OPERATING LEASE INCOME

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Rental income	**1,001**	900	*11*	**1,901**	1,646	*15*
Depreciation on operating lease assets	**(535)**	(431)	*24*	**(966)**	(725)	*33*
Net operating lease income	**466**	469	*(1)*	**935**	921	*2*

Net operating lease income, which is predominately earned by CAF, totalled $A935 million for the year ended 31 March 2018, up 2% from $A921 million in the prior year due to improved underlying income from the Aviation, Energy and Technology portfolios.

CAF's operating lease portfolio was $A10.2 billion at 31 March 2018, an increase of 2% from $A10.0 billion at 31 March 2017 with growth in the Technology and Energy portfolios partially offset by depreciation and sales in the Aviation portfolio.

2.4 SHARE OF NET PROFITS OF ASSOCIATES AND JOINT VENTURES

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Share of net profits of associates and joint ventures accounted for using the equity method	**138**	103	*34*	**241**	51	*

Share of net profits of associates and joint ventures of $A241 million for the year ended 31 March 2018 increased significantly from $A51 million in the prior year. The increase was mainly due to the share of net profits from the sale of a number of underlying assets within equity accounted investments in MAM, increased equity accounted income in Macquarie Capital reflecting the improved underlying performance of investments and the reclassification of non-core assets to investments held for sale in Corporate.

FINANCIAL PERFORMANCE ANALYSIS
CONTINUED

2.5 OTHER OPERATING INCOME AND CHARGES

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	Movement %	Mar 18 $Am	Mar 17 $Am	Movement %
Investment income						
Net gain on sale of investment securities available for sale	**38**	38	–	**76**	419	*(82)*
Net gains/(losses) on sale of interests in associates and joint ventures	**241**	(17)	*	**224**	286	*(22)*
Net gain on acquisition, disposal, reclassification and change in ownership interests of investments, subsidiaries and businesses and assets held for sale	**464**	304	*53*	**768**	613	*25*
Net fair value gains on financial instruments designated at fair value	**22**	91	*(76)*	**113**	11	*
Dividends/distributions from investment securities available for sale	**22**	30	*(27)*	**52**	95	*(45)*
Total investment income	**787**	446	*76*	**1,233**	1,424	*(13)*
Impairment charges						
Impairment charge on investment securities available for sale	**(15)**	(10)	*50*	**(25)**	(47)	*(47)*
Impairment charge on interests in associates and joint ventures	**(186)**	(15)	*	**(201)**	(27)	*
Impairment charge on intangibles and other non-financial assets	**(32)**	(45)	*29*	**(77)**	(99)	*(22)*
Total impairment charges	**(233)**	(70)	*233*	**(303)**	(173)	*75*
Provisions						
Individually assessed provisions for impairments	**(44)**	(42)	*5*	**(86)**	(172)	*(50)*
Collective allowance for credit losses (provided for)/reversed during the financial year	**95**	21	*	**116**	5	*
Amounts written off	**(66)**	(68)	*(3)*	**(134)**	(148)	*(9)*
Recovery of amounts previously written off	**24**	17	*41*	**41**	44	*(7)*
Total provisions	**9**	(72)	*	**(63)**	(271)	*(77)*
Other income	**203**	61	*233*	**264**	138	*91*
Total other operating income and charges	**766**	365	*110*	**1,131**	1,118	*1*

2.5 OTHER OPERATING INCOME AND CHARGES CONTINUED

Total other operating income and charges of $A1,131 million for the year ended 31 March 2018 was broadly in line with $A1,118 million in the prior year, primarily driven by reduced charges for provisions across most Operating Groups, partially offset by lower investment income in BFS and MAM and higher impairment charges, mainly in MAM.

Investment income

Investment income totalled $A1,233 million for the year ended 31 March 2018, a decrease of 13% from $A1,424 million in the prior year.

Investment income in the current year included gains on asset realisations across most regions, primarily in the green energy, conventional energy and infrastructure sectors together with gains in the insurance and technology sectors in Macquarie Capital and gains on reclassification of certain infrastructure investments and the sale of MIRA's holdings in listed and unlisted assets in MAM. CAF generated gains from Principal Finance investments in Europe and the US and the sale of the US commercial vehicles financing business in March 2018.

The prior year included gains on sale of a number of investments and businesses across all Operating Groups. These included the partial sale of MIRA's holding in listed funds, gains on sale and reclassification of unlisted infrastructure and real estate holdings in MIRA, including the trustee-manager of APTT and income from the sell down of infrastructure debt in MSIS, the sale of a number of listed and unlisted investments in Macquarie Capital in the technology, green energy, conventional energy and infrastructure sectors, BFS' net overall gain on the disposal of Macquarie Life's risk insurance business to Zurich Australia Limited and the US mortgages portfolio and a gain realised on the sale of an interest in a toll road in the US by the CAF Principal Finance business.

Impairment charges

Impairment charges totalled $A303 million for the year ended 31 March 2018, an increase of 75% from $A173 million in the prior year. The increase predominately relates to the write-down of the investment in MIC.

Provisions

Provisions for credit losses and write-offs of $A63 million for the year ended 31 March 2018 decreased 77% from $A271 million in the prior year and was recognised across most Operating Groups has been driven by improved credit conditions. The decrease was largest in CAF which included the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios. CGM included write-downs recognised on certain underperforming commodity-related loans in the prior year.

Other Income

Other Income of $A264 million for the year ended 31 March 2018, an increase of 91% from $A138 million in the prior year. The increase predominately relates to the sale of Principal Finance assets in the US in CAF and income from investing activities in Macquarie Capital.

FINANCIAL PERFORMANCE ANALYSIS
CONTINUED

2.6 OPERATING EXPENSES

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Employment expenses						
Salary and related costs including commissions, superannuation and performance-related profit share	**(1,890)**	(1,908)	*(1)*	**(3,798)**	(3,691)	*3*
Share-based payments	**(202)**	(208)	*(3)*	**(410)**	(416)	*(1)*
Reversal/(provision) for long service leave and annual leave	**1**	(14)	*	**(13)**	(14)	*(7)*
Total compensation expenses	**(2,091)**	(2,130)	*(2)*	**(4,221)**	(4,121)	*2*
Other employment expenses including on-costs, staff procurement and staff training	**(141)**	(131)	*8*	**(272)**	(258)	*5*
Total employment expenses	**(2,232)**	(2,261)	*(1)*	**(4,493)**	(4,379)	*3*
Brokerage, commission and trading-related expenses	**(408)**	(422)	*(3)*	**(830)**	(852)	*(3)*
Occupancy expenses	**(203)**	(199)	*2*	**(402)**	(392)	*3*
Non-salary technology expenses	**(309)**	(295)	*5*	**(604)**	(644)	*(6)*
Other operating expenses						
Professional fees	**(220)**	(191)	*15*	**(411)**	(385)	*7*
Travel and entertainment expenses	**(89)**	(74)	*20*	**(163)**	(154)	*6*
Advertising and communication expenses	**(55)**	(59)	*(7)*	**(114)**	(115)	*(1)*
Amortisation of intangibles	**(20)**	(21)	*(5)*	**(41)**	(35)	*17*
Auditor's remuneration	**(18)**	(17)	*6*	**(35)**	(36)	*(3)*
Other expenses	**(209)**	(154)	*36*	**(363)**	(268)	*35*
Total other operating expenses	**(611)**	(516)	*18*	**(1,127)**	(993)	*13*
Total operating expenses	**(3,763)**	(3,693)	*2*	**(7,456)**	(7,260)	*3*

Total operating expenses of $A7,456 million for the year ended 31 March 2018 increased 3% from $A7,260 million in the prior year mainly due to higher performance-related profit share expense, driven by improved overall performance of the Operating Groups, higher average headcount across the Consolidated Entity and costs associated with acquisitions during the year. This was partially offset by non-recurring expenses in BFS in the prior year.

Key drivers of the movement included:

– Total employment expenses of $A4,493 million for the year ended 31 March 2018 increased 3% from $A4,379 million in the prior year mainly due to higher performance-related profit share expense, driven by improved overall performance of the Operating Groups and higher average headcount across the Consolidated Entity due to the acquisition of Cargill by CGM and GIG by Macquarie Capital, and an increase in MAM and BFS to support business growth, partially offset by favourable foreign currency movements
– Brokerage, commission and trading-related expenses of $A830 million for the year ended 31 March 2018 decreased 3% from $A852 million in the prior year mainly due to reduced physical metal inventory levels, partially offset by higher volumes relating to new business in CGM
– Non-salary technology expenses of $A604 million for the year ended 31 March 2018 decreased 6% from $A644 million in the prior year mainly due to non-recurring technology expenses in relation to the Core Banking platform in BFS
– Total other operating expenses of $A1,127 million for the year ended 31 March 2018 increased 13% from $A993 million in the prior year mainly due to transaction and integration costs from acquisitions and increased business activity.

2.7 HEADCOUNT

	AS AT			MOVEMENT	
	Mar 18	Sep 17	Mar 17	Sep 17 %	Mar 17 %
Headcount by Operating Group					
MAM	**1,608**	1,581	1,559	*2*	*3*
CAF	**1,312**	1,263	1,258	*4*	*4*
BFS	**2,323**	2,077	1,992	*12*	*17*
CGM	**2,053**	1,986	1,888	*3*	*9*
Macquarie Capital	**1,192**	1,177	1,136	*1*	*5*
Total headcount – Operating Groups	**8,488**	8,084	7,833	*5*	*8*
Total headcount – Corporate	**5,981**	5,882	5,764	*2*	*4*
Total headcount	**14,469**	13,966	13,597	*4*	*6*
Headcount by region					
Australia[1]	**6,677**	6,241	6,136	*7*	*9*
International:					
Americas	**2,598**	2,586	2,502	*<1*	*4*
Asia	**3,428**	3,445	3,450	*(<1)*	*(1)*
Europe, Middle East and Africa	**1,766**	1,694	1,509	*4*	*17*
Total headcount – International	**7,792**	7,725	7,461	*1*	*4*
Total headcount	**14,469**	13,966	13,597	*4*	*6*
International headcount ratio (%)	**54**	55	55		

(1) Includes New Zealand.

Total headcount increased 6% to 14,469 at 31 March 2018 from 13,597 at 31 March 2017 primarily driven by an increase in BFS to support business growth, the acquisition of Cargill by CGM and GIG by Macquarie Capital and the associated increase in Corporate to support growth initiatives.

FINANCIAL PERFORMANCE ANALYSIS
CONTINUED

2.8 INCOME TAX EXPENSE

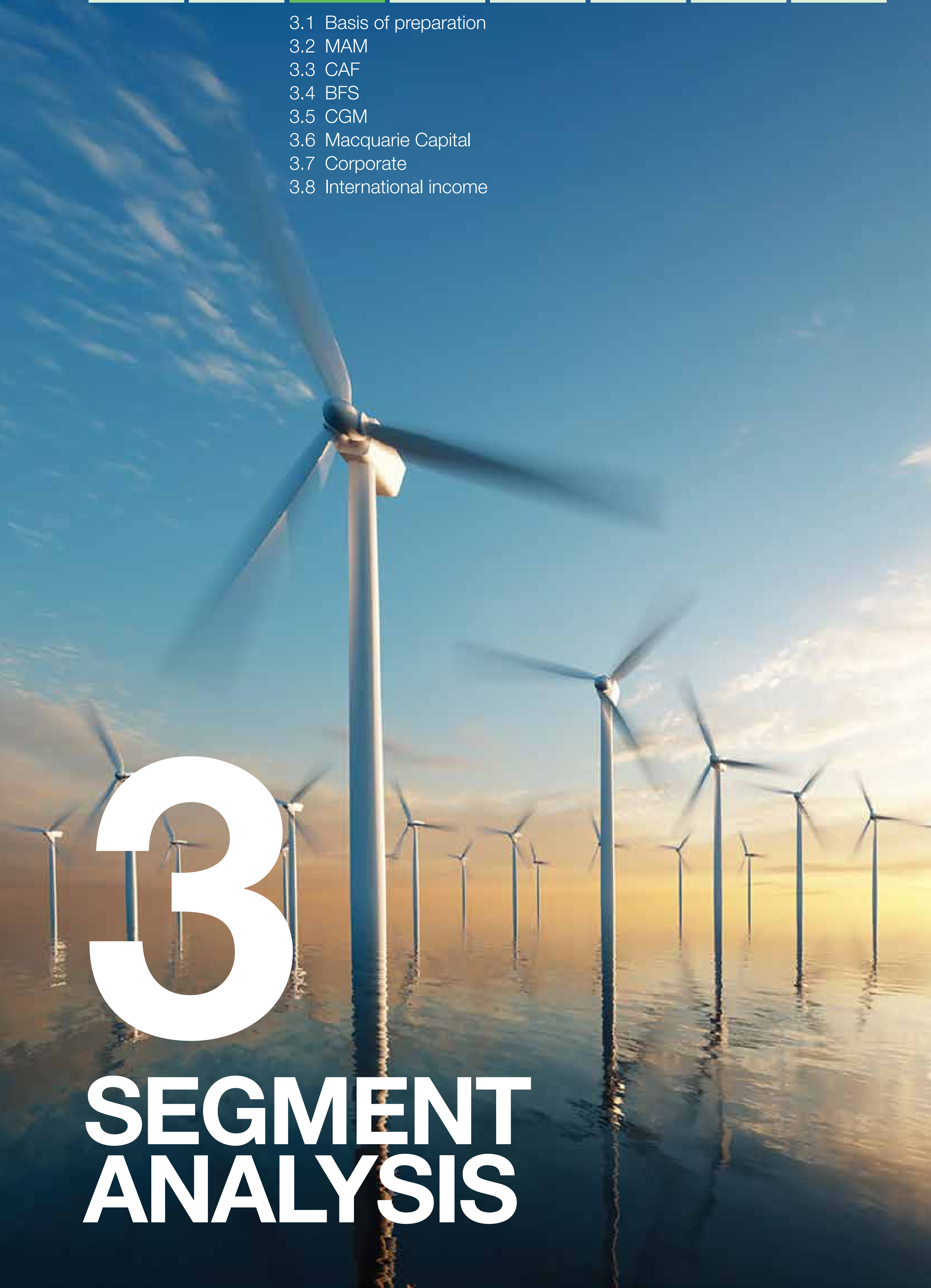
	FULL-YEAR TO	
	Mar 18 $Am	Mar 17 $Am
Operating profit before income tax	**3,464**	3,104
Prima facie tax @ 30%	**1,039**	931
Income tax permanent differences	**(156)**	(63)
Income tax expense	**883**	868
Effective tax rate[(1)]	**25.7%**	28.1%

(1) The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests reduced operating profit before income tax by $A24 million for the year ended 31 March 2018 (31 March 2017: $A19 million).

Income tax expense for the year ended 31 March 2018 was $A883 million, a 2% increase from $A868 million in the prior year. The effective tax rate for the year ended 31 March 2018 was 25.7%, down from 28.1% in the prior year.

The increase in tax expense was mainly due to higher profit before tax, offset in part by increased benefit from permanent tax differences. The reduced effective tax rate was mainly driven by change in geographic composition and nature of earnings.

3.1 Basis of preparation
3.2 MAM
3.3 CAF
3.4 BFS
3.5 CGM
3.6 Macquarie Capital
3.7 Corporate
3.8 International income



3 SEGMENT ANALYSIS

SEGMENT ANALYSIS

3.1 BASIS OF PREPARATION

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, technology, consumer, gaming and leisure, business services, resources, industrials and financial institutions in: M&A advisory; equity and debt capital markets; and balance sheet positions.

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 the 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 Chief Executive Officer or Chief Financial Officer. 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.

3.1 BASIS OF PREPARATION CONTINUED

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 Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance and Central Executive.

Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (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 revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on aggregation.

Presentation of segment income statements

The income statements in the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the Consolidated Entity's financial performance. The financial information disclosed relates to ordinary activities.

SEGMENT ANALYSIS
CONTINUED

3.1 BASIS OF PREPARATION CONTINUED

	MAM $Am	CAF $Am	BFS $Am	Annuity-Style Businesses $Am
Full-year ended 31 March 2018				
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) contribution	**1,685**	**1,206**	**560**	**3,451**
Full-year ended 31 March 2017				
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) contribution	**1,538**	**1,198**	**513**	**3,249**

CGM $Am	Macquarie Capital $Am	**Capital Markets Facing Businesses $Am**	Corporate $Am	**Total $Am**
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**
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**

SEGMENT ANALYSIS
CONTINUED

3.2 MAM

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	Movement %	Mar 18 $Am	Mar 17 $Am	Movement %
Net interest and trading expense	**(35)**	(17)	*106*	**(52)**	(42)	*24*
Fee and commission income						
Base fees	**813**	795	*2*	**1,608**	1,574	*2*
Performance fees	**58**	537	*(89)*	**595**	264	*125*
Other fee and commission income	**90**	114	*(21)*	**204**	229	*(11)*
Total fee and commission income	**961**	1,446	*(34)*	**2,407**	2,067	*16*
Net operating lease income	**–**	3	*(100)*	**3**	14	*(79)*
Share of net profits of associates and joint ventures accounted for using the equity method	**121**	42	*188*	**163**	45	*262*
Other operating income and charges						
Net gains on sale, reclassification and revaluation of equity and debt investments and non-financial assets	**119**	210	*(43)*	**329**	366	*(10)*
Impairment (charge)/write-back on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses	**(176)**	(1)	*	**(177)**	14	*
Other income	**31**	47	*(34)*	**78**	88	*(11)*
Total other operating income and charges	**(26)**	256	*	**230**	468	*(51)*
Internal management revenue	**41**	–	*	**41**	44	*(7)*
Net operating income	**1,062**	1,730	*(39)*	**2,792**	2,596	*8*
Operating expenses						
Employment expenses	**(205)**	(188)	*9*	**(393)**	(372)	*6*
Brokerage, commission and trading-related expenses	**(86)**	(123)	*(30)*	**(209)**	(200)	*5*
Other operating expenses	**(273)**	(232)	*18*	**(505)**	(485)	*4*
Total operating expenses	**(564)**	(543)	*4*	**(1,107)**	(1,057)	*5*
Non-controlling interests(1)	**(2)**	2	*	**–**	(1)	*(100)*
Net profit contribution	**496**	1,189	*(58)*	**1,685**	1,538	*10*
Non-GAAP metrics						
MAM (including MIRA) assets under management ($A billion)	**495.1**	471.9	*5*	**495.1**	480.0	*3*
MIRA equity under management ($A billion)	**86.2**	79.5	*8*	**86.2**	77.2	*12*
Headcount	**1,608**	1,581	*2*	**1,608**	1,559	*3*

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Net profit contribution of $A1,685 million for the year ended 31 March 2018, up 10% from the prior year:
– Base fees broadly in line driven by higher AUM, offset by foreign exchange movements
– Increased performance fee income primarily from MEIF3
– Investment-related income broadly in line with a strong prior year

Partially offset by:
– Increased impairments largely reflects the write-down of MIRA's investment in MIC

3.2 MAM CONTINUED

Base fees

Base fee income of $A1,608 million for the year ended 31 March 2018 increased 2% from $A1,574 million in the prior year. Base fee income benefited from positive market movements in MIM AUM and investments made by MIRA-managed funds, partially offset by asset realisations by MIRA-managed funds, net flow impacts in the MIM business and foreign exchange.

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A595 million for the year ended 31 March 2018 increased significantly from $A264 million in the prior year. The year ended 31 March 2018 included performance fees from MEIF3, MQA and other managed funds, Australian managed accounts and Listed Equities. The prior year included performance fees from a broad range of funds, Australian managed accounts and from co-investors in respect of infrastructure assets.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees, brokerage and commission income and income from True Index products. Distribution service fees and brokerage and commission income are offset by associated expenses that, for accounting purposes, are recognised in brokerage, commission and trading-related expenses.

Other fee and commission income of $A204 million for the year ended 31 March 2018 decreased 11% from $A229 million in the prior year primarily due to lower income from MIM Americas and MSIS Closed-end funds, partially offset by higher MSIS Retail.

Share of net profits of associates and joint ventures accounted for using the equity method

Share of net profits of associates and joint ventures of $A163 million for the year ended 31 March 2018 was significantly higher than $A45 million in the prior year. The result includes MIRA's share of net profits from the sale of a number of underlying assets within equity accounted investments which increased compared to the prior year.

Net gains on sale, reclassification and revaluation of equity and debt investments and non-financial assets

Net gains on sale, reclassification and revaluation of equity and debt investments and non-financial assets of $A329 million for the year ended 31 March 2018 decreased 10% from $A366 million in the prior year. The current year included gains on reclassification of certain infrastructure investments from Available for sale to Associates, gains from sale of MIRA's holdings in listed and unlisted assets and income from the sell down of infrastructure debt in MSIS.

The prior year included gains from the partial sale of MIRA's holding in listed funds, gains on sale and reclassification of unlisted infrastructure and real estate holdings in MIRA, including the trustee-manager of APTT and income from the sell down of infrastructure debt in MSIS.

Impairment (charge)/write-back on equity investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses

Impairments and provisions of $A177 million for the year ended 31 March 2018 is significantly higher compared to the prior year largely due to the write-down of MIRA's investment in MIC.

Other income

Other income of $A78 million for the year ended 31 March 2018 decreased 11% from $A88 million in the prior year. The current year included distribution income from a broad range of investments including MIRA's investment in MIC and income from MSIS Retail. The prior year included distribution income from MIC, Axicom, Macquarie SBI Infrastructure Fund (MSIF) and the disposal of MIRA's holding of an Abu Dhabi infrastructure joint venture.

Operating expenses

Total operating expenses of $A1,107 million for the year ended 31 March 2018 increased 5% from $A1,057 million in the prior year. The current year included higher employment expenses, which were mainly driven by an increase in average headcount and higher brokerage and commission expense in MSIS Retail, largely offset by lower sub-advisory expenses in MIM.

SEGMENT ANALYSIS
CONTINUED

3.3 CAF

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Net interest and trading income	**246**	336	*(27)*	**582**	712	*(18)*
Fee and commission income	**19**	22	*(14)*	**41**	53	*(23)*
Net operating lease income	**464**	465	*(<1)*	**929**	904	*3*
Share of net losses of associates and joint ventures accounted for using the equity method	**(3)**	–	*	**(3)**	–	*
Other operating income and charges						
Impairment charge on equity investments, intangibles and other non-financial assets	**(11)**	(11)	–	**(22)**	(28)	*(21)*
Gain on disposal of operating lease assets	**21**	6	*250*	**27**	16	*69*
Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale	**122**	66	*85*	**188**	142	*32*
Provisions for impairment, write-offs and collective allowance for credit losses	**(5)**	12	*	**7**	(83)	*
Other income	**102**	34	*200*	**136**	75	*81*
Total other operating income and charges	**229**	107	*114*	**336**	122	*175*
Internal management revenue	**3**	1	*200*	**4**	40	*(90)*
Net operating income	**958**	931	*3*	**1,889**	1,831	*3*
Operating expenses						
Employment expenses	**(141)**	(132)	*7*	**(273)**	(267)	*2*
Brokerage, commission and trading-related expenses	**(6)**	(3)	*100*	**(9)**	(9)	–
Other operating expenses	**(220)**	(177)	*24*	**(397)**	(358)	*11*
Total operating expenses	**(367)**	(312)	*18*	**(679)**	(634)	*7*
Non-controlling interests[1]	**(4)**	–	*	**(4)**	1	*
Net profit contribution	**587**	619	*(5)*	**1,206**	1,198	*1*
Non-GAAP metrics						
Loan and finance lease portfolio[2] ($A billion)	**24.3**	25.6	*(5)*	**24.3**	26.5	*(8)*
Operating lease portfolio ($A billion)	**10.2**	9.9	*3*	**10.2**	10.0	*2*
Headcount	**1,312**	1,263	*4*	**1,312**	1,258	*4*

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

(2) Includes equity portfolio of $A0.4 billion (FY17: $A0.4 billion).

Net profit contribution of $A1,206 million for the year ended 31 March 2018, broadly in line with the prior year:

– Increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio
– Lower charges for provisions and impairments reflecting the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios
– Asset Finance contribution increased due to stronger underlying net operating lease income in Aviation and income from Vehicles which included the sale of the US commercial vehicles financing business. The remaining portfolios continued to perform well

Partially offset by:

– Lower interest income as a result of the reduction in the Principal Finance portfolio size

3.3 CAF CONTINUED

Net interest and trading income

Net interest and trading income in CAF predominately relates to net income from the loan and finance lease (including vehicles and equipment financing) portfolios and the funding costs associated with the operating lease portfolios (including aviation, mining and energy assets) and Principal Finance equity investments.

Net interest and trading income of $A582 million for the year ended 31 March 2018 decreased 18% from $A712 million in the prior year, mainly as a result of the reduction in the Principal Finance portfolio.

The loan and finance lease portfolio was $A24.3 billion at 31 March 2018, a decrease of 8% from $A26.5 billion at 31 March 2017. The decrease was mainly in Principal Finance, as well as the sale of the US commercial vehicles financing business in March 2018.

Net operating lease income

Net operating lease income of $A929 million for the year ended 31 March 2018 increased 3% from $A904 million in the prior year due to improved underlying income from the Aviation, Energy and Technology portfolios.

The operating lease portfolio was $A10.2 billion at 31 March 2018, an increase of 2% from $A10.0 billion at 31 March 2017 with growth in the Technology and Energy portfolios partially offset by depreciation and sales in the Aviation portfolio.

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

The impairment charge on equity investments, intangibles and other non-financial assets of $A22 million for the year ended 31 March 2018 predominately related to the impairment of a legacy Asset Finance business and impairments of certain Aviation assets.

Gain on disposal of operating lease assets

The gain on disposal of operating lease assets of $A27 million for the year ended 31 March 2018 predominately related to gains recognised on the sale of five aircraft.

Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale

The net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale was $A188 million for the year ended 31 March 2018. Gains were generated from Principal Finance investments in Europe and the US and the sale of the US commercial vehicles financing business.

The prior year result of $A142 million primarily related to a gain realised on the sale of an interest in a toll road in the US by the Principal Finance business.

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

Provisions for impairment, write-offs and collective allowance for credit losses was a gain of $A7 million for the year ended 31 March 2018. The improvement from the $A83 million provision expense in the prior year was due to the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios.

Other income

Other income of $A136 million for the year ended 31 March 2018 increased 81% from $A75 million in the prior year. The increase was primarily due to the sale of Principal Finance assets in the US.

Operating expenses

Total operating expenses of $A679 million for the year ended 31 March 2018 increased 7% from $A634 million in the prior year mainly due to increased deal and project related expense.

SEGMENT ANALYSIS
CONTINUED

3.4 BFS

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Net interest and trading income	**598**	584	*2*	**1,182**	1,049	*13*
Fee and commission income						
Wealth management fee income	**168**	168	–	**336**	313	*7*
Banking fee income	**64**	66	*(3)*	**130**	132	*(2)*
Life insurance income	**–**	–	–	**–**	27	*(100)*
Total fee and commission income	**232**	234	*(1)*	**466**	472	*(1)*
Share of net profits of associates and joint ventures accounted for using the equity method	**2**	1	*100*	**3**	6	*(50)*
Other operating income and charges						
Impairment charge on equity investments, intangibles and other non-financial assets	**(8)**	–	*	**(8)**	(53)	*(85)*
Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale	**1**	1	–	**2**	192	*(99)*
Provisions for impairment, write-offs and collective allowance for credit losses	**(10)**	(8)	*25*	**(18)**	(38)	*(53)*
Other income	**9**	7	*29*	**16**	15	*7*
Total other operating income and charges	**(8)**	–	*	**(8)**	116	*
Internal management revenue	**–**	3	*(100)*	**3**	5	*(40)*
Net operating income	**824**	822	*<1*	**1,646**	1,648	*(<1)*
Operating expenses						
Employment expenses	**(173)**	(158)	*9*	**(331)**	(326)	*2*
Brokerage, commission and trading-related expenses	**(107)**	(104)	*3*	**(211)**	(208)	*1*
Technology expenses[(1)]	**(143)**	(136)	*5*	**(279)**	(321)	*(13)*
Other operating expenses	**(127)**	(138)	*(8)*	**(265)**	(280)	*(5)*
Total operating expenses	**(550)**	(536)	*3*	**(1,086)**	(1,135)	*(4)*
Net profit contribution	**274**	286	*(4)*	**560**	513	*9*
Non-GAAP metrics						
Funds on platform[(2)] ($A billion)	**82.5**	78.9	*5*	**82.5**	72.2	*14*
Australian loan portfolio[(3)] ($A billion)	**40.6**	37.6	*8*	**40.6**	35.8	*13*
Legacy loan portfolios[(4)] ($A billion)	**–**	–	–	**–**	0.5	*(100)*
BFS deposits[(5)] ($A billion)	**45.7**	46.4	*(2)*	**45.7**	44.5	*3*
Headcount	**2,323**	2,077	*12*	**2,323**	1,992	*17*

(1) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.
(2) Funds on platform includes Macquarie Wrap and Vision.
(3) The Australian loan portfolio comprises residential mortgages, loans to businesses, insurance premium funding and credit cards.
(4) The legacy loan portfolios primarily comprise residential mortgages in Canada and the US.
(5) BFS Deposits excludes corporate/wholesale deposits.

Net profit contribution of $A560 million for the year ended 31 March 2018, up 9% from the prior year:
- Growth in Australian loan, deposit and platform average volumes
- The non-recurrence of expenses recognised in the prior year, including impairment charges predominately on certain equity positions, intangible assets and expenses in relation to the Core Banking platform

Partially offset by:
- The non-recurrence of the net overall gain on the disposal of Macquarie Life's risk insurance business to Zurich Australia Limited and the US mortgages portfolio in the prior year

3.4 BFS CONTINUED

Net interest and trading income

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

Net interest and trading income of $A1,182 million for the year ended 31 March 2018 increased 13% from $A1,049 million in the prior year primarily due to a 6% growth in average Australian loan portfolio volumes and a 7% growth in average BFS deposits. This was partially offset by a $A16 million allocation of the Australian Government Major Bank Levy that came into effect from 1 July 2017.

At 31 March 2018 the Australian loan and deposit portfolio included:

- Australian mortgage volumes of $A32.7 billion, a 14% increase from $A28.7 billion at 31 March 2017;
- Business lending volumes of $A7.3 billion, a 12% increase from $A6.5 billion at 31 March 2017; and
- BFS deposits of $A45.7 billion, a 3% increase from $A44.5 billion at 31 March 2017.

The remaining legacy loan portfolios were sold during the year, down from $A0.5 billion at 31 March 2017.

Wealth management fee income

Wealth management fee income relates to fees earned on a range of BFS' products and services including the Wrap and Vision platforms, deposits and the provision of wealth services in Australia.

Wealth management fee income of $A336 million for the year ended 31 March 2018 increased 7% from $A313 million in the prior year driven by platform commissions from higher funds on the Wrap and Vision platforms.

Funds on platform closed at $A82.5 billion at 31 March 2018, an increase of 14% from $A72.2 billion at 31 March 2017 due to the successful migration of holdings onto the Vision Platform, net inflows and positive market movements.

Banking fee income

Banking fee income relates to fees earned on a range of BFS' products including mortgages, credit cards, business loans and deposits.

Banking fee income of $A130 million for the year ended 31 March 2018 was in line with the prior year.

Life insurance income

Macquarie Life's risk insurance business was sold to Zurich Australia Limited in September 2016.

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

The impairment charge on equity investments, intangibles and other non-financial assets of $A8 million for the year ended 31 March 2018 decreased from $A53 million in the prior year due to higher impairment of equity investments and impairments of intangibles relating to the Core Banking platform in the prior year.

Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale

The net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale of $A2 million for the year ended 31 March 2018 was down from $A192 million in the prior year, which included the sale of Macquarie Life's risk insurance business to Zurich Australia Limited, partially offset by losses on the sale of the US mortgages portfolio.

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

Provisions for impairment, write-offs and collective allowance for credit losses of $A18 million for the year ended 31 March 2018 decreased 53% from $A38 million in the prior year due to higher business lending provisions taken on a small number of loans in the prior year.

Other income

Other income of $A16 million for the year ended 31 March 2018 increased 7% from $A15 million in the prior year and includes dividend income from equity investments.

Operating expenses

Total operating expenses of $A1,086 million for the year ended 31 March 2018 decreased 4% from $A1,135 million in the prior year, which was impacted by non-recurring expenses. Underlying expenses were $A34 million higher and included a 4% increase in average headcount to support growth.

Employment expenses of $A331 million for the year ended 31 March 2018 were broadly in line with the prior year driven by 4% higher average headcount, partially offset by higher contractor expenses in the prior year.

Brokerage, commission and trading-related expenses of $A211 million for the year ended 31 March 2018 were broadly in line with the prior year.

Technology expenses of $A279 million for the year ended 31 March 2018 decreased 13% from $A321 million in the prior year. The decrease was mainly due to non-recurring technology expenses recognised in the prior year upon the successful completion of the Core Banking platform.

Other operating expenses of $A265 million decreased 5% from $A280 million in the prior year due to lower professional fees and non-recurring expenses recognised in the prior year.

SEGMENT ANALYSIS
CONTINUED

3.5 CGM

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Net interest and trading income						
Commodities						
Risk management products	**420**	285	*47*	**705**	748	*(6)*
Lending and financing	**129**	108	*19*	**237**	260	*(9)*
Inventory management, transport and storage	**109**	42	*160*	**151**	124	*22*
Total commodities	**658**	435	*51*	**1,093**	1,132	*(3)*
Credit, interest rates and foreign exchange	**225**	283	*(20)*	**508**	621	*(18)*
Equities	**173**	186	*(7)*	**359**	307	*17*
Net interest and trading income	**1,056**	904	*17*	**1,960**	2,060	*(5)*
Fee and commission income						
Brokerage and commissions	**345**	341	*1*	**686**	704	*(3)*
Other fee and commission income	**112**	95	*18*	**207**	153	*35*
Total fee and commission income	**457**	436	*5*	**893**	857	*4*
Share of net profits of associates and joint ventures accounted for using the equity method	**13**	8	*63*	**21**	–	*
Other operating income and charges						
Net gains on sale of equity and debt investments	**75**	12	*	**87**	158	*(45)*
Impairment charge on equity investments, intangibles and other non-financial assets	**(3)**	(11)	*(73)*	**(14)**	(20)	*(30)*
Provisions for impairment and collective allowance for credit losses	**(29)**	(45)	*(36)*	**(74)**	(129)	*(43)*
Other income	**12**	10	*20*	**22**	23	*(4)*
Total other operating income and charges	**55**	(34)	*	**21**	32	*(34)*
Internal management revenue/(charge)	**5**	7	*(29)*	**12**	(1)	*
Net operating income	**1,586**	1,321	*20*	**2,907**	2,948	*(1)*
Operating expenses						
Employment expenses	**(320)**	(278)	*15*	**(598)**	(565)	*6*
Brokerage, commission and trading-related expenses	**(208)**	(190)	*9*	**(398)**	(423)	*(6)*
Other operating expenses	**(526)**	(475)	*11*	**(1,001)**	(988)	*1*
Total operating expenses	**(1,054)**	(943)	*12*	**(1,997)**	(1,976)	*1*
Non-controlling interests[1]	**–**	–	*–*	**–**	(1)	*(100)*
Net profit contribution	**532**	378	*41*	**910**	971	*(6)*
Non-GAAP metrics						
Headcount	**2,053**	1,986	*3*	**2,053**	1,888	*9*

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Net profit contribution of $A910 million for the year ended 31 March 2018, down 6% from the prior year driven by:
- Timing of income recognition relating to tolling agreements and capacity contracts
- Sustained low volatility and tighter credit spreads impacting income from interest rate and credit products
- Reduced income from the sale of investments, mainly in energy and related sectors

Partially offset by:
- Improved results across the equities platform driven by rallying prices and increased volatility, notably in Asia
- Reduction in impairments in commodity related sectors
- Increased client demand for structured foreign exchange solutions in Asia and North America
- Significant opportunities for the North American Gas and Power business to capitalise on price dislocations across regions

3.5 CGM CONTINUED

Commodities net interest and trading income

i) Risk management products

Income from risk management products is generated from the provision of hedging and risk management services to clients. Risk management products income is mainly driven by client volumes, which are influenced by the level of price volatility in the markets in which those clients operate.

Risk management products income of $A705 million for the year ended 31 March 2018 decreased 6% from $A748 million in the prior year. The current year included mixed results across the commodities platform. Continued subdued volatility impacted client hedging activity and trading opportunities in Global Oil which were partially offset by strong results in North American Gas and Power due to an increase in volatility and customer activity, Bulk Commodities from volatility in iron ore and Commodity Investor Products driven by continued client growth.

ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including base and precious metals, energy and agriculture.

Lending and financing income of $A237 million for the year ended 31 March 2018 decreased 9% from $A260 million in the prior year largely due to a reduction in average loan balances on the wind down of legacy portfolios in the oil and gas sectors and a decreased contribution from metals financing largely due to margin compression.

iii) Inventory management, transport and storage

CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is dislocation between the supply and demand for energy. Tolling agreements, storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some volatility with timing of reported income.

Inventory management, transport and storage income of $A151 million for the year ended 31 March 2018 increased 22% from $A124 million from the prior year. Significant opportunities arose in the current year for the North American Gas and Power business to benefit from price dislocations across regions, primarily due to excess energy supply in certain producer regions. However, the timing of income recognition relating to tolling agreements and capacity contracts results in a net $A144 million of income being recognised in future years.

Credit, interest rates and foreign exchange net interest and trading income

Net interest and trading income from credit, interest rates and foreign exchange related activities is generated from the provision of trading and hedging services to a range of corporate and institutional clients globally, in addition to making secondary markets in corporate debt securities, syndicated bank loans and middle market loans and providing specialty lending.

Net interest and trading income from credit, interest rates and foreign exchange related activities of $A508 million for the year ended 31 March 2018 decreased 18% from $A621 million in the prior year. Revenues were impacted by sustained low volatility and tighter credit spreads in interest rate and credit products. This was partially offset by strong client activity in structured foreign exchange products.

Equities net interest and trading income

Equities net interest and trading income is generated from the issue of derivative products in key locations, the provision of equity finance solutions to institutional clients and the conduct of risk management and trading activities.

Equities net interest and trading income of $A359 million for the year ended 31 March 2018 increased 17% from $A307 million in the prior year. This reflects more favourable conditions in Asia including rallying equities, some increase in volatility, and strong demand for warrants and structured client capital solutions.

Fee and commission income

Fee and commission income of $A893 million for the year ended 31 March 2018 increased 4% from $A857 million in the prior year.

The increase in fee and commission income was driven by demand for advisory and structured products primarily in Asia and North America. These results were partially offset by equities-related activities driven by reduced brokerage commission rates due to the trend towards lower margin platforms.

Net gains on sale of equity and debt investments

Net gains on sale of equity and debt investments of $A87 million for the year ended 31 March 2018 decreased 45% from $A158 million in the prior year, which included gains on the sale of a number of investments, mainly in energy and related sectors.

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

The impairment charge on equity investments, intangibles and other non-financial assets of $A14 million for the year ended 31 March 2018 decreased 30% from $A20 million in the prior year. Impairments in the current year relates to certain metals, mining, and energy positions.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowances for credit losses of $A74 million for the year ended 31 March 2018 decreased 43% from $A129 million in the prior year with write-downs recognised on certain underperforming commodity-related loans in the prior year.

Operating expenses

Total operating expenses of $A1,997 million for the year ended 31 March 2018 was in line with the prior year.

Employment expenses of $A598 million for the year ended 31 March 2018 increased 6% from $A565 million in the prior year primarily due to an increase in average headcount relating to the acquisition of Cargill in the financial year.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of $A398 million for the year ended 31 March 2018 decreased 6% from $A423 million in the prior year mainly due to reduced physical metal inventory levels, partially offset by higher volumes relating to new business.

Other operating expenses of $A1,001 million for the year ended 31 March 2018 are up 1% on the prior year. This reflects the realisation of benefits from cost synergies following the merger of CFM and MSG offsetting the costs associated with the acquisition and integration of Cargill.

SEGMENT ANALYSIS
CONTINUED

3.6 MACQUARIE CAPITAL

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Net interest and trading (expense)/ income	**(15)**	(57)	*(74)*	**(72)**	3	*
Fee and commission income	**442**	436	*1*	**878**	887	*(1)*
Share of net profits of associates and joint ventures accounted for using the equity method	**4**	52	*(92)*	**56**	28	*100*
Other operating income and charges						
Net gains on sale, reclassification and revaluation of equity and debt investments	**485**	127	*282*	**612**	375	*63*
Impairment charge on equity and debt investments and non-financial assets	**(23)**	(1)	*	**(24)**	(45)	*(47)*
Provisions for impairment and collective allowance for credit losses	**(17)**	(19)	*(11)*	**(36)**	(52)	*(31)*
Other income	**13**	43	*(70)*	**56**	4	*
Total other operating income and charges	**458**	150	*205*	**608**	282	*116*
Internal management revenue	**20**	1	*	**21**	6	*250*
Net operating income	**909**	582	*56*	**1,491**	1,206	*24*
Operating expenses						
Employment expenses	**(174)**	(172)	*1*	**(346)**	(329)	*5*
Brokerage, commission and trading-related expenses	**(1)**	(3)	*(67)*	**(4)**	(8)	*(50)*
Other operating expenses	**(220)**	(215)	*2*	**(435)**	(385)	*13*
Total operating expenses	**(395)**	(390)	*1*	**(785)**	(722)	*9*
Non-controlling interests[(1)]	**(4)**	(2)	*100*	**(6)**	(1)	*
Net profit contribution	**510**	190	*168*	**700**	483	*45*
Non-GAAP metrics						
Headcount	**1,192**	1,177	*1*	**1,192**	1,136	*5*

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Net profit contribution of $A700 million for the year ended 31 March 2018, up 45% from the prior year:

- Increased investment-related income due to asset realisations, particularly in green energy, conventional energy and infrastructure
- Higher fee income from debt capital markets in the US due to increased market share and client activity
- Lower provisions and impairment charges compared to the prior year

Partially offset by:

- Lower mergers and acquisitions and equity capital markets fee income
- Higher funding costs for balance sheet positions

3.6 MACQUARIE CAPITAL CONTINUED

Net interest and trading (expense)/income

Net interest and trading (expense)/income includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios.

Net interest and trading expense of $A72 million for the year ended 31 March 2018 decreased significantly from $A3 million income in the prior year. This was primarily due to higher funding costs for balance sheet positions reflecting increased activity, including the acquisition of GIG.

Fee and commission income

Fee income includes fees from mergers and acquisitions, debt and equity capital markets.

Fee and commission income of $A878 million for the year ended 31 March 2018 was broadly in line with $A887 million in the prior year.

Higher debt capital markets fee income reflected increased market share and client activity in the US. This was offset by lower fee income from mergers and acquisitions, across most regions excluding Europe, and lower fee income from equity capital markets, which reflected a sustained period of lower deal activity in Australia.

Share of net profits of associates and joint ventures accounted for using the equity method

Share of net profits of associates and joint ventures of $A56 million for the year ended 31 March 2018 increased 100% from $A28 million in the prior year.

The movement was primarily due to the improved underlying performance of investments.

Net gains on sale, reclassification and revaluation of equity and debt investments

Net gains on sale, reclassification and revaluation of equity and debt investments of $A612 million for the year ended 31 March 2018 increased 63% from $A375 million in the prior year.

Gains in the current year were primarily generated from a number of asset realisations across most regions, primarily in the green energy, conventional energy and infrastructure sectors together with gains in the insurance and technology sectors.

The gains generated in the prior year were primarily in Australia and Europe, across listed and unlisted investments in the technology, green energy, conventional energy and infrastructure sectors.

Impairment charge on equity and debt investments and non-financial assets and provisions for impairment and collective allowance for credit losses

The aggregate impairment charge on equity and debt investments, non-financial assets and provisions for impairment and collective allowance for credit losses of $A60 million for the year ended 31 March 2018 decreased 38% from $A97 million in the prior year.

Provisions for impairment recognised in the current year primarily relate to a small number of underperforming investments.

Other income

Other income of $A56 million for the year ended 31 March 2018 comprised income from investing activities.

Operating expenses

Total operating expenses of $A785 million for the year ended 31 March 2018 increased 9% from $A722 million in the prior year.

This increase primarily reflects transaction, integration and ongoing costs associated with the acquisition of GIG and higher operating expenses from increased investing activity.

SEGMENT ANALYSIS
CONTINUED

3.7 CORPORATE

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Net interest and trading income	**201**	142	*42*	**343**	161	*113*
Fee and commission expense	**(9)**	(6)	*50*	**(15)**	(5)	*200*
Net operating lease income	**2**	1	*100*	**3**	3	–
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**1**	–	*	**1**	(28)	*
Other operating income and charges						
Net gains on sale and reclassification of debt and equity securities	**–**	2	*(100)*	**2**	97	*(98)*
Impairment write-back/(charge) on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses	**58**	(58)	*	**–**	(10)	*(100)*
Other income and charges	**–**	(58)	*(100)*	**(58)**	11	*
Total other operating income and charges	**58**	(114)	*	**(56)**	98	*
Internal management charge	**(69)**	(12)	*	**(81)**	(94)	*(14)*
Net operating income	**184**	11	*	**195**	135	*44*
Operating expenses						
Employment expenses	**(1,219)**	(1,332)	*(8)*	**(2,551)**	(2,520)	*1*
Brokerage, commission and trading-related expenses	**1**	(1)	*	**–**	(4)	*(100)*
Other operating expenses	**385**	364	*6*	**749**	788	*(5)*
Total operating expenses	**(833)**	(969)	*(14)*	**(1,802)**	(1,736)	*4*
Income tax expense	**(435)**	(448)	*(3)*	**(883)**	(868)	*2*
Macquarie Income Securities	**(7)**	(7)	–	**(14)**	(15)	*(7)*
Non-controlling interests[1]	**1**	(1)	*	**–**	(2)	*(100)*
Net loss contribution	**(1,090)**	(1,414)	*(23)*	**(2,504)**	(2,486)	*1*
Non-GAAP metrics						
Headcount	**5,981**	5,882	*2*	**5,981**	5,764	*4*

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

The Corporate segment comprises head office and central service groups, including Group Treasury, certain legacy investments, assets and businesses that are no longer core for strategic reasons and costs that are not allocated to Operating Groups, including performance-related profit share and share-based payments expense, and income tax expense.

3.7 CORPORATE CONTINUED

Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for Macquarie, earnings on capital, funding costs associated with non-core investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where designated hedge accounting is unable to be achieved for accounting purposes.

Net interest and trading income of $A343 million for the year ended 31 March 2018 increased substantially from $A161 million in the prior year primarily due to lower costs of holding long-term liquidity and the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting. In addition, higher earnings on capital was driven by increased average capital volumes and higher USD interest rates.

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

Share of net profits of associates and joint ventures was $A1 million for the year ended 31 March 2018, up from a net loss of $A28 million in the prior year. The movement reflects the reclassification of non-core assets to investments held for sale that were subsequently disposed of during the year.

Net gains on sale and reclassification of debt and equity securities

Net gains on sale and reclassification of debt and equity securities were $A2 million for the year ended 31 March 2018 down from net gains of $A97 million in the prior year. The gain in the prior year related to the disposal of legacy assets, and to a partial sell down of an equity investment which resulted in a gain at the Consolidated Entity level on reclassification of the remaining holding from a subsidiary to an associate.

Impairment write-back/(charge) on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses

Impairment write-back/(charge) on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses was nil for the year ended 31 March 2018, compared to a charge of $A10 million in the prior year. The current year includes impairments relating to legacy assets offset by the partial reduction of central management overlay provisions to reflect changes in credit conditions.

Other income and charges

The expense of $A58 million for the year ended 31 March 2018 included inter-segment elimination and other charges.

Employment expenses

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

Employment expenses of $A2,551 million for the year ended 31 March 2018 was broadly in line with the prior year. The impact of higher performance-related profit share expense, which was driven by the improved overall performance of the Operating Groups, was offset by the realisation of operating efficiencies.

Other operating expenses

Other operating expenses in the Corporate segment include non-employment related operating costs of central service groups, offset by the recovery of central service groups costs (including employment-related costs) from the Operating Groups.

The net recovery from the Operating Groups of $A749 million for the year ended 31 March 2018 decreased 5% from $A788 million in the prior year. This decrease mainly reflects the recovery of a lower cost base of central service groups from the realisation of operating efficiencies.

SEGMENT ANALYSIS
CONTINUED

3.8 INTERNATIONAL INCOME

International income by region

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 18 $Am	Sep 17 $Am	*Movement %*	Mar 18 $Am	Mar 17 $Am	*Movement %*
Americas	**1,469**	1,353	*9*	**2,822**	2,734	*3*
Asia	**681**	548	*24*	**1,229**	1,238	*(1)*
Europe, Middle East and Africa	**1,475**	1,601	*(8)*	**3,076**	2,640	*17*
Total international income	**3,625**	3,502	4	**7,127**	6,612	8
Australia[1]	**1,645**	1,872	*(12)*	**3,517**	3,523	*(<1)*
Total income (excluding earnings on capital and other corporate items)	**5,270**	5,374	*(2)*	**10,644**	10,135	*5*
Earnings on capital and other corporate items	**253**	23	*	**276**	229	*21*
Net operating income (as reported)	**5,523**	5,397	2	**10,920**	10,364	5
International income (excluding earnings on capital and other corporate items) ratio (%)	**69**	65		**67**	65	

(1) Includes New Zealand.

International income by Operating Group and region

	FULL-YEAR TO MAR 18						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	**Total International $Am**	Australia[1] $Am	**Total Income[2] $Am**	**Total International %**
MAM	1,058	174	1,005	**2,237**	514	**2,751**	**81**
CAF	448	16	921	**1,385**	500	**1,885**	**73**
BFS	3	–	–	**3**	1,640	**1,643**	**<1**
CGM	815	864	645	**2,324**	571	**2,895**	**80**
Macquarie Capital	498	175	505	**1,178**	292	**1,470**	**80**
Total	**2,822**	**1,229**	**3,076**	**7,127**	**3,517**	**10,644**	**67**

(1) Includes New Zealand.
(2) Total income reflects net operating income excluding internal management revenue/(charge).

Total international income was $A7,127 million for the year ended 31 March 2018, an increase of 8% from $A6,612 million in the prior year. Total international income represented 67% of total income (excluding earnings on capital and other corporate items), up from 65% in the prior year.

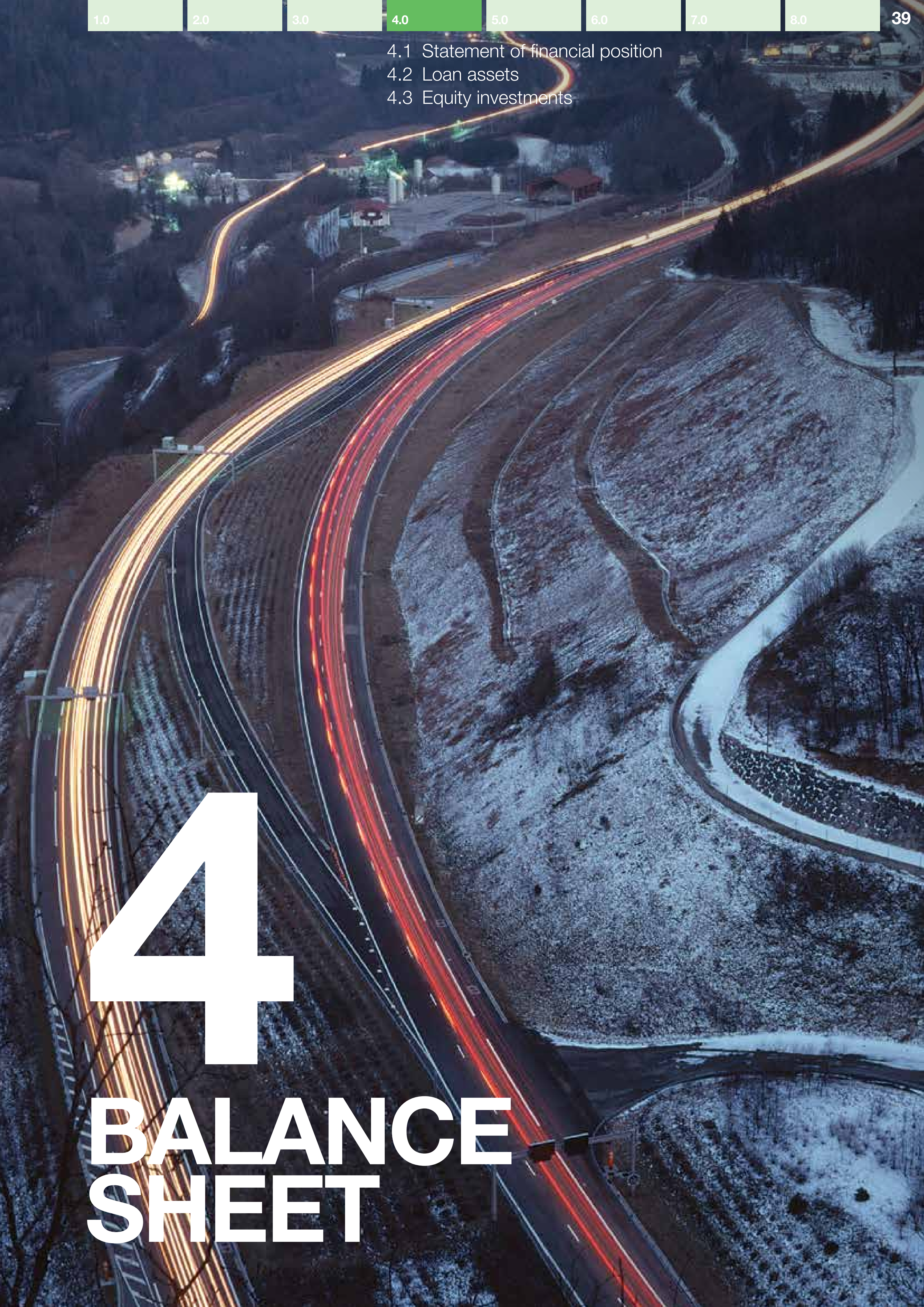
Income from the Americas of $A2,822 million for the year ended 31 March 2018 increased 3% from $A2,734 million in the prior year mainly due to strong results in North American Gas and Power in CGM and higher debt capital markets fee income and gains generated from asset realisations in the conventional energy and insurance sectors in Macquarie Capital, partially offset by write-down of the investment in MIC and the timing of income recognition relating to tolling agreements and capacity contracts in CGM.

In Asia, income of $A1,229 million for the year ended 31 March 2018 decreased 1% from $A1,238 million in the prior year. The decrease was primarily driven by the non-recurrence of gains on sale and reclassification of infrastructure and real estate holdings in MAM including the trustee-manager of APTT in the prior year, partially offset by gains generated from asset realisations in the green energy and conventional energy sectors in Macquarie Capital.

Income from Europe, Middle East and Africa of $A3,076 million for the year ended 31 March 2018 increased 17% from $A2,640 million in the prior year. The increase was primarily driven by higher performance fees in MAM including MEIF3, gains from asset realisations in the green energy and infrastructure sectors in Macquarie Capital and from Principal Finance investments in CAF, partially offset by the non-recurrence of gains on sale of investments in CGM in the prior year.

In Australia, income of $A3,517 million for the year ended 31 March 2018 was broadly in line with $A3,523 million in the prior year, which included the sale of Macquarie Life's risk insurance business to Zurich Australia Limited. This was offset by an increase in income from a 6% growth in average Australian loan portfolio volumes and a 7% growth in the average deposits in BFS.

4.1 Statement of financial position
4.2 Loan assets
4.3 Equity investments



4 BALANCE SHEET

BALANCE SHEET

4.1 STATEMENT OF FINANCIAL POSITION

	AS AT			MOVEMENT	
	Mar 18 $Am	Sep 17 $Am	Mar 17 $Am	Sep 17 %	Mar 17 %
Assets					
Receivables from financial institutions	**38,559**	40,345	27,471	*(4)*	*40*
Trading portfolio assets	**15,585**	18,634	26,933	*(16)*	*(42)*
Derivative assets	**12,937**	12,360	12,106	*5*	*7*
Investment securities available for sale	**6,166**	4,752	6,893	*30*	*(11)*
Other assets	**18,370**	19,008	16,558	*(3)*	*11*
Loan assets held at amortised cost	**81,150**	76,889	76,663	*6*	*6*
Other financial assets at fair value through profit or loss	**1,434**	1,510	1,502	*(5)*	*(5)*
Property, plant and equipment	**11,426**	10,960	11,009	*4*	*4*
Interests in associates and joint ventures accounted for using the equity method	**4,055**	3,622	2,095	*12*	*94*
Intangible assets	**993**	991	1,009	*<1*	*(2)*
Deferred tax assets	**650**	689	638	*(6)*	*2*
Total assets	**191,325**	189,760	182,877	*1*	*5*
Liabilities					
Trading portfolio liabilities	**8,061**	7,451	5,067	*8*	*59*
Derivative liabilities	**11,925**	10,717	11,128	*11*	*7*
Deposits	**59,412**	59,006	57,708	*1*	*3*
Other liabilities	**16,086**	15,745	15,031	*2*	*7*
Payables to financial institutions	**15,440**	19,065	17,072	*(19)*	*(10)*
Debt issued at amortised cost	**53,717**	52,283	50,828	*3*	*6*
Other financial liabilities at fair value through profit or loss	**2,363**	2,268	2,404	*4*	*(2)*
Deferred tax liabilities	**749**	746	621	*<1*	*21*
Total liabilities excluding loan capital	**167,753**	167,281	159,859	*<1*	*5*
Loan capital	**5,392**	5,380	5,748	*<1*	*(6)*
Total liabilities	**173,145**	172,661	165,607	*<1*	*5*
Net assets	**18,180**	17,099	17,270	*6*	*5*
Equity					
Contributed equity	**6,243**	6,188	6,290	*1*	*(1)*
Reserves	**1,297**	999	1,396	*30*	*(7)*
Retained earnings	**8,817**	8,170	7,877	*8*	*12*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	**16,357**	15,357	15,563	*7*	*5*
Non-controlling interests	**1,823**	1,742	1,707	*5*	*7*
Total equity	**18,180**	17,099	17,270	*6*	*5*

4.1 STATEMENT OF FINANCIAL POSITION CONTINUED

The Consolidated Entity's statement of financial position has been impacted by changes in business activities and Treasury management initiatives during the year ended 31 March 2018.

Assets

Total assets of $A191.3 billion at 31 March 2018 increased 5% from $A182.9 billion at 31 March 2017 mainly due to an increase in Receivables from financial institutions, Loan assets held at amortised cost, Interests in associates and joint ventures accounted for using the equity method and Other assets. These increases were partially offset by decreases in Trading portfolio assets and Investment securities available for sale.

- Receivables from financial institutions of $A38.6 billion at 31 March 2018 increased 40% from $A27.5 billion at 31 March 2017 mainly due to an increase in stock borrowing and reverse repurchase trades in CGM driven by short term funding opportunities and client flow
- Loan assets held at amortised cost of $A81.2 billion at 31 March 2018 increased 6% from $A76.7 billion at 31 March 2017 mainly due to net new loans written in BFS' mortgages and business lending portfolios, and an increase in CGM's lending in Fixed Income and Currencies and Futures businesses. This was partially offset by a decrease of 8% in CAF's loan and finance lease portfolio to $A24.3 billion at 31 March 2018 from $A26.5 billion at 31 March 2017 primarily due to repayments in Principal Finance
- Interests in associates and joint ventures accounted for using the equity method of $A4.1 billion increased 94% from $A2.1 billion at 31 March 2017 mainly due to new investments in Macquarie Capital and CGM and the reclassification of a number of investments in MAM and CAF from Available for sale to Associates
- Other assets of $A18.4 billion at 31 March 2018 increased 11% from $A16.6 billion at 31 March 2017 mainly due to an increase in Held for sale investments in Macquarie Capital, MAM and CAF, and an increase in unsettled trade balances in CGM. The receivable following the sale of the Canadian mortgages portfolio in BFS in the prior year was partially offset by the receivable on the sale of CAF's US commercial vehicles financing business in the current year
- Trading portfolio assets of $A15.6 billion at 31 March 2018 decreased 42% from $A26.9 billion at 31 March 2017 mainly due to a decrease in long equity positions and a reduction in the holdings of physical commodities and volume of oil contracts
- Investment securities available for sale of $A6.2 billion at 31 March 2018 decreased 11% from $A6.9 billion at 31 March 2017 mainly due to the reclassification of investments in MAM and CAF from Available for sale to Associates.

Liabilities

Total liabilities of $A173.1 billion at 31 March 2018 increased 5% from $A165.6 billion at 31 March 2017 mainly driven by an increase in Trading portfolio liabilities, Debt Issued at amortised cost, Deposits and Other liabilities. These increases were partially offset by a decrease in Payables to financial institutions and Loan Capital.

- Trading portfolio liabilities of $A8.1 billion at 31 March 2018 increased 59% from $A5.1 billion at 31 March 2017 mainly due to an increase in short equity positions
- Debt issued at amortised cost of $A53.7 billion at 31 March 2018 increased 6% from $A50.8 billion at 31 March 2017, mainly driven by Treasury's funding and liquidity management activities which included issuance of long term debt and US commercial paper. This was partially offset by a reduction in CAF leasing facilities
- Deposits of $A59.4 billion at 31 March 2018 increased 3% from $A57.7 billion at 31 March 2017 mainly due to an increase in transaction and savings accounts and business deposit volumes
- Other liabilities of $A16.1 billion at 31 March 2018 increased 7% from $A15.0 billion at 31 March 2017 mainly due to an increase in unsettled trade balances in CGM's Cash Equities business
- Payables to financial institutions of $A15.4 billion at 31 March 2018 decreased 10% from $A17.1 billion at 31 March 2017 mainly due to a net repayment of Treasury funding facilities and a decrease in cash collateral on securities lent in CGM
- Loan capital of $A5.4 billion decreased 6% from $A5.7 billion mainly due to the redemption of Exchangeable Capital Securities notes during the year.

Equity

Total equity increased 5% to $A18.2 billion at 31 March 2018 from $A17.3 billion at 31 March 2017.

The increase was mainly due to the retained earnings generated during the year ended 31 March 2018 (net of dividends paid), partially offset by a decrease in the Available for sale reserve due to the reclassification of investments from Available for sale to Associates during the year ended 31 March 2018.

BALANCE SHEET
CONTINUED

4.2 LOAN ASSETS

Reconciliation between the statement of financial position and the funded balance sheet:

	AS AT			MOVEMENT	
	Mar 18 $Ab	Sep 17 $Ab	Mar 17 $Ab	*Sep 17 %*	*Mar 17 %*
Loan assets at amortised cost per the statement of financial position	**81.2**	76.9	76.7	*6*	*6*
Other loans held at fair value[1]	**0.3**	0.4	0.4	*(25)*	*(25)*
Operating lease assets	**10.2**	9.9	10.0	*3*	*2*
Other reclassifications[2]	**0.8**	1.2	1.2	*(33)*	*(33)*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[3]	**(9.0)**	(11.4)	(13.4)	*(21)*	*(33)*
Less: segregated funds[4]	**(5.4)**	(5.2)	(4.6)	*4*	*17*
Less: margin balances (reclassed to trading)[5]	**(2.8)**	(1.7)	(2.8)	*65*	*–*
Total loan assets including operating lease assets per the funded balance sheet[6]	**75.3**	70.1	67.5	*7*	*12*

(1) Excludes other loans held at fair value that are self-funded.
(2) Reclassification between loan assets and other funded balance sheet categories.
(3) Excludes notes held by Macquarie in consolidated Special Purpose Entities (SPE).
(4) These represent the assets and liabilities that are recognised where Macquarie holds segregated client monies. The client monies will be matched by assets held to the same amount and hence do not require funding.
(5) For the purposes of the funded balance sheet, margin balances are treated as trading assets rather than loan assets.
(6) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

4.2 LOAN ASSETS CONTINUED

Loan assets[1] including operating lease assets by Operating Group per the funded balance sheet are shown in further detail below:

		AS AT			MOVEMENT	
	Notes	Mar 18 $Ab	Sep 17 $Ab	Mar 17 $Ab	*Sep 17 %*	*Mar17 %*
CAF						
Asset Finance:	1					
Finance lease assets		**14.9**	13.6	12.2	*10*	*22*
Operating lease assets		**10.2**	9.9	10.0	*3*	*2*
Total Asset Finance		**25.1**	23.5	22.2	*7*	*13*
Principal Finance	2	**4.8**	5.7	6.6	*(16)*	*(27)*
Total CAF		**29.9**	29.2	28.8	*2*	*4*
BFS						
Retail Mortgages:	3					
Australia[2]		**28.7**	25.4	23.0	*13*	*25*
Canada, US and Other		**–**	–	0.5	–	*(100)*
Total Retail Mortgages		**28.7**	25.4	23.5	*13*	*22*
Business banking[2]	4	**7.9**	7.7	7.1	*3*	*11*
Total BFS		**36.6**	33.1	30.6	*11*	*20*
CGM						
Resources and commodities	5	**3.1**	2.6	2.5	*19*	*24*
Other	6	**2.4**	2.3	2.8	*4*	*(14)*
Total CGM		**5.5**	4.9	5.3	*12*	*4*
MAM						
Structured investments	7	**2.7**	2.2	2.0	*23*	*35*
Macquarie Capital						
Corporate and other lending	8	**0.6**	0.7	0.8	*(14)*	*(25)*
Total		**75.3**	70.1	67.5	*7*	*12*

(1) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.
(2) Securitised business banking portfolio with underlying residential mortgages was included in Retail Mortgages: Australia and has been reclassed to business banking and restated accordingly in March 2017.

BALANCE SHEET
CONTINUED

4.2 LOAN ASSETS CONTINUED

Explanatory notes concerning asset security of funded loan asset portfolio

1. Asset Finance

Secured by underlying financed assets.

2. Principal Finance

Diversified corporate and real estate lending portfolio, predominately consisting of loans which are senior, secured, well covenanted and with a hold to maturity horizon.

3. Retail Mortgages

Secured by residential property.

4. Business banking

Secured relationship managed loan portfolio to professional and financial services firms, real estate industry clients, insurance premium funding, mortgages to business banking clients and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. The portfolio also includes other retail lending including credit cards.

5. Resources and commodities

Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets.

6. CGM Other

Predominately relates to recourse loans to financial institutions, as well as financing for real estate and other sectors.

7. Structured investments

Loans to retail and wholesale counterparties that are secured against equities, investment funds or cash, or are protected by capital guarantees at maturity.

8. Corporate lending and other lending

Includes diversified secured corporate lending.

4.3 EQUITY INVESTMENTS

Equity investments are reported in the following categories in the statement of financial position:

- other financial assets at fair value through profit or loss;
- investment securities available for sale;
- interests in associates and joint ventures accounted for using the equity method; and
- other assets.

The classification is driven by a combination of the level of influence Macquarie has over the investment and management's intention with respect to the holding of the asset in the short term. For the purpose of analysis, equity investments have been re-grouped into the following categories:

- Investments in Macquarie-managed funds; and
- Other investments which are not investments in Macquarie-managed funds.

Equity investments reconciliation

	AS AT			*MOVEMENT*	
	Mar 18 $Ab	Sep 17 $Ab	Mar 17 $Ab	*Sep 17 %*	*Mar 17 %*
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	**0.9**	0.9	0.9	*–*	*–*
Equity investments within investment securities available for sale	**0.5**	0.7	2.0	*(29)*	*(75)*
Interests in associates and joint ventures accounted for using the equity method	**4.1**	3.6	2.1	*14*	*95*
Held for sale equity investments within other assets	**3.0**	4.1	2.2	*(27)*	*36*
Total equity investments per statement of financial position	**8.5**	9.3	7.2	*(9)*	*18*
Adjustment for funded balance sheet					
Equity hedge positions(1)	**(0.3)**	(0.2)	(0.4)	*50*	*(25)*
Non-controlling interests(2)	**(1.4)**	(1.4)	(1.3)	*–*	*8*
Total funded equity investments	**6.8**	7.7	5.5	*(12)*	*24*
Adjustments for equity investments analysis					
Available for sale and associates' reserves(3)	**–**	(0.1)	(0.5)	*(100)*	*(100)*
Total adjusted equity investments(4)	**6.8**	7.6	5.0	*(11)*	*36*

(1) These relate to assets held for the purposes of economically hedging Macquarie's fair valued liabilities to external parties arising from various equity linked instruments. Consequently, these have been excluded from the analysis of equity investment exposures.

(2) These represent the portion of ownership in equity investments not attributable to Macquarie. As this is not a position that Macquarie is required to fund it is netted against the consolidated assets and liabilities in preparing the funded balance sheet.

(3) Available for sale reserve on equity investments (gross of tax) that will be released to income upon realisation of the investment, excluding investments in which Macquarie has no economic exposure; Associates' reserves (gross of tax) that will be released to income upon realisation of the investment.

(4) The adjusted book value represents the total net exposure to Macquarie.

4.3 EQUITY INVESTMENTS CONTINUED

Equity investments by category

	AS AT			MOVEMENT	
	Mar 18 $Ab	Sep 17 $Ab	Mar 17 $Ab	Sep 17 %	Mar 17 %
Macquarie-managed funds					
Listed MIRA managed funds	**0.5**	1.0	0.7	*(50)*	*(29)*
Unlisted MIRA managed funds	**1.0**	0.9	0.9	*11*	*11*
Other Macquarie-managed funds	**0.4**	0.5	0.5	*(20)*	*(20)*
Total Macquarie-managed funds	**1.9**	2.4	2.1	*(21)*	*(10)*
Other investments					
Investments acquired to seed new MIRA products and mandates	**0.8**	1.4	0.6	*(43)*	*33*
Transport, industrial and infrastructure	**0.6**	0.6	0.5	–	*20*
Telecommunications, information technology, media and entertainment	**0.7**	0.7	0.6	–	*17*
Green energy	**1.4**	1.0	0.2	*40*	*
Conventional energy, resources and commodities	**0.6**	1.0	0.5	*(40)*	*20*
Real estate investment, property and funds management	**0.3**	0.1	0.1	*200*	*200*
Finance, wealth management and exchanges	**0.5**	0.4	0.4	*25*	*25*
Total other investments	**4.9**	5.2	2.9	*(6)*	*69*
Total equity investments	**6.8**	7.6	5.0	*(11)*	*36*

5.1 Liquidity risk governance and management framework
5.2 Management of liquidity risk
5.3 Funded balance sheet
5.4 Funding profile for Macquarie
5.5 Funding profile for the Bank Group
5.6 Funding profile for the Non-Bank Group
5.7 Explanatory notes concerning funding sources and funded assets

5 FUNDING AND LIQUIDITY

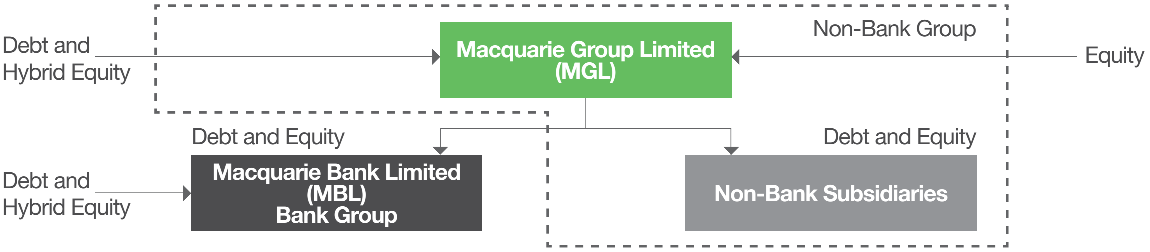
FUNDING AND LIQUIDITY

5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK

Governance and oversight

Macquarie's two primary external funding vehicles are Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL). MGL provides funding principally to the Non-Bank Group and limited funding to some MBL subsidiaries. MBL provides funding to the Bank Group.

The high level funding structure of the Group is shown below:



Macquarie's liquidity risk management framework 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 the Risk Management Group (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 Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, 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. In some cases, certain entities within Macquarie may also be required to have a standalone liquidity policy. In these cases, the principles applied within the entity-specific liquidity policies are consistent with those applied in the broader MGL and MBL policy.

Macquarie establishes a liquidity risk appetite for both MGL and MBL, which is defined within the liquidity policy. The risk appetite is approved by the MGL and MBL Boards and represents an articulation of the nature and level of liquidity risk that is acceptable in the context of achieving Macquarie's strategic objectives.

Macquarie'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 Authorised Deposit-taking Institution (ADI) and is funded mainly with capital, long-term liabilities and deposits.

5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK CONTINUED

Liquidity risk tolerance and principles

Macquarie's liquidity risk appetite is supported by a number of risk tolerances and principles applied to managing liquidity risk in both MGL and MBL.

Risk tolerances

- term assets must be funded by term liabilities and short term assets must exceed short term wholesale liabilities;
- cash and liquid assets must be sufficient to cover the expected outflow under a twelve month stress scenario and meet minimum regulatory requirements;
- cash and liquid assets held to cover stress scenarios and regulatory minimums must be high quality unencumbered liquid assets and cash;
- diversity and stability of funding sources is a key priority;
- balance sheet currency mismatches are managed within set tolerances; and
- funding and liquidity exposures between entities within Macquarie are subject to constraints where required.

Liquidity management principles

- Macquarie has a centralised approach to liquidity management;
- liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities;
- a regional liquidity framework is maintained that outlines Macquarie's approach to managing funding and liquidity requirements in offshore subsidiaries and branches;
- the liquidity position is managed to ensure all obligations can be met as required on an intraday basis;
- a liquidity contingency plan is maintained that provides an action plan in the event of a liquidity 'crisis';
- a funding strategy is prepared annually and monitored on a regular basis;
- internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them;
- strong relationships are maintained to assist with managing confidence and liquidity; and
- the MGL and MBL Boards and Senior Management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan, which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives responsible for managing a crisis, the information required to effectively manage a crisis, a communications strategy, a high level checklist of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The plan also incorporates a retail run management plan (RRMP) that outlines the Bank's processes and operational plans for managing a significant increase in customer withdrawals during a potential deposit 'run' on Macquarie.

In addition, Macquarie monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the 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.

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.

FUNDING AND LIQUIDITY
CONTINUED

5.2 MANAGEMENT OF LIQUIDITY RISK

Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to regulatory defined scenarios, Group Treasury models a number of additional liquidity scenarios covering both market-wide and Macquarie-specific crises. Scenario analysis performs a range of functions within the liquidity risk management framework, including:

- monitoring compliance with internal liquidity risk appetite statements by ensuring all repayment obligations can be met in the corresponding scenarios;
- determining Macquarie's minimum level of cash and liquid assets;
- determining the appropriate minimum tenor of funding for Macquarie's assets; and
- determining the overall capacity for future asset growth.

The scenarios separately consider the requirements of the Bank Group, the Non-Bank Group and the Consolidated Entity. They are run over a number of timeframes and a range of conservative assumptions are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and 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 in the Consolidated Entity 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. Certain other business units also hold cash and liquid assets as part of their operations. Macquarie had $A25.4 billion cash and liquid assets as at 31 March 2018 (31 March 2017: $A21.7 billion), of which $A23.6 billion was held by Macquarie Bank (31 March 2017: $A20.0 billion).

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, 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.

5.2 MANAGEMENT OF LIQUIDITY RISK CONTINUED

Credit ratings[1] at 31 March are detailed below.

	MACQUARIE BANK LIMITED			MACQUARIE GROUP LIMITED		
	Short term rating	Long-term rating	Outlook	Short term rating	Long-term rating	Outlook
Moody's Investors Service	P-1	A2	Stable	P-2	A3	Stable
Standard and Poor's[2]	A-1	A	Negative	A-2	BBB	Stable
Fitch Ratings	F-1	A	Stable	F-2	A-	Stable

(1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

(2) Standard and Poor's does not place outlook statements on short-term ratings.

Regulatory developments

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS210) details the local implementation of the Basel III liquidity framework for Australian banks. In addition to a range of qualitative requirements, the standard incorporates the Liquidity Coverage Ratio (LCR), and as of 1 January 2018, the Net Stable Funding Ratio (NSFR). The LCR and NSFR apply specifically to Macquarie Bank as the regulated ADI in Macquarie. As an APRA authorised and regulated Non-Operating Holding Company, MGL is required to manage liquidity in compliance with APS210's qualitative requirements. Separate quantitative requirements are imposed internally by the ALCO and the Board.

Liquidity coverage ratio

The LCR requires sufficient levels of unencumbered HQLA to be held to meet expected net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. In Australia, HQLA includes cash, balances held with the RBA, Commonwealth Government and semi-government securities, as well as any CLF allocation. The LCR determines Macquarie Bank's regulatory minimum required level of liquid assets.

Macquarie Bank's 3-month average LCR to 31 March 2018 was 162% (average based on daily observations). For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

Net stable funding ratio

NSFR is a 12 month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than twelve months. The NSFR became a regulatory requirement on 1 January, 2018. Macquarie Bank's NSFR at 31 March 2018 was 112%.

FUNDING AND LIQUIDITY
CONTINUED

5.3 FUNDED BALANCE SHEET

Macquarie's statement of financial position is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self-funded assets that do not represent a funding requirement of the Group.

The table below reconciles the reported assets of Macquarie to the net funded assets as at 31 March 2018. The following pages split this between the Bank Group and the Non-Bank Group to assist in the analysis of each of the separate funding profiles of the respective entities.

		AS AT	
	Notes	Mar 18 $Ab	Mar 17 $Ab
Total assets per Macquarie's statement of financial position		**191.3**	182.9
Accounting deductions:			
Self-funded trading assets	1	**(16.7)**	(14.6)
Derivative revaluation accounting gross-ups	2	**(11.8)**	(10.7)
Segregated funds	3	**(9.8)**	(9.6)
Outstanding trade settlement balances	4	**(7.0)**	(6.6)
Short-term working capital assets	5	**(6.8)**	(5.8)
Non-controlling interests	6	**(1.4)**	(1.3)
Non-recourse funded assets:			
Securitised assets and other non-recourse funding	7	**(9.0)**	(13.5)
Net funded assets		**128.8**	120.8

Explanatory notes concerning net funded assets

1. Self-funded trading assets

Macquarie enters into stock borrowing and lending as well as repurchase agreements and reverse repurchase agreements in the normal course of trading activity that it conducts with its clients and counterparties. Also as part of its trading activities, Macquarie pays and receives margin collateral on its outstanding derivative positions. These trading related asset and liability positions are presented gross on the statement of financial position but are viewed as being self-funded to the extent that they offset one another and, therefore, are netted as part of this adjustment.

2. Derivative revaluation accounting gross-ups

Macquarie's derivative activities are mostly client driven with client positions hedged by offsetting positions with a variety of counterparties. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

3. Segregated funds

These represent the assets and liabilities that are recognised where Macquarie provides products such as investment-linked policy contracts or where Macquarie holds segregated client monies. The policy (contract) liability and client monies will be matched by assets held to the same amount and hence do not require funding.

4. Outstanding trade settlement balances

At any particular time Macquarie will have outstanding trades to be settled as part of its brokering business and trading activities. These amounts (payables) can be offset in terms of funding by amounts that Macquarie is owed on other trades (receivables).

5. Short-term working capital assets

As with the outstanding trade settlement balances above, Macquarie through its day-to-day operations generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

6. Non-controlling interests

These represent the portion of equity ownership in subsidiaries not attributable to Macquarie. As this is not a position that Macquarie is required to fund, it is netted against the consolidated assets and liabilities in preparing the funded balance sheet.

7. Securitised assets and other non-recourse funding

These represent assets that are funded by third parties with no recourse to Macquarie including lending assets (mortgages and leasing) sold down into external securitisation entities.

5.4 FUNDING PROFILE FOR MACQUARIE

Funded balance sheet

	Notes	AS AT Mar 18 $Ab	Mar 17 $Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		**0.6**	0.9
Commercial paper		**8.4**	5.7
Net trade creditors	2	**2.3**	2.4
Structured notes	3	**2.5**	3.1
Secured funding	4	**4.9**	4.6
Bonds	5	**34.7**	29.3
Other loans	6	**1.2**	0.5
Syndicated loan facilities	7	**4.0**	4.8
Customer deposits	8	**48.1**	47.8
Loan capital	9	**5.4**	5.7
Equity and hybrids(1)	10	**16.7**	16.0
Total		**128.8**	120.8
Funded assets			
Cash and liquid assets	11	**25.4**	21.7
Self-securitisation	12	**15.5**	16.5
Net trading assets	13	**17.9**	22.1
Loan assets including operating lease assets less than one year	14	**14.4**	13.9
Loan assets including operating lease assets greater than one year	14	**45.4**	37.1
Debt investment securities(1)	15	**1.7**	2.3
Co-investment in Macquarie-managed funds and other equity investments(1)	16	**6.8**	5.5
Property, plant and equipment and intangibles		**1.7**	1.7
Total		**128.8**	120.8

(1) Non-controlling interests have been netted down in 'Equity and hybrids', 'Debt investment securities' and 'Co-investments in Macquarie-managed funds and other equity investments'.

See Section 5.7 for notes 1–16.

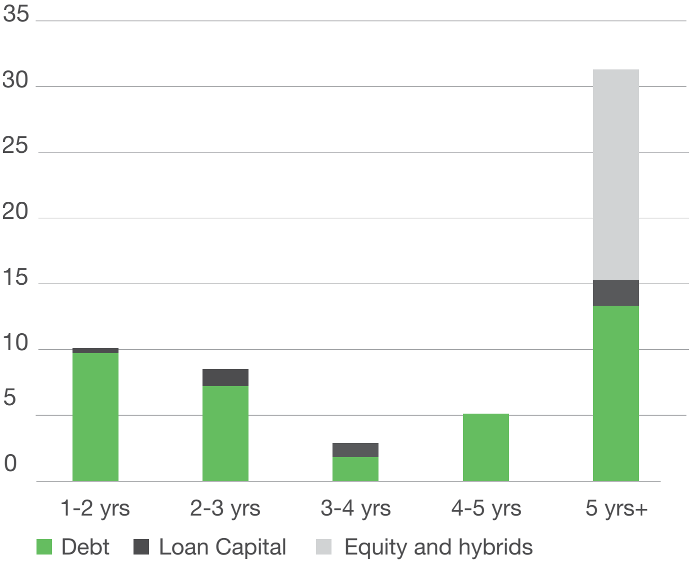
FUNDING AND LIQUIDITY
CONTINUED

5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

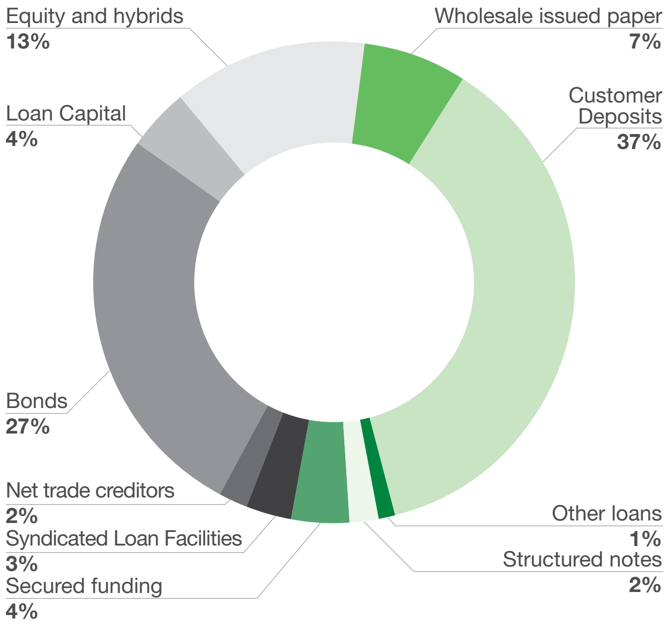
Term funding profile

Detail of drawn funding maturing beyond one year

$A billion



Diversity of funding sources



	AS AT MAR 18					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[1]	–	–	0.1	0.1	1.6	**1.8**
Secured funding	0.4	1.1	0.2	1.2	0.2	**3.1**
Bonds	9.2	4.5	1.5	1.4	11.4	**28.0**
Other loans	0.1	–	–	–	–	**0.1**
Syndicated loan facilities	–	1.6	–	2.4	–	**4.0**
Total debt	**9.7**	**7.2**	**1.8**	**5.1**	**13.2**	**37.0**
Loan capital[2]	0.4	1.3	1.1	–	2.0	**4.8**
Equity and hybrids	–	–	–	–	16.7	**16.7**
Total funding sources drawn	**10.1**	**8.5**	**2.9**	**5.1**	**31.9**	**58.5**
Undrawn	0.3	–	–	1.6	–	**1.9**
Total funding sources drawn and undrawn	**10.4**	**8.5**	**2.9**	**6.7**	**31.9**	**60.4**

(1) Structured notes are profiled using a behavioural maturity profile.
(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

Macquarie has a funding base that is stable with minimal reliance on short-term wholesale funding markets.

At 31 March 2018, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.6 years at 31 March 2018.

As at 31 March 2018, customer deposits represented $A48.1 billion, or 37% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A9.0 billion, or 7% of total funding, and other debt funding maturing within 12 months represented $A13.2 billion, or 10% of total funding.

5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

Term funding initiatives

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2017, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2017 and 31 March 2018:

		Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Secured Funding	– Term securitisation and other secured finance	2.2	0.8	**3.0**
Issued paper	– Senior and subordinated	3.1	7.3	**10.4**
Loan facilities	– MGL loan facilities	–	3.3	**3.3**
Macquarie Air Finance Term Loan(1)	– Unsecured and secured term loan	5.1	–	**5.1**
Total		**10.4**	**11.4**	**21.8**

Macquarie has continued to develop its major funding markets and products during the year ended 31 March 2018.

From 1 April 2017 to 31 March 2018, Macquarie raised $A21.8 billion of term funding including:

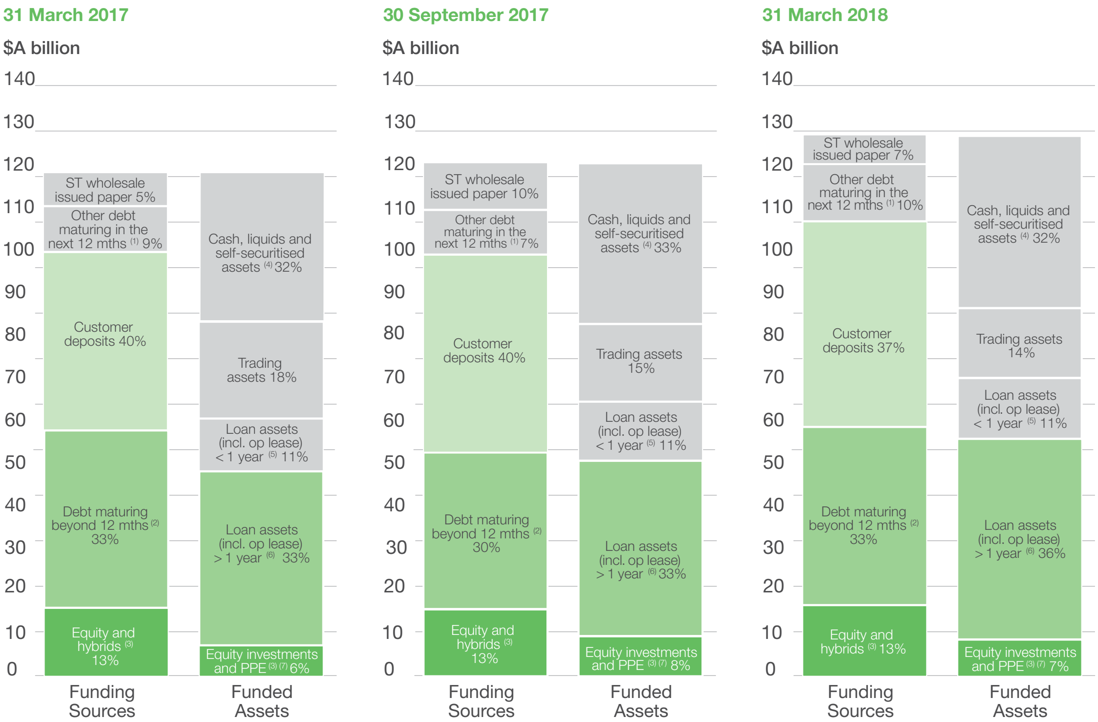
- $A3.0 billion of term secured finance comprising of $A1.2 billion of SMART auto and equipment ABS, $A1.0 billion of PUMA RMBS and $A0.8 billion of other secured funding facilities.
- $A10.4 billion of term wholesale issued paper comprising of $A7.3 billion in public unsecured debt issuances in the USD, EUR and AUD markets and $A3.1 billion in private placements and structured notes.
- $A3.3 billion of MGL loan facilities comprising of $A3.2 billion refinance and upsize of the Senior Credit Facility and $A0.1 billion addition to the existing MGL Asian Bank Facility refinanced in FY17.
- $A5.1 billion of Macquarie Air Finance Term Loan comprising of a $A3.8 billion secured term loan and $A1.3 billion unsecured term loan(1).

(1) The Macquarie Air Finance Term Loan is a refinance and upsize of the current outstanding AWAS Term Loan. Commitment letters for the Macquarie Air Finance Term Loan were signed prior to 31 March 2018.

FUNDING AND LIQUIDITY
CONTINUED

5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

The change in composition of the funded balance sheet is illustrated in the chart below.



(1) 'Other debt maturing in the next 12 mths' includes Structured Notes, Secured Funding, Bonds, Other Loans, Loan Capital maturing within the next 12 months and Net Trade Creditors.
(2) 'Debt maturing beyond 12 mths' includes Loan Capital not maturing within the next 12 months.
(3) Non-controlling interests is netted down in 'Equity and hybrids' and 'Equity Investments and PPE'.
(4) 'Cash, liquids and self-securitised assets' includes self-securitisation of repo eligible Australian mortgages originated by Macquarie.
(5) 'Loan Assets (incl. op lease) < 1 year' includes Net Trade Debtors.
(6) 'Loan Assets (incl. op lease) > 1 year' includes Debt Investment Securities.
(7) 'Equity investments and PPE' includes the Group's co-investments in Macquarie-managed funds and equity investments.

5.5 FUNDING PROFILE FOR THE BANK GROUP

Funded balance sheet

	Notes	AS AT Mar 18 $Ab	Mar 17 $Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		**0.6**	0.9
Commercial paper		**8.4**	5.7
Net trade creditors	2	**1.1**	1.6
Structured notes	3	**2.1**	2.6
Secured funding	4	**4.4**	4.4
Bonds	5	**20.7**	21.7
Other loans	6	**1.1**	0.3
Syndicated loan facilities	7	**0.8**	2.4
Customer deposits	8	**48.1**	47.8
Loan capital	9	**4.3**	4.6
Equity and hybrids	10	**13.1**	12.6
Total		**104.7**	104.6
Funded assets			
Cash and liquid assets	11	**23.6**	20.0
Self-securitisation	12	**15.5**	16.5
Net trading assets	13	**17.1**	21.8
Loan assets including operating lease assets less than one year	14	**14.1**	13.6
Loan assets including operating lease assets greater than one year	14	**44.7**	36.1
Debt investment securities	15	**1.3**	1.9
Non-Bank Group deposit with MBL		**(12.9)**	(6.7)
Co-investment in Macquarie-managed funds and other equity investments	16	**0.8**	0.8
Property, plant and equipment and intangibles		**0.5**	0.6
Total		**104.7**	104.6

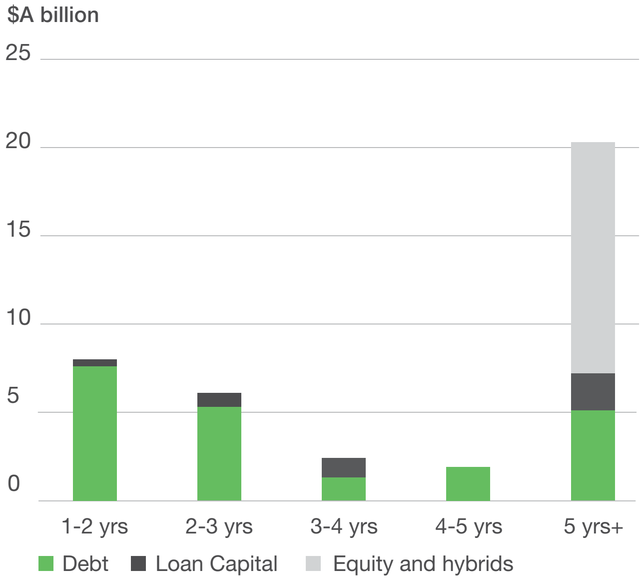
See Section 5.7 for notes 1–16.

FUNDING AND LIQUIDITY
CONTINUED

5.5 FUNDING PROFILE FOR THE BANK GROUP CONTINUED

Term funding profile

Detail of drawn funding maturing beyond one year



	AS AT MAR 18					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[1]	–	–	0.1	0.1	1.6	**1.8**
Secured funding	0.3	1.1	0.2	1.2	0.2	**3.0**
Bonds	7.2	3.4	1.0	0.6	3.2	**15.4**
Other Loans	0.1	–	–	–	–	**0.1**
Syndicated loan facilities	–	0.8	–	–	–	**0.8**
Total debt	**7.6**	**5.3**	**1.3**	**1.9**	**5.0**	**21.1**
Loan capital[2]	0.4	0.8	1.1	–	2.0	**4.3**
Equity and hybrids	–	–	–	–	13.1	**13.1**
Total funding sources drawn	**8.0**	**6.1**	**2.4**	**1.9**	**20.1**	**38.5**
Undrawn	–	–	–	–	–	**–**
Total funding sources drawn and undrawn	**8.0**	**6.1**	**2.4**	**1.9**	**20.1**	**38.5**

(1) Structured notes are profiled using a behavioural maturity profile.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 3.9 years at 31 March 2018.

As at 31 March 2018, customer deposits represented $A48.1 billion, or 46% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A9.0 billion, or 9% of total funding, and other debt funding maturing within 12 months represented $A9.1 billion, or 9% of total funding.

5.5 FUNDING PROFILE FOR THE BANK GROUP CONTINUED

The key tools used for accessing wholesale debt funding markets for MBL, which primarily funds the Bank Group are as follows:

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US9.3 billion debt securities outstanding at 31 March 2018;
- $US15 billion Commercial Paper Program under which $US6.4 billion of debt securities were outstanding at 31 March 2018;
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program under which $US9.0 billion of issuances were outstanding at 31 March 2018;
- $US5 billion Structured Note Program under which $US1.6 billion of funding from structured notes was outstanding at 31 March 2018;
- £0.4 billion Sterling Facility under which £0.4 billion was outstanding at 31 March 2018;
- $A5 billion Covered Bond Programme under which $A0.8 billion of debt securities were outstanding at 31 March 2018; and
- $US1.5 billion AWAS term loan under which $US1.5 billion of secured funding was outstanding at 31 March 2018[1].

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. At 31 March 2018, Macquarie Bank had $A0.6 billion of these securities outstanding.

At 31 March 2018, Macquarie Bank had internally securitised $A15.5 billion of its own mortgages.

Macquarie Bank, as an ADI, has access to liquidity from the RBA daily market operations.

Deposit strategy

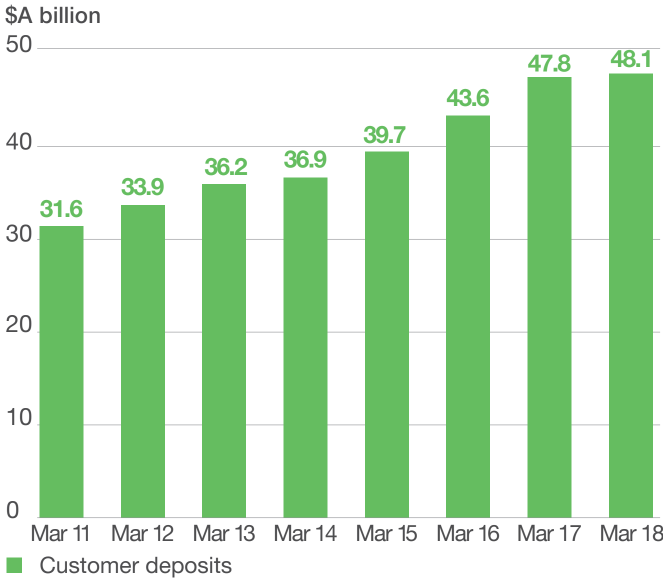
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie's reliance on wholesale funding markets.

In particular, MBL is focused on the quality and composition of the deposit base, targeting transactional and relationship based deposits.

The majority of MBL's deposits continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at $A250,000 per account holder.

The chart below illustrates the customer deposit growth since 31 March 2011.

Deposit trend



(1) The Macquarie Air Finance Term Loan is a refinance and upsize of the current outstanding AWAS Term Loan. Commitment letters for the Macquarie Air Finance Term Loan were signed prior to 31 March 18.

FUNDING AND LIQUIDITY
CONTINUED

5.6 FUNDING PROFILE FOR THE NON-BANK GROUP

Funded balance sheet

		AS AT	
	Notes	Mar 18 $Ab	Mar 17 $Ab
Funding sources			
Net trade creditors	2	**1.2**	0.8
Structured notes	3	**0.4**	0.5
Secured funding	4	**0.5**	0.2
Bonds	5	**14.0**	7.6
Other loans	6	**0.1**	0.2
Syndicated loan facilities	7	**3.2**	2.4
Loan capital	9	**1.1**	1.1
Equity(1)	10	**3.6**	3.4
Total		**24.1**	16.2
Funded assets			
Cash and liquid assets	11	**1.8**	1.7
Non-Bank Group deposit with MBL		**12.9**	6.7
Net trading assets	13	**0.8**	0.3
Loan assets less than one year	14	**0.3**	0.3
Loan assets greater than one year	14	**0.7**	1.0
Debt investment securities(1)	15	**0.4**	0.4
Co-investment in Macquarie-managed funds and other equity investments(1)	16	**6.0**	4.7
Property, plant and equipment and intangibles		**1.2**	1.1
Total		**24.1**	16.2

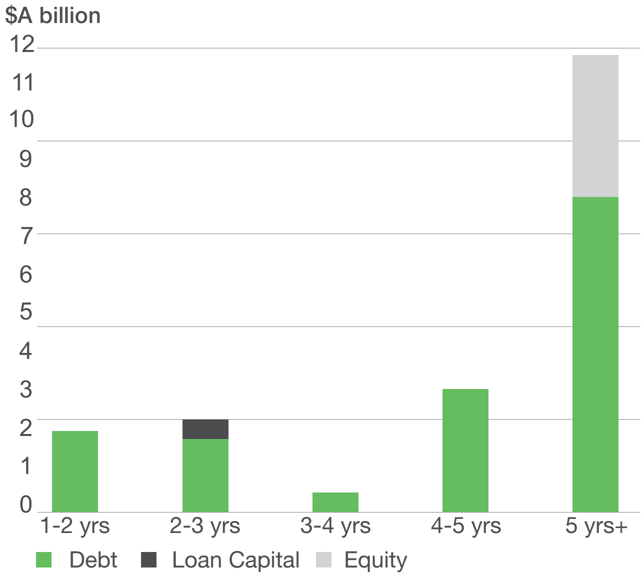
(1) Non-controlling interests have been netted down in 'Equity', 'Debt investment securities' and 'Co-investment in Macquarie-managed funds and other equity investments'.

See Section 5.7 for notes 2–16.

5.6 FUNDING PROFILE FOR THE NON-BANK GROUP CONTINUED

Term funding profile

Detail of drawn term funding maturing beyond one year



	AS AT MAR 18					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Secured funding	0.1	–	–	–	–	**0.1**
Bonds	2.0	1.1	0.5	0.8	8.2	**12.6**
Syndicated loan facilities	–	0.8	–	2.4	–	**3.2**
Total debt	**2.1**	**1.9**	**0.5**	**3.2**	**8.2**	**15.9**
Loan capital[(1)]	–	0.5	–	–	–	**0.5**
Equity	–	–	–	–	3.6	**3.6**
Total funding sources drawn	**2.1**	**2.4**	**0.5**	**3.2**	**11.8**	**20.0**
Undrawn	0.3	–	–	1.6	–	**1.9**
Total funding sources drawn and undrawn	**2.4**	**2.4**	**0.5**	**4.8**	**11.8**	**21.9**

(1) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 5.6 years at 31 March 2018.

As at 31 March 2018, other debt funding maturing within 12 months represented $A4.1 billion, or 17% of total funding.

The key tools used for debt funding of MGL, which primarily funds the activities of the Non-Bank Group, include:

– $US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which $US7.6 billion was outstanding at 31 March 2018;
– $US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had $US1.8 billion debt securities outstanding at 31 March 2018;
– $US3.7 billion Syndicated Loan Facilities of which $US2.5 billion was drawn at 31 March 2018; and
– $US0.6 billion Secured Trade Finance Facility of which $US0.3 billion was drawn at 31 March 2018.

FUNDING AND LIQUIDITY
CONTINUED

5.7 EXPLANATORY NOTES CONCERNING FUNDING SOURCES AND FUNDED ASSETS

1. Wholesale issued paper
Unsecured short-term wholesale funding comprised of both Certificates of Deposit and Commercial Paper.

2. Net trade creditors
Short-term working capital balances (debtors and creditors) are created through Macquarie's day-to-day operations. A net funding use (or source) will result due to timing differences in cash flows.

3. Structured notes
Includes debt instruments on which the return is linked to a number of variables including interest rates, currencies, equities and credit. They are generally issued as part of structured transactions with clients and are hedged with positions in underlying assets or derivative instruments.

4. Secured funding
Certain funding arrangements secured against an asset (or pool of assets).

5. Bonds
Unsecured long-term wholesale funding.

6. Other loans
Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities
Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits
Unsecured funding from BFS, corporate and wholesale depositors. The Australian Government Financial Claims Scheme covers eligible deposits in Macquarie Bank.

9. Loan capital
Long term subordinated debt, Macquarie Additional Capital Securities, Macquarie Capital Notes 1 & 2, Bank Capital Notes, and Exchangeable Capital Securities.

10. Equity and hybrids
Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include MIS.

11. Cash and liquid assets
Cash and liquid assets generally consist of amounts due from banks and liquid debt investment securities available for sale. Liquid assets are almost entirely repo eligible with central banks or are very short dated.

12. Self-securitisation
This represents Australian mortgages which have been internally securitised and is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

13. Net trading assets
The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

14. Loan assets including operating lease assets
This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases.

See section 4.2 for further information.

15. Debt investment securities
These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

16. Co-investment in Macquarie-managed funds and other equity investments
These equity securities include co-investments in Macquarie-managed funds.

6.1 Overview
6.2 Bank Group capital
6.3 Non-Bank Group capital

6 CAPITAL

CAPITAL

6.1 OVERVIEW

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for Macquarie, including the Non-Bank Group. MGL and APRA have agreed a capital adequacy framework for Macquarie, based on APRA's capital standards for ADIs and Macquarie's Board-approved Economic Capital Adequacy Model (ECAM).

Macquarie's capital adequacy framework requires it to maintain minimum regulatory capital requirements calculated as the sum of:

- The Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA ADI Prudential Standards; and
- The Non-Bank Group's capital requirement, calculated using Macquarie's ECAM. Transactions internal to Macquarie are eliminated.

Eligible regulatory capital of Macquarie consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 31 March 2018 include the Macquarie Income Securities (MIS), Macquarie Bank Capital Notes (BCN), Macquarie Additional Capital Securities (MACS), Macquarie Group Capital Notes (MCN) and Macquarie Group Capital Notes 2 (MCN2).

Macquarie has announced that it intends to redeem MCN in June 2018. An offer of Macquarie Group Capital Notes 3 (MCN3) hybrid securities, including a rollover offer for MCN holders and a security holder offer will be launched subsequent to 31 March 2018.

Capital disclosures in this section include Harmonised Basel III(1) and APRA Basel III(2). The former is relevant for comparison with banks regulated by regulators other than APRA, whereas the latter reflects Macquarie's regulatory requirements under APRA Basel III rules.

Pillar 3

The APRA ADI Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (Pillar 3) details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. Pillar 3 documents are available on Macquarie's website.

(1) Harmonised Basel III relates to the Basel III guidelines defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS).

(2) APRA Basel III relates to the ADI Prudential Standards released by APRA for the period effective from 1 January 2013.

6.1 OVERVIEW CONTINUED

Macquarie Basel III regulatory capital surplus calculation

	AS AT MAR 18		AS AT SEP 17		MOVEMENT	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Macquarie eligible capital:						
Bank Group Gross Tier 1 capital	**14,254**	**14,254**	13,845	13,845	*3*	*3*
Non-Bank Group eligible capital	**4,826**	**4,826**	4,303	4,303	*12*	*12*
Eligible capital	**19,080**	**19,080**	18,148	18,148	*5*	*5*
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA)(1)	**88,452**	**91,564**	86,886	88,880	*2*	*3*
Capital required to cover RWA at 8.5%(2)	**7,519**	**7,783**	7,385	7,555	*2*	*3*
Tier 1 deductions	**725**	**2,534**	549	2,327	*32*	*9*
Total Bank Group capital requirement	**8,244**	**10,317**	7,934	9,882	*4*	*4*
Total Non-Bank Group capital requirement	**4,544**	**4,544**	4,038	4,038	*13*	*13*
Total Macquarie capital requirement (at 8.5%(2) of the Bank Group RWA)	**12,788**	**14,861**	11,972	13,920	*7*	*7*
Macquarie regulatory capital surplus (at 8.5%(2) of Bank Group RWA)	**6,292**	**4,219**	6,176	4,228	*2*	*(<1)*

(1) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA associated with exposures to the Non-Bank Group are eliminated (31 March 2018: $A166 million; 30 September 2017: $A745 million).

(2) Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB). The 2.5% CCB is required by APRA from January 2016 and by BIS from January 2019.

CAPITAL
CONTINUED

6.2 BANK GROUP CAPITAL

The Bank Group is accredited by APRA under the Basel Foundation Internal Ratings Based approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

Common Equity Tier 1 capital

The Bank Group's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves.

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 31 March 2018 consists of MIS, BCN and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

MIS are a perpetual instrument with no conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) in 1999. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank. MIS are eligible for transitional arrangements under Basel III rules.

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 3.30% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that BCN are eligible for inclusion as Additional Tier 1 capital.

MACS were issued by MBL, acting through its London Branch in March 2017. MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares 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). APRA has confirmed that MACS are eligible for inclusion as Additional Tier 1 capital.

6.2 BANK GROUP CAPITAL CONTINUED

Bank Group Basel III Tier 1 Capital

	AS AT MAR 18		AS AT SEP 17		*MOVEMENT*	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Common Equity Tier 1 capital						
Paid-up ordinary share capital	**9,537**	**9,537**	9,523	9,523	*<1*	*<1*
Retained earnings	**2,647**	**2,647**	2,348	2,348	*13*	*13*
Reserves	**478**	**478**	355	355	*35*	*35*
Gross Common Equity Tier 1 capital	**12,662**	**12,662**	12,226	12,226	*4*	*4*
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	**40**	**40**	39	39	*3*	*3*
Deferred tax assets	**65**	**142**	54	167	*20*	*(15)*
Net other fair value adjustments	**12**	**12**	(86)	(86)	*(114)*	*(114)*
Intangible component of investments in subsidiaries and other entities	**63**	**63**	51	51	*24*	*24*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**–**	**397**	–	384	*–*	*3*
Shortfall in provisions for credit losses	**401**	**428**	339	364	*18*	*18*
Equity exposures	**–**	**1,201**	–	1,137	*–*	*6*
Other Common Equity Tier 1 capital deductions	**144**	**251**	152	271	*(5)*	*(7)*
Total Common Equity Tier 1 capital deductions	**725**	**2,534**	549	2,327	*32*	*9*
Net Common Equity Tier 1 capital	**11,937**	**10,128**	11,677	9,899	*2*	*2*
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	**1,592**	**1,592**	1,619	1,619	*(2)*	*(2)*
Gross Additional Tier 1 capital	**1,592**	**1,592**	1,619	1,619	*(2)*	*(2)*
Deduction from Additional Tier 1 capital	**–**	**–**	–	–	*–*	*–*
Net Additional Tier 1 capital	**1,592**	**1,592**	1,619	1,619	*(2)*	*(2)*
Total Net Tier 1 capital	**13,529**	**11,720**	13,296	11,518	*2*	*2*

CAPITAL
CONTINUED

6.2 BANK GROUP CAPITAL CONTINUED

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT MAR 18		AS AT SEP 17		MOVEMENT	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Credit risk						
Subject to IRB approach:						
Corporate	**27,136**	**27,136**	26,736	26,736	*1*	*1*
SME Corporate	**3,234**	**3,234**	2,962	2,962	*9*	*9*
Sovereign	**182**	**182**	226	226	*(19)*	*(19)*
Bank	**1,576**	**1,576**	1,315	1,315	*20*	*20*
Residential mortgage	**5,678**	**12,654**	5,228	11,597	*9*	*9*
Other retail	**4,466**	**4,466**	4,093	4,093	*9*	*9*
Retail SME	**3,093**	**3,101**	3,040	3,056	*2*	*1*
Total RWA subject to IRB approach	**45,365**	**52,349**	43,600	49,985	*4*	*5*
Specialised lending exposures subject to slotting criteria	**5,392**	**5,392**	4,939	4,939	*9*	*9*
Subject to Standardised approach:						
Corporate	**701**	**701**	938	938	*(25)*	*(25)*
Residential mortgage	**1,630**	**1,630**	1,635	1,635	*(<1)*	*(<1)*
Other Retail	**3,771**	**3,771**	4,847	4,847	*(22)*	*(22)*
Total RWA subject to Standardised approach	**6,102**	**6,102**	7,420	7,420	*(18)*	*(18)*
Credit risk RWA for securitisation exposures	**609**	**609**	529	529	*15*	*15*
Credit Valuation Adjustment RWA	**3,712**	**3,712**	3,014	3,014	*23*	*23*
Exposures to Central Counterparties RWA	**842**	**1,274**	1,059	1,423	*(20)*	*(10)*
RWA for Other Assets	**8,892**	**8,276**	9,674	8,976	*(8)*	*(8)*
Total Credit risk RWA	**70,914**	**77,714**	70,235	76,286	*1*	*2*
Equity risk exposures RWA	**4,441**	**–**	4,057	–	*9*	*–*
Market risk RWA	**3,303**	**3,303**	3,314	3,314	*(<1)*	*(<1)*
Operational risk RWA	**9,960**	**9,960**	10,025	10,025	*(1)*	*(1)*
Interest rate risk in banking book RWA	**–**	**753**	–	–	*–*	*100*
Total Bank Group RWA	**88,618**	**91,730**	87,631	89,625	*1*	*2*
Capital ratios						
Bank Group Common Equity Tier 1 capital ratio (%)	**13.5**	**11.0**	13.3	11.0		
Bank Group Tier 1 capital ratio (%)	**15.3**	**12.8**	15.2	12.9		

6.3 NON-BANK GROUP CAPITAL

APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Bank Group. The ECAM is based on similar principles and models as the Basel III regulatory capital framework for Banks, with both calculating capital at a one year 99.9% confidence level. The key features are:

RISK[1]	BASEL III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment[2] Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 49%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

(1) The ECAM also covers insurance underwriting risk, non-traded and interest rate risk and the risk on assets held as part of business operations, including: fixed assets, goodwill, intangible assets, capitalised expenses.

(2) Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

CAPITAL
CONTINUED

6.3 NON-BANK GROUP CAPITAL CONTINUED

Non-Bank Group capital requirement

The capital requirement of the Non-Bank Group is set out in the table below.

	AS AT MAR 18		
	Assets $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.8	28	19%
Loan assets[1]	1.0	124	155%
Debt investment securities	0.4	81	254%
Co-investments in Macquarie-managed funds and other equity investments	5.7	2,597	572%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.3		
Property, plant and equipment and intangibles	1.2	288	300%
Non-Bank Group deposit with MBL	12.9		
Net trading assets	0.8		
Total funded assets	**24.1**	**3,118**	
Self-funded and non-recourse assets			
Self-funded trading assets	0.1		
Outstanding trade settlement balances	4.1		
Derivative revaluation accounting gross ups	0.1		
Short-term working capital assets	2.3		
Non-Controlling interests	1.4		
Total self-funded and non-recourse assets	**8.0**		
Total Non-Bank Group assets	**32.1**		
Off balance sheet exposures, operational, market and other risks and diversification offset[2]		1,426	
Non-Bank Group capital requirement		**4,544**	

(1) Includes leases.

(2) Capital associated with net trading assets (including market risk capital) and net trade debtors has been included here.

7.1 Assets under Management
7.2 Equity under Management

7 FUNDS MANAGEMENT

FUNDS MANAGEMENT

7.1 ASSETS UNDER MANAGEMENT

	AS AT			MOVEMENT	
	Mar 18 $Ab	Sep 17 $Ab	Mar 17 $Ab	Sep 17 %	Mar 17 %
Assets under Management by type					
MIM					
Fixed Income	**197.7**	194.4	191.3	*2*	*3*
Equities	**123.5**	118.6	115.2	*4*	*7*
Alternatives and Multi-asset	**12.3**	12.2	13.8	*1*	*(11)*
Total MIM	**333.5**	325.2	320.3	*3*	*4*
MIRA					
Infrastructure	**146.9**	133.9	146.9	*10*	–
Agriculture	**2.0**	1.7	1.7	*18*	*18*
Real Estate	**6.3**	5.8	5.6	*9*	*13*
Total MIRA	**155.2**	141.4	154.2	*10*	*1*
MSIS	**6.4**	5.3	5.5	*21*	*16*
Total MAM	**495.1**	471.9	480.0	*5*	*3*
Other Operating Groups	**1.6**	1.7	1.7	*(6)*	*(6)*
Total Assets under Management	**496.7**	473.6	481.7	*5*	*3*
Assets under Management by region					
Americas	**255.1**	249.3	244.7	*2*	*4*
Europe, Middle East and Africa	**92.0**	88.9	103.5	*3*	*(11)*
Australia	**97.9**	89.8	84.4	*9*	*16*
Asia	**51.7**	45.6	49.1	*13*	*5*
Total Assets under Management	**496.7**	473.6	481.7	*5*	*3*

Assets under management (AUM) is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.

AUM of $A496.7 billion at 31 March 2018 increased 3% from $A481.7 billion at 31 March 2017. The increase in AUM during the year was largely due to positive market movements and favourable currency movements, partially offset by net asset realisations in MIRA (see section 7.2 Equity Under Management for further details).

7.2 EQUITY UNDER MANAGEMENT

The MIRA division of MAM tracks its funds under management using an Equity under Management (EUM) measure as base management fee income is typically aligned with EUM.

Type of equity investment	Basis of EUM calculation
Listed equity	– Market capitalisation at the measurement date plus underwritten or committed future capital raisings for listed funds.
Unlisted equity	– Committed capital from investors at the measurement date less called capital subsequently returned to investors for unlisted funds; – Invested capital at measurement date for managed businesses[1].

(1) Managed businesses includes third party equity invested in MIRA managed businesses where management arrangements exist with Macquarie.

If a fund is managed through a joint venture with another party, the EUM amount is weighted based on Macquarie's proportionate economic interest in the joint venture management entity.

Equity under Management by type and region

	AS AT[(1) (2)]			*MOVEMENT*	
	Mar 18 $Ab	Sep 17 $Ab	Mar 17 $Ab	*Sep 17 %*	*Mar 17 %*
Equity under Management by type					
Listed equity	**12.9**	16.1	16.6	*(20)*	*(22)*
Unlisted equity	**73.3**	63.4	60.6	*16*	*21*
Total EUM	**86.2**	79.5	77.2	*8*	*12*
Equity under Management by region[(3)]					
Australia	**11.6**	10.0	8.2	*16*	*41*
Europe, Middle East and Africa	**33.5**	30.9	32.1	*8*	*4*
Americas	**21.5**	24.9	22.3	*(14)*	*(4)*
Asia	**19.6**	13.7	14.6	*43*	*34*
Total EUM	**86.2**	79.5	77.2	*8*	*12*

(1) Excludes equity invested by Macquarie directly into businesses managed by MIRA.
(2) Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian Dollars at the exchange rate prevailing at the measurement date.
(3) By location of fund management team.

EUM of $A86.2 billion at 31 March 2018 increased 12% from $A77.2 billion at 31 March 2017. The increase was primarily due to equity raised for listed and unlisted infrastructure funds (including Macquarie Asia Infrastructure Fund 2 and Macquarie Infrastructure Partners IV), infrastructure co-investments, the inclusion of the management of GIG funds and favourable currency movements. These were partially offset by equity returned by unlisted infrastructure funds (including MEIF3) and infrastructure co-investments due to the divestment of underlying assets, as well as unfavourable share price movements for listed funds.

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8 GLOSSARY

GLOSSARY

8.1 GLOSSARY

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions.
Additional Tier 1 Deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Asset Finance	Global provider of specialist finance and asset management solutions, with global expertise in aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail, and mining equipment, within CAF.
Assets under Management (AUM)	AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially carried at fair value plus transaction costs and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement.
Bank Group	MBL and its subsidiaries.
Bank Group Capital	Level 2 regulatory group capital.
Banking Group	The Banking Group comprises BFS, CAF, and some activities of CGM and MAM.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk.

BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of \$A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions 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. BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); 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).
BBSW	Bank Bill Swap Rate.
BFS	Banking and Financial Services.
BFS deposits	BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.
BIS	Bank for International Settlements.
CAF	Corporate and Asset Finance.
CCB	Capital Conservation Buffer.
Central Service Groups	The Central Service Groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.
CGM	Commodities and Global Markets.
CLF	Committed Liquidity Facility.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. – Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 Deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Compensation ratio	The ratio of Compensation Expense to Net Operating Income.
Consolidated Entity	Macquarie Group Limited and its subsidiaries.

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Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 'Earnings Per Share'.
ECAM	Economic Capital Adequacy Model.
ECS	On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of Exchangeable Capital Securities (ECS). ECS were subordinated, unsecured notes that paid discretionary, non-cumulative, semi-annual floating rate cash distributions. ECS were bought back on 20 June 2017.
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer definition in Section 7.2.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
Financial Report	The Financial Report within the Macquarie Group Annual Report.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
FY2017	The year ended 31 March 2017.
FY2018	The year ended 31 March 2018.
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High-quality liquid assets.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie, the Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Macquarie Bank	MBL and its subsidiaries.
Macquarie Income Securities (MIS)	Macquarie Income Securities (MIS) are perpetual, subordinated instruments that have no conversion rights to ordinary shares. Discretionary distributions are paid quarterly. They are treated as equity in the statement of financial position. There are four million $A100 face value MIS on issue.

MACS	On 8 March 2017, MBL, acting through its London Branch, issued $US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares 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).
MAM	Macquarie Asset Management.
MBL	Macquarie Bank Limited ABN 46 008 583 542.
MCN	On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of $A100 each. MCN are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 7 June 2021; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN2	On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of $A100 each. MCN2 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions 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. MCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 March 2024; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN3	MGL intends to make an offer of Macquarie Group Capital Notes 3 (MCN3) subsequent to 31 March 2018.
MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.
MGL, the Company	Macquarie Group Limited ABN 94 122 169 279.
MIM	Macquarie Investment Management.
MIRA	Macquarie Infrastructure and Real Assets.
MSIS	Macquarie Specialised Investment Solutions.
Net loan losses	The impact on the income statement of loan amounts provided for or written off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net Trading Income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-Bank Group	MGL, MFHPL and its subsidiaries.

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Non-Banking Group	The Non-Banking Group comprises Macquarie Capital and some business activities of MAM and CGM that use certain offshore regulated entities of the Non-Banking Group.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards.
Operating Groups	The Operating Groups consist of MAM, CAF, BFS, CGM and Macquarie Capital.
Principal Finance	Principal Finance is a division of CAF and provides flexible primary financing solutions and engages in secondary market investing, across the capital structure. Operating globally in both corporate and real estate sectors, the team has experience across a variety of industry groups including real estate, infrastructure, telecommunications, media, entertainment and technology, leisure and healthcare.
RBA	Reserve Bank of Australia.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of AVS, share of associate and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
SPEs	Special purpose entities.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the 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 Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
SYD distribution	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders in January 2014.
Tier 1 Capital	Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.
UK	The United Kingdom.
US	The United States of America.

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