MACQUARIE

Macquarie Securities South Africa Limited

Financial Statements
for the year ended 31 March 2018

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Macquarie Securities South Africa Limited undertakes Equity Derivative Trading, Origination and Equity Finance activities.
Directors	Graham Crawford Duncan MacRobert Peter Gordon Timothy Leclercq Nikolai Mavrodinov William Phillips
Registered office	Level 2, Great Westerford 240 Main Road Rondebosch Cape Town 7700
Business address	Level 2, Great Westerford 240 Main Road Rondebosch Cape Town 7700
Postal address	PO Box 50525 Waterfront Cape Town 7700
Holding company	Macquarie EMG Holdings Proprietary Limited incorporated in Australia
Ultimate holding company	Macquarie Group Limited incorporated in Australia
Auditors	PricewaterhouseCoopers Inc. Chartered Accountants (SA) Registered Auditors
Secretary	David Scheppening
Company registration number	2006/023546/06

Index

Level of assurance

These financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Preparers

Kim Robertson and Siveshni Naidoo
Chartered Accountants (SA)

Published

27 June 2018

Report of the Audit Committee

The Board Audit Committee ("BAC" or the "Committee") is constituted as a statutory committee in terms of the Companies Act No 71, 2008 ("Act"), and has an independent role with accountability to both the board and to shareholders of Macquarie Securities South Africa Limited ("MSSA" or the "Company"). The BAC operates under an approved charter, assigned by the MSSA board of directors (the "Board"), setting out the duties and responsibilities.

Composition of the Committee

The Committee currently comprises of three independent non-executive directors who are all suitably skilled, with all three members having relevant financial experience. The Committee is elected by the shareholders at the Company's annual general meeting ("AGM").

King IV recommends that the chairman of the Board should not be a member of a company's audit committee. The chairman of the Board, Peter Gordon (the "Chairman"), currently serves on the Company's Committee due to the small size of the Board. The Board has considered the issue and believes that the Chairman's skills, knowledge and experience allow him to make a significant contribution to the Committee and to equip the Committee to perform its functions and the Board has therefore recommended that he continues to serve on the Committee.

Fees paid to the BAC members are disclosed in the notes to the Company's financial statements.

Internal audit

The Company's internal audit function is provided by an independent team within the Macquarie Group Limited's ("MGL") Risk Management Group ("RMG"). The internal audit team has provided feedback to the Committee and has direct access to the Committee. The Committee is satisfied that the Company's internal audit function is independent and has the necessary resources and authority to enable it to discharge its duties.

Internal control

Systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and provide reasonable, but not absolute, assurance against misstatement or loss.

While the Board is responsible for the internal control systems and for reviewing their effectiveness, responsibility for their implementation and maintenance rests with executive management. The systems of internal control are based on Macquarie Group structures, together with written policies and procedures. These provide for segregation of duties, clearly-defined lines of authority and accountability.

The Committee has assessed the effectiveness of the internal control system based on information and explanations given by management, work done by the internal audit division and discussions with the external auditor on the results of the audit. Through this process no material matter has come to the attention of the Committee that caused its members to believe that the Group's system of internal controls and risk management is not effective and would not result in the preparation of reliable financial statements.

External audit

The Committee has evaluated the independence and expertise of PricewaterhouseCoopers Inc ("PwC") as the external auditor, and nominates them as external auditors for the ensuing year. In arriving at this decision, the Committee was cognisant that PwC has been previously appointed as an auditor of the Company and noting any consultancy work or advisory work PwC may have performed for the Company, and has approved the terms of engagement and fees paid to PwC.

The external auditor has unrestricted access to the Group's records and management. PwC presents a report to the Committee on significant findings arising from the annual audit and is able to raise any areas of concern directly with the Committee. The Committee is satisfied that the external auditor is independent of the Company.

Non-audit services

Non-audit services provided by the external auditor may only be undertaken on approval by the Committee. These services should exclude any work which may be subject to external audit and could compromise the auditor's independence. All nonaudit services undertaken during the year were approved in accordance with this policy.

Report of the Audit Committee

Activities of the Board Audit Committee

The Committee met four times during the financial year. Minutes of the meetings of the Committee are presented at each Board meeting together with an update from the chairman of the Committee. Matters requiring action or improvement are identified and appropriate recommendations are made to the Board.

Evaluation of the Head of Finance (South Africa)

The Committee is satisfied that the expertise and experience of the Head of Finance (South Africa) is appropriate to meet the responsibilities of the position. This is based on qualifications, level of experience and the Board's assessment of the financial knowledge of the Head of Finance.

Emphasis of significant matters

The Committee has reviewed the Company's financial position and ability to operate as a going concern. Discussions with management have included the forecasts, liquidity analysis and support from the Macquarie Group through equity injections and subordinated loans. The Committee is satisfied that the Company can continue to operate for at least the next 12 months.

The recognition of the deferred tax asset has also been reviewed and the Committee agrees with the treatment of this asset. The deferred tax asset related to assessed losses has been recognised to the extent that future taxable profits are probable. This has been based on forecast revenue and expenses for a 5 year period. Deferred tax has not been recognised for expected profits beyond this 5 year period due to the uncertainty in forecasting beyond this time period.

After a comprehensive assessment, the committee is satisfied with the reasonability of the remaining amount of deferred tax assets as accounted for in the annual financial statements.

Approval of the Annual Financial Statements

The Committee has reviewed the Company's annual financial statements and considered the Company's accounting practices and internal financial control to be appropriate. The Committee has recommended approval of the annual financial statements of the Company for the year ended 31 March 2018 to the Board.

Tim Leclercq
Chairperson: Board Audit Committee

Report of Corporate Governance

Macquarie Securities South Africa Limited ("MSSA", the "Company") is a derivatives and securities dealer based in Cape Town. The Company is indirectly owned by Macquarie Group Limited ("MGL"), a global financial services provider listed on the Australian Securities Exchange ("ASX"). As an ASX-listed Company, MGL is required to report on the extent to which it has followed the governance recommendations of the ASX Corporate Governance Council.

During the 2014 financial year, MSSA converted from private to a public company under the South African Companies Act, 2008 (the "Act") on account of the fact that it issues freely transferable listed debt securities under its ZAR10,000,000,000 Debt Instrument Programme registered with the Johannesburg Securities Exchange ("JSE").

The oversight and governance of MSSA is performed by the board of directors (the "Board") and its committees. The Board is comprised of three executive directors, Graham Crawford, Nikolai Mavrodinov and William Phillips and three non-executive directors, Duncan MacRobert, Peter Gordon and Tim Leclercq. Peter Gordon is chairman of the Board of Directors.

The Board has also formed a Board Audit Committee ("BAC"). All members of the BAC are independent non-executive directors of MSSA, who also sit on the Board of MSSA. Tim Leclercq is chairman of the BAC.

As an indirect subsidiary of MGL, the Company operates within the Macquarie Group's risk management framework. Under this framework, the risks which the Company is exposed to are managed on a globally consolidated basis for MGL as a whole, including all subsidiaries, in all locations. To facilitate this, Risk Management Group ("RMG") authority is required for all material risk acceptance decisions. RMG is independent of all other areas of the Macquarie Group and reports directly to the Managing Director and the Board of MGL. Management are comfortable that this internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions as the parent company.

In the context of the Company's ownership structure and its operation within MGL's risk management framework, the Board believes it is appropriate to look to MGL's Corporate Governance Summary and MGL's Environmental, Social and Governance Report as evidence of the Company's application of good governance within the Macquarie group. These reports are available on Macquarie's website.

Certificate by Company Secretary

In accordance with the provisions of section 88(2)(e) of the South African Companies Act 71 of 2008 (the act), I certify that for the year ended 31 March 2018 the company has lodged with the registrar of companies all such returns as are required of a company in terms of the act, and that all such returns are true, correct and up to date.

D. Scheppening

David Scheppening

Company Secretary

Date 27 June 2018

Directors' Report

The directors have pleasure in submitting their report on the financial statements of Macquarie Securities South Africa Limited for the year ended 31 March 2018.

1. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

The company recorded a net loss after tax for the year ended 31 March 2018 of R121,463,755 (2017: Restated net loss after tax R 2,291,741). The loss was predominantly driven by unwinds of equity linked assets where market movements were difficult to hedge. This contributed R45m to the loss and is included in net trading (loss) on the statement of profit or loss. These assets have fully unwound and there are no further investments in similar assets at year end. Therefore the directors are confident that similar losses on such products will not impact future results. There was a decrease in interest income during the year due to reduced collateral balances on stock lending activities.

The results also include deferred tax asset on assessed losses of R45,796,762 which have not been recognised. The deferred tax asset has only been recognised to the extent that future taxable profits are probable. This has been based on forecast revenue and expenses for a 5 year period. Deferred tax assets have not been recognised for expected future taxable profit beyond this 5 year period due to the uncertainty in forecasts beyond this point.

Full details of the financial position, results of operations and cash flows of the company are set out in these financial statements.

2. Share capital

During the year there was an injection of R100m of ordinary share capital. Refer to note 14 of the financial statements for detail of the movement in authorised and issued share capital.

3. Directorate

The directors in office at the date of this report are as follows:

Graham Crawford		
Nicholas Luck		Resigned 26 July 2017
Duncan MacRobert	Non-executive	
Peter Gordon	Non-executive	
Timothy Leclercq	Non-executive	
Nikolai Mavrodinov		
William Phillips		Appointed 09 August 2017

4. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

5. Going concern

The directors have performed assessments and concluded that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. The directors are reviewing the cost base of the company and formalising plans to reduce non-core expenditure without impacting revenue. During the year the shareholders injected R100,000,000 of ordinary share capital (Refer to Note 14) which has given the company sufficient capital and liquidity. In addition there are ZAR 600,000,000 of subordinated loans from Macquarie Group companies (Refer to Note 5). Detailed forecasts have been prepared and approved at group level showing the company returning to profitability in the short to medium term. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The company has access to short term borrowing facilities from group companies. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company. Post year-end, the financial performance has been tracking ahead of forecasts and is positive on a year to date basis.

Directors' Report

6. Auditors

PricewaterhouseCoopers Inc. continued in office as auditors for the company for 2018.

At the AGM, the shareholder will be requested to reappoint PricewaterhouseCoopers Inc. as the independent external auditors of the company and to confirm Dilshad Khalfey as the designated lead audit partner for the 2019 financial year.

7. Secretary

The company secretary is David Scheppening.

Postal address:	PO Box 50525 Waterfront Cape Town 8002
Business address:	Level 2, Great Westerford 240 Main Road Rondebosch Cape Town 7700

The financial statements set out on pages 15 to 60, which have been prepared on the going concern basis, were approved by the board on 27 June 2018, and were signed on its behalf by:

Graham Crawford	**Peter Gordon**
27 June 2018	**27 June 2018**

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, 71 of 2008. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 71 of 2008 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2019 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditors and their report is presented on pages 9 to 14.

The financial statements set out on pages 15 to 60, which have been prepared on the going concern basis, were approved by the board on 27 June 2018 and were signed on their behalf by:

Graham Crawford	**Peter Gordon**

pwc

Independent auditor's report

To the Shareholders of Macquarie Securities South Africa Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Macquarie Securities South Africa Limited (the "Company") as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Macquarie Securities South Africa Limited's financial statements set out on pages 15 to 60 comprise:

- the statement of financial position as at 31 March 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

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

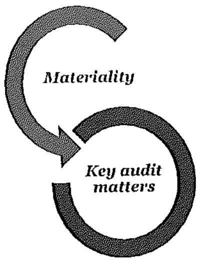
Independence

We are independent of the Company in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

pwc

Our audit approach

Overview



Overall materiality

- *R6,009,954 which represents 5% of the three year average profit or loss before taxation.*

Key Audit Matters

- *Recoverability of deferred tax asset on assessed losses*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	*R6,009,954*
How we determined it	*5% of the three year average profit or loss before taxation.*
Rationale for the materiality benchmark applied	*We chose profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. Due to the volatility of the trading results of the Company, a prudent approach was taken to use a three year average pre-tax profit or loss. We chose 5% which is consistent with quantitative materiality thresholds used for profit-orientated companies in this sector.*

pwc

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Recoverability of deferred tax asset on assessed losses	*Our procedures included:*
A deferred tax asset is recognised on assessed losses to the extent that it is probable that taxable profit will be available against which a deductible temporary difference or unused tax losses or tax credits can be utilised. The carrying value of the deferred tax assets recognised on assessed losses is R37,3 million (refer to note 7 to the financial statements). *In the current year, the company realised a loss before tax of R113 million. Management performed an assessment to determine whether sufficient future taxable profit will be generated to utilise the unused tax losses. This assessment resulted in a decrease of R8,8 million to the company's deferred tax asset available for set off against future taxable income from the prior year.* *In assessing the future taxable income, management has made estimates based on assumptions in relation to the future taxable income of the entity, thereby concluding on the recoverability of these assets.* *These judgements and assumptions include the forecast contract cash flows, the growth rates applied to those cash flows, new products and strategies as well as the entity's ability to execute these plans.* *Due to the significant estimation uncertainty related to the cash flows, the assessments of the recoverability of deferred tax asset are considered to be a matter of most significance to the current year audit.*	• *Evaluating the assessments performed by management with regard to future taxable income, and the realisation of the deferred taxation, by comparing their assessment to their five year cash flow forecast and approved business plans;* • *Assessing the accuracy of management's ability to forecast by comparing previous budgets to actual results. Management's previous forecasts were within a reasonable range of the actual performance;* • *We performed a sensitivity analysis by flexing the key assumption (i.e. growth rate assumption in respect of new products and trading strategies) with a reasonable percentage to see if it would affect the utilisation of the deferred tax asset. The results of the flex still allowed for the assessed loss to begin to be utilised within the forecasted period;* • *We made use of our tax expertise to assess the viability of management's taxation planning strategies. We considered the ability of the company to execute the tax planning opportunities given their financial and operational capability. In addition, we inspected minutes of board meetings to determine management's intention of executing these strategies.*

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Macquarie Securities South Africa Limited Financial Statements for the year ended 31 March 2018*, which includes the Directors' Report, Report of the Audit Committee and the Certificate by Company Secretary as required by the Companies Act of South Africa. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Macquarie Securities South Africa Limited for 10 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D Khalfey
Registered Auditor
Cape Town
27 June 2018

Statement of Financial Position as at 31 March 2018

Figures in Rand	Note(s)	2018	Restated 2017
Assets			
Non-Current Assets			
Property, plant and equipment	3	12,521,222	18,086,607
Investments in associates	4	420	420
Deferred tax	7	40,473,161	48,750,469
		52,994,803	**66,837,496**
Current Assets			
Financial assets at fair value through profit and loss	6	2,584,187,877	3,966,317,106
Loans to group companies	5	153,191,259	159,526,557
Loans at amortised cost	8	-	560,401,844
Derivative financial instruments	10	932,090,346	1,625,073,083
Trade portfolio assets	9	122,999,616	897,332,101
Trade and other receivables	12	55,717,220	156,814,512
Collateral on securities borrowed	11	536,620,705	1,248,136,787
Cash and cash equivalents	13	22,266,880	51,208,128
		4,407,073,903	**8,664,810,118**
Total Assets		**4,460,068,706**	**8,731,647,614**
Equity			
Share capital	14	290,327,100	190,327,100
Reserves		-	4,299,502
Accumulated loss		(206,559,433)	(89,395,180)
		83,767,667	**105,231,422**
Liabilities			
Non-Current Liabilities			
Intercompany financial liabilities at fair value through profit and loss	5	299,256,065	2,214,133,781
Current Liabilities			
Intercompany financial liabilities at fair value through profit and loss	5	649,511,608	38,832,383
Derivative financial instruments	10	130,574,088	1,326,138,069
Financial liabilities at fair value through profit and loss	16	2,458,328,277	2,594,075,460
Issued debt	17	-	170,169,397
Trade and other payables	20	70,489,460	930,650,365
Collateral received on securities lent	18	25,556,000	690,517,516
Trade portfolio liabilities	19	742,585,541	661,899,221
		4,077,044,974	**6,412,282,411**
Total Liabilities		**4,376,301,039**	**8,626,416,192**
		4,460,068,706	**8,731,647,614**

Statement of Profit or Loss and Other Comprehensive Income

Figures in Rand	Note(s)	2018	Restated 2017
Interest and similar income	21	498,039,784	680,507,600
Interest expense and similar charges	22	(400,464,027)	(437,411,040)
Net interest income		**97,575,757**	**243,096,560**
Net trading (loss)/income		(87,607,656)	(108,879,171)
Operating expenses		(123,154,421)	(145,036,807)
Operating (loss)/profit	23	**(113,186,320)**	**(10,819,418)**
(Loss)/profit before taxation		**(113,186,320)**	**(10,819,418)**
Taxation	24	(8,277,435)	8,527,677
(Loss)/profit for the year		**(121,463,755)**	**(2,291,741)**
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		**(121,463,755)**	**(2,291,741)**

Macquarie Securities South Africa Limited
Financial Statements for the year ended 31 March 2018

Statement of Changes in Equity

Figures in Rand	Share capital	Other NDR	Accumulated loss	Total equity
Balance at 01 April 2016	**190,327,100**	**4,299,502**	**(87,103,439)**	**107,523,163**
Profit for the year	-	-	3,684,827	3,684,827
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**3,684,827**	**3,684,827**
Opening balance as previously reported	190,327,100	4,299,502	(83,418,612)	111,207,990
Adjustments				
Prior period errors (Note 35)	-	-	(5,976,568)	(5,976,568)
Balance at 01 April 2017 as restated	**190,327,100**	**4,299,502**	**(89,395,180)**	**105,231,422**
Loss for the year	-	-	(121,463,755)	(121,463,755)
Other comprehensive income	-	-	-	-
Total comprehensive Loss for the year	**-**	**-**	**(121,463,755)**	**(121,463,755)**
Issue of shares	100,000,000	-	-	100,000,000
Transfer between reserves	-	(4,299,502)	4,299,502	-
Total contributions by and distributions to owners of company recognised directly in equity	**100,000,000**	**(4,299,502)**	**4,299,502**	**100,000,000**
Balance at 31 March 2018	**290,327,100**	**-**	**(206,559,433)**	**83,767,667**
Note(s)	14			

Statement of Cash Flows

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Cash generated from operations	25	1,195,706,681	380,879,948
Interest received		295,059,680	623,889,982
Interest paid		(402,485,930)	(351,472,935)
Dividends manufactured on trading securities		(31,716,357)	22,297,723
Net cash from operating activities		**1,056,564,074**	**675,594,718**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	-	(755,660)
Settlement of loans		560,401,844	-
Net cash from investing activities		**560,401,844**	**(755,660)**
Cash flows from financing activities			
Proceeds on shares issued	14	100,000,000	-
Proceeds on redeemable preference share issue	14	140,000,000	-
Repayment of long-term debt		(1,477,712,440)	(56,187)
Repayment of preference shares		(440,000,000)	(621,000,000)
Preference dividends received/(paid)		31,805,274	(68,522,732)
Net cash from financing activities		**(1,645,907,166)**	**(689,578,919)**
Total cash movement for the year		**(28,941,248)**	**(14,739,861)**
Cash at the beginning of the year		51,208,128	65,947,989
Total cash at end of the year	13	**22,266,880**	**51,208,128**

Accounting Policies

1. Presentation of financial statements

The 2018 financial statements of the Company have been prepared in accordance with and containing information required by International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee) and Financial Reporting Pronouncements (as issued by the Financial Reporting Standards Committee) and comply with the South African Companies Act No. 71 of 2008. The financial statements have been prepared under the historical cost convention and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. They are presented in South African Rands.

These accounting policies are consistent with the previous period.The basis of preparation of the Statement of Profit or Loss and Other Comprehensive Income is prepared based on the nature.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management may be required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Refer to the following notes where additional disclosure is made: Note 1.3 below - Fair Value Determination; Financial assets at fair value - Note 6; Deferred Tax - Note 7; Derivative financial instruments - Note 10; Financial liabilities at fair value - Note 16 and Interest in other entities - Note 27.

Management estimates are deemed to be reasonable based on available market information. In the event market information is not available, sensitivity analyses have been disclosed.

1.2 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

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

If an asset's carrying value is greater than its receoverable amount, the carrying amount is written down immeadiately to its recoverable amount. Adjustment arising from such items and on disposal of property, plant and equipment are recognised in the income statement.

Item	Depreciation method	Average useful life
Equipment	Straight line	3-5 years
Furniture and fixtures	Straight line	5 years
Leasehold improvements	Straight line	5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.3 Financial instruments

Classification

The company classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through profit or loss - held for trading
- Financial assets at fair value through profit or loss - designated
- Held-to-maturity investment
- Loans and receivables
- Financial liabilities at fair value through profit or loss - held for trading
- Financial liabilities at fair value through profit or loss - designated
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Loans from group companies are classified as either financial liabilities at fair value through profit or loss or financial liabilities at amortised cost depending on the terms of the loan.

Preference shares are classified as financial liabilities at fair value through profit or loss.

Initial recognition and measurement

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments. The company applies trade date accounting.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Net gains or losses on the financial instruments at fair value through profit or loss including dividends and excluding interest.

Dividend income is recognised in profit or loss as part of net trading loss/other income when the company's right to receive payment is established.

Interest income and expense is recognised on an effective yield basis.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

1.3 Financial instruments (continued)

Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Financial instruments designated as at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading, and those designated at fair value through profit or loss at inception.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial instruments are designated at fair value through profit or loss when:

- It is part of a group of financial assets managed and evaluated on a fair value basis;

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost such as loans and advances to customers or banks and debt securities in issue;

- Financial instruments, such as debt securities held, containing one or more embedded derivatives which significantly modify the cash flows.

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs or amortised cost and depending on the terms of the loan.

Loans to group companies are classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Trade and other receivables

Trade and other receivables are classified as loans and receivables and are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method. Trade and other receivables are assessed for impairment on an annual basis. The recoverability and the ageing of the trade and other receivables is taken into account in the impairment assessment performed.

Accounting Policies

1.3 Financial instruments (continued)

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost.

Offsetting financial instruments

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

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derivatives are classified as financial assets at fair value through profit or loss - held for trading.

The Company does not apply hedge accounting to derivatives.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the company has the positive intention and ability to hold to maturity are classified as held to maturity.

1.4 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

An entity shall offset current tax assets and current tax liabilities if the entity has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are only recognised to the extent that future taxable profits are probable. Management applies a 5 year period to forecast revenue and expenses to estimate probable taxable income due to the uncertainty of forecasting beyond 5years. The valuation of deferred tax assets on assessed losses will be reassessed at year reporting period.

An entity shall offset deferred tax assets and deferred tax liabilities if the entity has a legally enforceable right to set off the recognised amounts; if they relate to income tax levied by the same taxation authority on the same taxable entity.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.5 Leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The leases entered into by the Company are primarily operating leases. The total payments made under operating leases are charged to operating expenses in the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1.6 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest rate method.

Accounting Policies

1.6 Interest income and expense (continued)

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

1.7 Dividends

Dividends are recognised in the statement of comprehensive income in net trading income when the entity's right to receive payment is established. Manufactured dividends are obligations created on borrowed equity positions and are recognised when the entity's obligation to make payment is established.

1.8 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

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

Non-distributable reserves (NDR) comprises historic share based payment reserves related to a previous scheme. In the current year the reserve has been released to retained earnings.

1.9 Performance based remuneration

Share based payments

The ultimate parent entity, MGL, operates share-based compensation plans, which include options granted to employees and shares (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in note 15.

Macquarie Securities South Africa Limited recognises an expense for its awards granted to employees.The corresponding liability is cash settled to MGL. The awards are measured at their grant dates based on their fair value and for each Performance Share Units (PSU) the number expected to vest. This amount is recognised as an expense over the respective vesting periods. Performance hurdles attached to PSUs under the MEREP are not taken into account when determining the fair value of the options and PSUs at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

Profit share remuneration

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

1.10 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Accounting Policies

1.10 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Refer to note 33 for disclosure related to operating lease commitments.

1.11 Net trading income/(loss)

Net trading income/(loss) comprises gain and loss related to trading assets and liabilities and include all realised and unrealised fair value changes and foreign exchange differences.

1.12 Internal accounting policy changes

The company has elected to make the following internal accounting policy changes in the statement of financial position and the corresponding notes:

Classification of line items disclosed in the credit risk note (Note 30)

Line Items which are unrated have appropriately been disclosed as such. This has resulted in the old column in the credit risk disclosure " Past due or individually impaired" being replaced with the new disclosure "Unrated".

The reclassifications have no impact on the overall financial position or net earnings of the company. To ensure comparability, the comparative reporting periods have been restated.

1.13 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.14 Cash collateral on securities borrowed/lent and repurchase/reverse repurchase agreements

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

Accounting Policies

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

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

Interest relating to stock borrowing/lending and repurchase/reverse repurchase agreements are recognised in the statement of comprehensive income, using the effective interest rate method, over the expected life of the agreements. The Company continually reviews the fair value of the securities on which the above transactions are based and, where appropriate, requests or provides additional collateral to support the transactions, in accordance with the underlying agreements.

Notes to the Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Amendments to IAS 7: Disclosure initiative	01 January 2017	The impact of the standard is not material.
• Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	01 January 2017	The impact of the amendments is not material.

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 April 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 9 (AC 146) Financial Instruments	01 January 2018	Not expected to impact results materially but may result in additional disclosure
• Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers	01 January 2018	Unlikely there will be a material impact
• Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	01 January 2018	Unlikely there will be a material impact

IFRS 9 Financial Instruments (2009 & 2010) is effective for annual periods beginning on or after 1 January 2018 and will therefore result in changes to accounting policies for financial assets and financial liabilities covering Classification and Measurement, Impairment and Hedge accounting.

The company will first apply IFRS 9 in the financial year beginning 1 April 2018 and it will be applied retrospectively in respect of Classification and Measurement and Impairment, with no requirement to restate comparatives. The cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance sheet.

2. New Standards and Interpretations (continued)

Classification and Measurement: Financial assets: IFRS 9 has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial instrument is managed and its contractual cash flows. Compared to IAS 39, the FVTOCI and amortised cost categories will be added and held-to-maturity, loans and receivables and available-for-sale classification categories will be removed. Under IFRS 9, financial assets with embedded derivatives are classified in their entirety, without separating any derivative element.

A Key input in the assessment of the classification of the financial assets is the business model applied to managed the financial assets.

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

(i) how the performance of financial assets held within that business model are evaluated and reported to the Entity's key management personnel

(ii) the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed

(iii) how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The impact on the classification and measurement of financial assets will be as follows for the company:

- Financial instruments including derivative assets currently measured at fair value through profit or loss will continue to be measured at fair value through profit or loss in terms of IFRS 9.
- Loans classified as loans and receivables measured at amortised cost in terms of IAS 39 will continue to be measured at amortised cost in terms of IFRS 9.

Financial liabilities

The component of change in fair value of financial liabilities designated at fair value through profit or loss due to the Entity's own credit risk is presented in other comprehensive income, unless this creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of credit risk) are presented in profit or loss. under IAS 39, this component was recognised in profit or loss.

The company has designated certain financial instruments at fair value through profit or loss as these are managed at fair value in terms of the related business model and to reduce the accounting mismatch that would otherwise arise. The amount of changes in the fair value attributable to the changes in credit risk of these liabilities were recognised in profit or loss in the current year under IAS 39. On the adoption of IFRS 9 such changes in fair value will be recognised in other comprehensive income.

Impairment of Financial Assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model. This will require considerable judgement going forward over how changes in economic factors affect expected credit losses (ECL). It will also have to be determined on a probability-weighted basis.

The new impairment model will apply to the following financial instruments:

– financial assets that are debt instrument and not measured at FVPL;

– loan commitments

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs . Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particular in the following areas:

– assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

– incorporating forward-looking information into the measurement of ECLs.

The majority of financial assets of the company is measured at FVPL. The impact on loan commitments is not expected to be material, but will only be confirmed once the final assessment is concluded.

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

Transition

The company will record a transition adjustment to the opening balance sheet, retained earnings and other comprehensive income at 1 April 2018 for the impact of the adoption of the classification and measurement, and impairment requirements of IFRS 9. The impact on the financial statements as a result of the adoption of IFRS 9 is confined to the impairment allowance as the results of our SPPI tests of financial instruments conclude that the current financial instruments recognised for the reporting period will continue to be accounted for using the amortised cost and/or fair value through profit and loss where applicable.

The transition adjustment will reduce the Entity's shareholders' equity and will not have a material impact on the Entity's minimum regulatory capital requirements. The estimated transition adjustment relates primarily to the implementation of the impairment requirements. The Entity will not restate comparatives. The Entity will continue to refine and validate components of the ECL impairment models and develop related technology solutions and controls during the financial year ending 31 March 2019. The adoption of the Classification and Measurement requirements of the standard will not result in material measurement differences when compared to those under IAS 39

IFRS 7 Financial Instruments: Disclosures IFRS 7 has been amended to include more extensive qualitative and quantitative disclosure relating to IFRS 9, such as new financial instrument classification categories which will impact disclosures related to the statement of financial performance as well as introducing new qualitative and quantitative disclosure requirements for the three stage impairment model. This will be considered in preparation for the 2019 reporting period.

IFRS 15 specifically excludes financial instruments recognised under IFRS 9 Financial Instruments. Macquarie's assessment of revenue streams existing at transition has concluded. Based on this assessment, the Entity will not be materially impacted upon adoption and no transition adjustment is required.

Notes to the Financial Statements

3. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fixtures	336,530	(321,468)	15,062	336,530	(313,651)	22,879
Leasehold improvements	26,160,251	(13,745,217)	12,415,034	26,160,251	(8,424,488)	17,735,763
Equipment	851,739	(760,613)	91,126	851,739	(523,774)	327,965
Total	**27,348,520**	**(14,827,298)**	**12,521,222**	**27,348,520**	**(9,261,913)**	**18,086,607**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Depreciation	Total
Furniture and fixtures	22,879	(7,817)	15,062
Leasehold improvements	17,735,763	(5,320,729)	12,415,034
Equipment	327,965	(236,839)	91,126
	18,086,607	**(5,565,385)**	**12,521,222**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Depreciation	Total
Furniture and fixtures	15,749	14,020	-	(6,890)	22,879
Leasehold improvements	22,450,910	687,104	-	(5,402,251)	17,735,763
Equipment	464,102	54,536	63,002	(253,675)	327,965
	22,930,761	**755,660**	**63,002**	**(5,662,816)**	**18,086,607**

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

Leasehold improvements relate to improvements made on the office building.

4. Investments in associates

The following table lists all of the associates in the company:

Name of company	% ownership interest 2018	% ownership interest 2017	Carrying amount 2018	Carrying amount 2017
PSIC Finance 3 (RF) (Pty) Ltd	30 %	30 %	300	300
Oakmont Finance (RF) (Pty) Ltd	30 %	30 %	30	30
Bowood Investments (RF) (Pty) Ltd	30 %	30 %	30	30
Newmarket Capital (RF) (Pty) Ltd	30 %	30 %	30	30
Devon Finance (RF) (Pty) Ltd	30 %	30 %	30	30
			420	420

All the above companies are registered in South Africa.

PSIC Finance 3 (RF) (Pty) Ltd conducts the business of issuing cumulative redeemable preference shares and applying the proceeds to subscribe for cumulative redeemable preference shares.

The remaining four companies conduct the business of issuing of debentures and applying the proceeds to subscribe for debentures. These companies are currently dormant.

The net asset value and profit of the associates are insignificant to the Company's financial statements and thus disclosure of those figures have been deemed negligible.

Figures in Rand	2018	2017

5. Loans to/from group companies

Current assets and current liabilities

Intercompany financial assets at fair value through proft and loss	152,329,302	150,305,837
Loans to group companies at amortised cost	861,957	9,220,720
Intercompany financial liabilities at fair value through proft and loss	(606,174,949)	-
Loans from group companies at amortised cost	(43,336,659)	(38,832,383)
	(496,320,349)	**120,694,174**

Non-Current Liabilities

Intercompany financial liabilities at fair value through proft and loss	(299,256,065)	(2,214,133,781)

Intercompany financial assets at fair value through profit and loss

The balance relates to a subordinated loan to Macquarie Equities South Africa (Pty) Ltd that bears interest at 3 month JIBAR + 1.5% per annum and is repayable in February 2019.

Intercompany financial liabilities at fair value through profit and loss

The balance consists of four subordinated loans from the Delta1 Finance Trust as per the table below.

Loan Notional	Subordinated	Bearing interest at	Date repayable	Current or Non-current
R300m	Yes	6M JIBAR + 0.355%	August 2018	Current
R300m	No	3M JIBAR + 0.775%	August 2018	Current
R225m	Yes	3M JIBAR + 0.45%	February 2020	Non-Current
R75m	Yes	1M JIBAR	February 2020	Non-Current

Loans to/ from group companies at amortised cost

R(0.1)m (2017: R6m) relates to accrued interest on collateral. The balance of related party loans are unsecured and bear interest at commercial interest rates. The loans to group companies have no defined repayment terms but are due and payable on demand. The carrying amount approximates the fair value.

Refer note 26 for related party disclosure.

6. Financial assets at fair value through profit and loss

Money Market instruments and funds	1,181,864,387	1,010,689,557
Term deposits managed on a fair value basis	1,213,766,075	2,843,992,745
Negotiable certificates of deposit	94,036,715	-
Unlisted investments	94,520,700	111,634,804
	2,584,187,877	**3,966,317,106**

Current assets		
At fair value through profit or loss	2,584,187,877	3,966,317,106

Notes to the Financial Statements

Figures in Rand	2018	2017

6. Financial assets at fair value through profit and loss (continued)

Fair value information

All financial assets at fair value through profit or loss were initially designated as such.

The maximum exposure to credit risk before any credit enhancements at the reporting date is the fair value of each class of asset mentioned above.

The decrease in financial assets at fair value through proft and loss relates mainly to term deposits managed on a fair value basis which have been redeemed in the current year

Figures in Rand	2018	2017

7. Deferred tax

Deferred tax liability

Prepaid expenses	(196,732)	-
Temporary differences on other provisions	(166,845)	-
Total deferred tax liability	**(363,577)**	**-**

Deferred tax asset

Temporary differences on bonus provision	732,630	1,711,571
Temporary differences on other provisions	2,753,938	848,161
Deferred tax balance from temporary differences other than unused tax losses	3,486,568	2,559,732
Tax losses available for set off against future taxable income	37,350,170	46,190,737
Total deferred tax asset, net of impairment	**40,836,738**	**48,750,469**

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax liability	(363,577)	-
Deferred tax asset	40,836,738	48,750,469
Total net deferred tax asset	**40,473,161**	**48,750,469**

Reconciliation of deferred tax asset / (liability)

At beginning of year	48,750,469	40,222,792
Increase/(decrease) in tax losses available for set off against future taxable income	(8,840,567)	8,705,240
Originating temporary difference on bonus provision	(978,941)	506,083
Originating temporary differences on other provisions	1,738,932	(683,646)
Originating temporary differences on prepaid expenses	(196,732)	-
	40,473,161	**48,750,469**

Recognition of deferred tax asset

Recoverability of the deferred tax asset is based on management forecasts which are regularly updated and assessed. Deferred tax assets are only recognised to the extent that future profits are available against which the unused tax losses or unused tax credits can be utilised. Assessed losses of R296,953,329 are available to offset future taxable income, however an amount of R45,797,762 of deferred tax asset related to theses assessed losses has not been recognised.

Management performs an assessment of the probability of future taxable profit by performing an analysis over a 5 year period of revenue and expenses. To determine the probability that taxable profit will be available against which the unused tax losses can be utilised, the company has reviewed its forecasts of secured work for the foreseeable future and compared that to its total tax losses. To the extent that forecast do not support the deferred tax asset being utilised within 5 years, the deferred tax asset is not recognised.

Detailed forecasts have been prepared and approved at group level showing the company returning to profitability in the short to medium term. Theses forecasts are based on approved financial budgets and the five-year strategic plan, which has been approved by the Group and board of directors, to determine the recoverability of the deferred tax asset balance.

The following criteria is used in assessing the probability that taxable profit will be available against which the unused tax losses can be utilised:

- Whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses can utilised;
- Whether it is probable that the entity will have taxable profit before the unused tax losses expire;
- Whether the unused tax losses result from identifiable causes which are unlikely to recur; and
- Whether there are tax planning opportunities available that will create taxable profit in the period in which the unused tax losses or unused tax credit can be utilised.

Figures in Rand	2018	2017

8. Loans at amortised cost

Loans	-	424,423,792
Impairment of loans	-	(33,866,936)
Term deposits	-	169,844,988
	-	**560,401,844**

The loans earned income at rates linked to the SA prime lending rate and JIBAR and matured during 2018. The fair value of loans held at amortised cost is Rnil (2017: R382,028,811) calculated using a discounted cash flow model. These were classified as Level 2 in the Fair Value Hierarchy.

Loans are impaired where the recoverable amount is lower than the carrying value. The recoverable amount is calculated using the fair value of the collateral.

The term deposits have matured and earned interest at an average rate of 8.785% during the year until maturity (2017: 8.785%). The fair value of the term deposits held at amortised cost is Rnil (2017: R170,177,625) calculated using a discounted cash flow model.

Redeemed loans in the current year include an asset which was impaired by R 23,379,889 (2017: Rnil) to nil carrying value.

The decrease in loans at amortised cost relates to a structured product which matured in the current year.

9. Trade portfolio assets

Trade portfolio assets comprise listed equity securities which are held for trading and are classified as financial assets at fair value through profit or loss.

Trade portfolio assets relate to listed equities held at year end. The decrease relates to a timing difference around year end.

10. Derivative financial instruments

Derivative instruments entered into include futures, forwards, swaps and options predominantly in equity markets. These derivative instruments are used both for trading purposes and risk management of existing financial assets and liabilities.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques, including discounted cash flows and option pricing models as appropriate. Movements in the carrying amounts of derivatives are recognised through profit or loss.

2018 - Derivatives held for trading	**Assets**	**Liabilities**
OTC derivatives	800,852,253	(367,403)
Exchange traded equity futures	131,238,093	(130,206,685)
	932,090,346	**(130,574,088)**

2017 - Derivatives held for trading	**Assets**	**Liabilities**
OTC derivatives	296,824,636	(1,666,546)
Exchange traded equity futures	1,328,248,447	(1,324,471,523)
	1,625,073,083	**(1,326,138,069)**

For the Fair Value Hierarchy refer to note 32.

11. Collateral on securities borrowed

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Collateral is placed on call, earns interest at commercial collateral rates and relates to the borrowing of equity securities.

The related liability represents the fair value of securities that have been borrowed for which cash collateral has been pledged.

	2018 Asset	2018 Related Liability	2017 Asset	2017 Related Liability
Trading Assets	536,620,705	(512,181,565)	1,248,136,787	(1,179,946,061)

Fair value approximates carrying value.

12. Trade and other receivables

	2018	2017
Trade receivables	9,840,956	387,189
Other receivables	726,981	3,555,443
Unsettled equity trades with JSE	45,149,283	152,871,880
	55,717,220	**156,814,512**

The decrease in trade and other receivables relates to timing differences of unsettled equity trades with the JSE.

Fair value of trade and other receivables

Due to their short term nature, the carrying amount of trade and other receivables approximates the fair value. The majority of the debtors are current. The recoverability of the trade and other receivables has been assessed and no impairment is deemed necessary.

Debtors Age analysis	**<30 days**	**30-90 days**	**>90 days**	**Total**
Balance	55,506,578	176,889	33,753	55,717,220

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Bank balances and other cash equivalents	22,266,880	51,208,128

There are no overdraft facilites in place.

Figures in Rand	2018	2017

14. Share capital

Number of shares authorised:		
328,000 Ordinary shares of R1 each	328,000	328,000
190,000,000 Class "B" Ordinary shares	190,000,000	190,000,000
526,315,789 no par value Class "C" ordinary shares	526,315,789	-
50,140 no par value class "A" redeemable cumulative preference shares	50,140	49,875
100 no par value class "B" redeemable cumulative preference shares	100	4
12,587 no par value class "C" redeemable cumulative preference shares	12,587	30
75 no par value class "D" redeemable cumulative preference shares	75	-
100 no par value class "E" redeemable cumulative preference shares	100	-
310,100,000 no par value unclassified shares under s36(1)(c) of the Act	310,100,000	310,100,000
337,098 no par value unclassified shares under s36(1)(d) of the Act	337,098	337,238
	1,027,143,889	**500,815,147**

Number of shares issued:		
327,100 Ordinary shares of R1 each	327,100	327,100
190,000,000 Class "B" Ordinary shares	190,000,000	190,000,000
526,315,789 no par value Class "C" ordinary shares	526,315,789	-
Nil no par value class "A" redeemable cumulative preference shares	-	-
Nil no par value class "B" redeemable cumulative preference shares	-	-
Nil no par value class "C" redeemable cumulative preference shares	-	30
Nil no par value class "D" redeemable cumulative preference shares	-	-
Nil no par value class "E" redeemable cumulative preference shares	-	-
	716,642,889	**190,327,130**

Issued in Rand		
327,100 Ordinary shares of R1 each	327,100	327,100
190,000,000 Class "B" Ordinary shares	190,000,000	190,000,000
526,315,789 no par value Class "C" ordinary shares	100,000,000	-
	290,327,100	**190,327,100**

All issued shares are fully paid.

During the year R100m of ordinary share capital was issued to Macquarie EMG Holdings Proprietary Limited, with no restrictive terms.

Refer below to the reconciliation of preference shares issued and redeemed during the year.

Preference shares		
Opening balance	300,000,000	921,000,000
Issued	140,000,000	-
Redeemed	(440,000,000)	(621,000,000)
	-	**300,000,000**

The opening balance of the preference shares relates to the class "C" redeemable cumulative preference shares. The issued preference shares relate to the class "A" redeemable cumulative preference shares. The preference shares were issued to external parties and were held at fair value through profit and loss, Refer note 16.

15. Employee equity participation

Macquarie Group Employee Retained Equity Plan

Macquarie Group Limited (MGL) continues to operate the Macquarie Group Employee Retained Equity Plan (MEREP) in conjunction with remuneration arrangements.

15. Employee equity participation (continued)

Award Types under the MEREP

Restricted Share Units (RSUs)

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

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

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

	2018 - No. of RSU Awards	2017 - No. of RSU Awards
RSUs in issue at the beginning of the financial year	2,568	11,518
Granted during the year	439	429
Vested RSUs withdrawn or sold from the MEREP during the financial year	(1,122)	(6,907)
Forfeited during the year	-	(560)
Transfers (to)/from related body corporate entities	(304)	(1,912)
RSUs in issue at the end of the year	1,581	2,568

Weighted average share price at exercise date of options was R884.89 or AU$88.07 (2017:R824.40 or AU$80.51).

The awards are measured at their grant dates based on their fair value. This amount is recognised as an expense evenly over the respective vesting periods.

RSUs have been granted in the current year in respect of 2017. The fair value of each of these grants is estimated using Macquarie's share price on the date of grant

While RSUs for the financial year 2018 will be granted during the financial year 2019, MGL begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity instruments expected to vest. In the following financial year, MGL will adjust the accumulated expense recognised for the final determination of fair value for each RSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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

For the financial year ended 31 March 2018, compensation expense relating to the MEREP totalled R416,928.65 or AU$41,495.76 (2017: R611,182.40 or AU$59,687.53).

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

- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)

AWARD TYPE	LEVEL	VESTING
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
New Hire Awards	All Director-level staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation

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

15. Employee equity participation (continued)

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

For Retained Profit Share Awards representing 2017 retention, the allocation price was the weighted average price of the Shares acquired for the 2017 Purchase Period, which was 16 May 2017 to 22 June 2017 inclusive. That price was calculated to be $89.25 (2016 retention: $71.55).

16. Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit or loss are recognised at fair value.

	2018	2017
Debt issued at fair value	2,344,094,668	2,182,292,287
Equity linked notes	114,233,609	106,367,290
Preference Shares at fair value	-	305,415,883
	2,458,328,277	**2,594,075,460**

The opening balance of the preference shares relates to the class "C" redeemable cumulative preference shares. The issued preference shares relate to the class "A" redeemable cumulative preference shares. The preference shares were issued to external parties and were held at fair value through profit and loss

17. Issued debt

			2018	2017
Current liabilities			-	170,169,397

	2018 Interest Rate	2017 Interest Rate	2018	2017
Listed debt - held at amortised cost	8.57%	8.57%	-	170,169,397

The fair value of debt issued held at amortised cost is Rnil (2017: R169,933,741) calculated using a discounted cashflow model. This was classified as Level 2 in the Fair Value Hierarchy.

18. Collateral on securities lent

Liabilities are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Collateral is placed on call and relates to the borrowing of equity securities.

The related asset represents the fair value of securities that have been lent for which cash collateral has been received.

	2018 Liability	2018 Related Asset	2017 Liability	2017 Related Asset
Trading liabilities	(25,556,000)	8,101,740	(690,517,516)	662,500,485

The balance of collateral on securities lent changes thoughout the year based on the fair value of securities which have been lent. The movement from the prior year indicates that less securities have been lent close to year end.

19. Trade portfolio liabilities

Trading liabilities represent the quoted equity securities that the Company intends to buy back in the short term. These securities are measured at fair value through profit and loss and are held for trading.

Notes to the Financial Statements

Figures in Rand	2018	2017

20. Trade and other payables

Trade payables	5,099,451	5,825,951
Unsettled equity trades with JSE	48,535,567	910,360,066
VAT	4,930,940	2,129,251
Fees payable	118,423	638,574
Interest Withholding Tax payable	35,016	51,795
Accrued leave pay	1,253,103	1,040,298
Accrued bonus	2,616,535	6,112,753
Accrued expense	5,507,260	4,491,677
Income Received in Advance	2,393,165	-
	70,489,460	**930,650,365**

The decrease in trade and other payables relates to a timing difference on unsettled equity trades with the JSE.

The income received in advance relates to compensation for future office costs from a Macquarie Group company that was co-located and was sold.

The carrying amount of trade and other payables approximates fair value.

21. Interest and similar income

Interest income on deposits	444,092,154	513,813,604
Interest income on collateral pledged	53,947,630	166,693,996
	498,039,784	**680,507,600**

22. Interest expense and similar charges

Interest on loans from financial institutions	46,094,775	40,853,374
Interest on intercompany loans	129,048,981	167,872,222
Interest expense on collateral received	59,260,432	45,440,582
Interest on listed debt	166,059,839	183,244,862
	400,464,027	**437,411,040**

23. Operating (loss)/profit

Operating (loss)/profit for the year is stated after charging (crediting) the following, amongst others:

Auditor's remuneration - external		
Audit fees	668,415	1,662,467
Tax services	63,900	299,327
	732,315	**1,961,794**

Included in trading income/(losses) are the following:		
Net dividends manufactured on trading securities	(30,885,948)	22,297,723
Gains/ (losses) on instruments held for trading	(41,342,461)	(261,809,884)
Gains/ (losses) on instruments at fair value through profit or loss	(36,310,505)	120,757,479
Other trading income/ (expenses)	20,931,258	9,875,511
	(87,607,656)	(108,879,171)

In the current year, other trading income/(expenses) includes R94,922,875 relating to the reversal of an impairment in the prior year. The prior year included impairment expense of R128,789,811 in other trading income/ (expenses).

Notes to the Financial Statements

Figures in Rand	2018	2017

23. Operating (loss)/profit (continued)

Operating lease for premises	2,237,939	3,801,231
Depreciation on property, plant and equipment	5,565,540	5,662,816
Employee costs	37,394,542	45,802,343
Administration charges	53,064,404	57,797,267
Auditors remuneration	732,315	1,961,794
Communication costs	5,880,778	5,036,239
Professional fees	1,543,279	1,857,245
Technology costs	737,364	3,607,677
Non recoverable VAT	11,280,895	15,186,369
Other	4,717,365	4,323,826
	123,154,421	**145,036,807**

24. Taxation

Major components of the tax expense

Deferred		
Deferred tax	8,277,435	(8,527,677)

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28.00 %	28.00 %
Effect of exempt income	9.00 %	85.00 %
Effect of non-deductible expenses	(4.00)%	(39.00)%
Employee share based payment expenses not deducted for accounting purposes	- %	6.00 %
Assessed loss not recognised	(40.00)%	- %
Prior period restatement	- %	(1.00)%
Effective rate as per Statement of Comprehensive Income	**(7.00)%**	**79.00 %**

Exempt income comprises dividends received and income that will be received as dividends. Non-deductible expenses comprises those costs related to the non-taxable dividends. In the prior year a structured product had large write downs that were non-deductible. In the current year these structured products were wound down.

Refer to Note 35 for information regarding the prior year error.

No provision has been made for 2018 tax as the company has no taxable income. The estimated tax loss available for set off against future taxable income is R 296,953,329 (2017: R 164,966,919).

Notes to the Financial Statements

25. Cash generated from operations

Figures in Rand	2018	2017
Loss before taxation	(113,186,320)	(10,819,418)
Adjustments for:		
Depreciation and amortisation	5,565,385	5,662,816
Fair value movement of loan	1,159,723	-
Unrealised loss on foreign exchange	(11,146,176)	(13,449,427)
Dividends manufactured on trading securities	30,885,948	(22,297,723)
Interest and similar income	(498,039,784)	(680,507,600)
Interest expense and similar charges	400,464,027	437,411,040
Preference share valuation adjustments	(14,692,986)	(94,922,875)
Employee share options	416,794	(639,834)
Impairment of loans	23,379,889	-
Transfer of assets	-	(63,002)
Changes in working capital:		
Derivative financial instruments liabilities	(1,195,563,980)	174,995,720
Financial assets at fair value	1,553,304,058	58,904,534
Trade and other receivables	110,572,886	435,887,783
Loans from group companies	4,504,273	284,679,850
Loans to group companies	6,832	301,847,987
Trade portfolio assets	774,332,485	(246,151,111)
Derivative financial instruments assets	692,982,737	(205,926,289)
Collateral on securities borrowed	711,516,082	(191,769,366)
Trade and other payables	(860,732,814)	214,414,111
Financial liabilities at fair value	164,252,818	384,315,585
Collateral received on securities lent	(664,961,516)	(231,332,484)
Trade portfolio liabilities	80,686,320	(219,360,349)
	1,195,706,681	**380,879,948**

The preference share valuation adjustments relate to a prior year impairment provision which has been written off in the current year. The amount has been included in the impairment of loans per Note 8.

26. Related parties

Relationships	
Ultimate holding company	Macquarie Group Limited
Holding company	Macquarie EMG Holdings Proprietary Limited

Related party transactions

Related party transactions comprise of inter-group charges for services provided and trading activities that comprise equity trading and financing activities. Intercompany funding relates to interest and foreign exchange movements on intercompany balances.

2018	Relationship	Inter-group charges	Trading activities	Intercompany funding	Balance as at year end
Delta1 Finance Trust	Other	-	138,399,178	-	(905,431,014)
Macquarie Africa (Pty) Ltd		-	-	-	363,623
Macquarie Int Capital Markets Ltd	Other	540,027	-	-	-
Macquarie Bank Ltd	Other	2,248,531	(11,239,501)	-	(4,366,568)
Macquarie Capital (Europe) Ltd	Other	(2,209,169)	-	-	-
Macquarie Capital Funds (Europe) Ltd	Other	(488,062)	-	-	-
Macquarie Capital South Africa (Pty) Ltd	Other	(783,115)	-	-	(83,088)
Macquarie Commodities Trading	Other	(6,324,516)	-	-	-
Macquarie Emerging Markets ARB	Other	114,967	-	-	-
Macquarie EMG Holdings (Pty) Ltd	Parent	-	(635,520,374)	607,987	(1,261,400)
Macquarie Equities South Africa (Pty) Ltd	Other	(4,723,695)	(14,347,863)	-	152,329,302
Macquarie Financial Holdings (Pty) Ltd	Other	931,967	(20)	(1,649,966)	(36,580,634)
Macquarie Global Service Pty Ltd	Other	328,120	-	-	80,705
Macquarie Global Services (USA) LLC	Other	263,503	-	-	-
Macquarie Group Services Australia (Pty) Ltd	Other	45,591,299	-	-	-
Macquarie Group Ltd	Ultimate parent	-	-	-	363,995
Macquarie Holdings (USA) Inc	Other	866,751	-	-	-
Macquarie Holdings South Africa (Pty) Ltd	Other	3,670,843	-	-	(845,660)
Macquarie Internationale Investments Ltd	Other	-	-	(2,382,781)	-
Macquarie Offshore Services Pty Ltd - Philippine Branch	Other	542,538	-	-	(48,363)
Macquarie Services (Hong Kong) Ltd	Other	8,477,933	-	-	-
Macquarie Singapore	Other	2,024,361	-	-	-
Other Group Entities with balances <R200,000	Other	(7,749)	(23,995)	3,995	(97,312)
		51,064,534	**(522,732,575)**	**(3,420,765)**	**(795,576,414)**

2017	Relationship	Inter-group charges	Trading activities	Intercompany funding	Balance as at year end
Delta1 Finance Trust	Other	-	358,190,087	-	(2,214,133,781)
International Life Solutions (Pty) Ltd	Other	(1,672,822)	-	-	-
Macquarie Africa (Pty) Ltd	Other	(1,548,603)	-	(29,717)	363,613
Macquarie Bank Ltd	Other	1,555,608	226,681,962	(2,481,377)	8,274,310
Macquarie Corporate Holdings Pty Limited	Other	-	-	240,772	7,284
Macquarie EMG Holdings Pty Ltd	Parent	(17,805,489)	788,562	589,074	(9,802)
Macquarie Equities SA (Pty) Ltd	Other	(3,971,017)	(14,041,925)	-	150,305,837
Macquarie Financial Holdings Pty Ltd	Other	2,020,259	(18)	(1,086,314)	(37,850,649)
Macquarie Global Services (USA) LLC	Other	1,316,810	-	-	-
Macquarie Group Ltd	Ultimate parent	163,617	-	-	574,219
Macquarie Group Services Australia Pty Ltd	Other	60,563,246	-	-	-
Macquarie Holdings (USA) Inc	Other	1,795,573	-	-	-
Macquarie Int Investments Ltd	Other	-	-	(14,495,250)	1,196
Macquarie Offshore Services Pty Ltd	Other	1,067,951	-	-	(55,655)
Macquarie Services (Hong Kong) Ltd	Other	14,529,026	-	-	-
Macquarie Capital (Europe) Ltd	Other	(1,387,490)	-	-	-

26. Related parties (continued)

Macquarie Capital Funds (Europe) Ltd	Other	(808,040)	-	-	-
Macquarie Capital South Africa (Pty) Ltd	Other	(1,323,939)	-	-	(190,767)
Macquarie Global Services Pty Ltd	Other	339,461	-	-	(52,717)
Macquarie Holdings South Africa (Pty) Ltd	Other	1,696,638	-	-	(500,120)
Macquarie Group Services Singapore (Pty) Ltd	Other	1,129,978	-	-	-
Other Group Entities with balances <R200,000	Other	62,264	6,955	-	(172,575)
		57,723,031	**571,625,623**	**(17,262,812)**	**(2,093,439,607)**

Companies classified as "Other" comprise other Macquarie Group companies and Joint Ventures.

Only directors are considered to be key management. Refer Note 28 for compensation paid to directors.

27. Interests in other entities

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

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

The Company engages in raising finance for assets, listed and unlisted securities. The Company may act as a lender or derivative counterparty.

Income received by the Company during the year from interests held at the reporting date relates to dividends and interest.

The Company's interests in unconsolidated SE's include, but are not limited to, debt or equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Company to the risks of the unconsolidated SE. The Company does not have an interest where it: (i) is a counterparty to plain vanilla derivatives or purchases credit protection under a credit default swap; (ii) acts as underwriter or placement agent; (iii) provides administrative, trustee or other services to third party managed SE's; or (iv) transfers assets and does not have any other interest deemed to be significant in the SE.

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Company's interests in unconsolidated SE's as at 31 March 2018:

27. Interests in other entities (continued)

Carrying value of Asset-backed financing assets	**2018**	**2017**
Derivative assets	-	64,505,600
Financial assets at fair value through profit or loss	-	418,653,010
Loan assets held at amortised cost	-	382,040,750
Total carrying value of assets	-	865,199,360
Maximum exposure to loss	-	865,199,360

Maximum exposure to loss is the carrying value for debt and equity held, the undrawn amount for commitments and the notional amounts of guarantees or derivative instruments. Notional amounts are adjusted for any liabilities already recognised.

Subordinated asset-backed interests are included within loans and derivative assets, involve unconsolidated SE's totaling Rnil (2017: R2.2 billion), and the potential losses borne by others whose interests rank lower than the Company's is Rnil.

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

In addition to the above structured entities include investments into the Blue Ink funds as disclosed in Note 32 and investments in money market funds. These money market funds are regulated under the the Collective Investment Schemes Control Act (No. 45 of 2002). The funds are classified as unconsolidated structured entities under IFRS and are disclosed in financial assets at fair value through profit or loss.

2018	**% holding**	**Holding**	**Assets under management**
Absa Money Market Fund (Institutional Class)	<0.01%	836,384	65,980,000,000
Nedgroup Investments Core Income Fund (Class C)	2.2%	753,482,283	33,877,000,000
Nedgroup Investments Money Market Fund (Class C2)	2%	277,389,599	13,963,000,000
STANLIB Corporate Money Market Fund (Class B4)	<0.01%	1,150,777	35,482,000,000

2017	**% holding**	**Holding**	**Assets under management**
Absa Money Market Fund (Institutional Class)	<0.01%	1,566,184	62,880,000,000
Nedgroup Investments Money Market Fund (Class C2)	2.3%	279,906,230	12,277,000,000
STANLIB Corporate Money Market Fund (Class B4)	<0.01%	21,547	29,756,880,000

28. Directors' emoluments

Executive

2018

	Emoluments
For services as directors	9,668,970

2017

	Emoluments
For services as directors	12,884,386

Notes to the Financial Statements

29. Categories of financial instruments

Categories of financial instruments - 2018

	Note(s)	Financial assets at fair value through profit (loss)	Debt instruments at amortised cost	Financial liabilities at fair value through profit (loss)	Financial liabilities at amortised cost	Total
Assets						
Current Assets						
Intercompany financial assets at fair value through profit and loss	5	152,329,302	-	-	-	152,329,302
Loans to group companies		-	861,957	-	-	861,957
Financial assets at fair value through profit and loss	6	2,584,187,877	-	-	-	2,584,187,877
Trade and other receivables	12	-	55,717,220	-	-	55,717,220
Trade portfolio assets	9	122,999,616	-	-	-	122,999,616
Derivative financial instruments	10	932,090,346	-	-	-	932,090,346
Collateral on securities borrowed	11	-	536,620,705	-	-	536,620,705
Cash and cash equivalents	13	-	22,266,880	-	-	22,266,880
		3,791,607,141	**615,466,762**	**-**	**-**	**4,407,073,903**
Liabilities						
Non-Current Liabilities						
Intercompany financial liabilities at fair value through profit and loss	5	-	-	299,256,065	-	299,256,065
Current Liabilities						
Intercompany financial liabilities at fair value through profit and loss		-	-	606,174,949	-	606,174,949
Loans from group companies		-	43,336,659	-	-	43,336,659
Derivative financial instruments		-	-	130,574,088	-	130,574,088
Financial liabilities at fair value through profit and loss	16	-	-	2,458,328,277	-	2,458,328,277
Trade and other payables	20	-	-	-	70,489,460	70,489,460
Collateral on securities lent	18	-	-	-	25,556,000	25,556,000
Trade portfolio liabilities	19	-	-	742,585,541	-	742,585,541
		-	**43,336,659**	**3,937,662,855**	**96,045,460**	**4,077,044,974**

Notes to the Financial Statements

29. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit (loss)	Debt instruments at amortised cost	Financial liabilities at fair value through profit (loss)	Financial liabilities at amortised cost	Total
Total Liabilities		**-**	**43,336,659**	**4,236,918,920**	**96,045,460**	**4,376,301,039**

Categories of financial instruments - 2017

Assets

	Note(s)	Financial assets at fair value through profit (loss)	Debt instruments at amortised cost	Financial liabilities at fair value through profit (loss)	Financial liabilities at amortised cost	Total
Current Assets						
Loans to group companies	5	-	9,220,720	-	-	9,220,720
Intercompany financial assets at fair value through profit and loss		150,305,837	-	-	-	150,305,837
Financial assets at fair value through profit and loss	6	3,966,317,106	-	-	-	3,966,317,106
Loans at amortised cost	8	-	560,401,844	-	-	560,401,844
Trade and other receivables	12	-	156,814,512	-	-	156,814,512
Trade portfolio assets	9	897,332,101	-	-	-	897,332,101
Derivative financial instruments	10	1,625,073,083	-	-	-	1,625,073,083
Collateral on securities borrowed	11	-	1,248,136,787	-	-	1,248,136,787
Cash and cash equivalents	13	-	51,208,128	-	-	51,208,128
		6,639,028,127	**2,025,781,991**	**-**	**-**	**8,664,810,118**

Liabilities

	Note(s)	Financial assets at fair value through profit (loss)	Debt instruments at amortised cost	Financial liabilities at fair value through profit (loss)	Financial liabilities at amortised cost	Total
Non-Current Liabilities						
Intercompany financial liabilities at fair value through profit and loss	5	-	-	2,214,133,781	-	2,214,133,781
Current Liabilities						
Intercompany financial liabilities at fair value through profit and loss	5	-	-	-	38,832,383	38,832,383
Derivative financial instruments	10	-	-	1,326,138,069	-	1,326,138,069
Financial liabilities at fair value through profit and loss	16	-	-	2,594,075,460	-	2,594,075,460
Issued debt	8&17	-	-	-	170,169,397	170,169,397
Trade and other payables	20	-	-	-	930,650,365	930,650,365
Collateral on securities lent	18	-	-	-	690,517,516	690,517,516

Notes to the Financial Statements

29. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit (loss)	Debt instruments at amortised cost	Financial liabilities at fair value through profit (loss)	Financial liabilities at amortised cost	Total
Trade portfolio liabilities	19	-	-	661,899,221	-	661,899,221
		-	**-**	**4,582,112,750**	**1,830,169,661**	**6,412,282,411**
Total Liabilities		**-**	**-**	**6,796,246,531**	**1,830,169,661**	**8,626,416,192**
		-	**-**	**6,796,246,531**	**1,830,169,661**	**8,626,416,192**

30. Risk management

The risks which the Macquarie Group is exposed to are managed on a globally consolidated basis for both Macquarie Bank Limited ("MBL") and Macquarie Group Limited ("MGL") as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions (eg. trading withing risk limits and daily monitoring by RMG (i.e. not differentiating where the risk is taken within Macquarie).

Risk is an integral part of the MGL's businesses. The main risks faced by MGL are market risk, equity risk, credit risk, liquidity risk, operation risk, legal compliance risk and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group ("RMG") to ensure appropriate assessment and management of these risks.

RMG is independent of all other areas of MGL, reporting directly to the Managing Director of MGL and the Board of MGL. The Head of RMG is a member of the Executive Committee of Macquarie Bank Limited and Macquarie Group Limited. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

The company is approved to trade a range of products based on a new product approval process. RMG sets appropriate risk limits which are monitored and updated regularly. Any proposed trading that would be outside of these risk limits require special deal approval by the Deal Review Committee.

The company is subject to the regulations of the JSE and FSB.

Capital risk management

The Macquarie Group's objectives when managing capital are to safeguard the Macquarie Group's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Macquarie Group consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 5 cash and cash equivalents disclosed in note 13, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the Macquarie Group may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

Capital adequacy and the use of regulatory capital are monitored by the Group's management, employing techniques based on the guidelines of the JSE, for supervisory purposes. The required information is filed with the JSE on a monthly basis.

JSE Capital requirements include a Fixed Expenditure Requirement, being the higher of 13 weeks fixed expenditure or R400,000 and Adjusted Liquid Capital Requirement, being liquid capital which complies with the minimum requirements calculated in accordance with the JSE Directive DC2, sufficient to meet its base requirement and its risk requirement.

The Company has complied with all externally imposed capital requirements during the period.

There have been no changes to the Macquarie Group's strategy for capital maintenance or externally imposed capital requirements from the previous year.

The table below reflects the Company's capital:

	2018	**2017**
Share capital	290,327,100	190,327,100
Reserves	-	4,299,502
Retained income	(206,559,433)	(89,395,180)
Redeemable preference shares	-	300,000,000
Subordinated debt	600,000,000	600,000,000
	683,767,667	**1,005,231,422**

30. Risk management (continued)

Financial risk management

The Macquarie Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Macquarie Group's financial performance. The Macquarie Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (Macquarie Group treasury) under policies approved by the board. Macquarie Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Macquarie Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

The Company's liquidity management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. The Group maintains an active presence in global money markets;

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

- Managing the concentration and profile of debt maturities.

Funding approach

Sources of liquidity are regularly reviewed by a separate team in the Group to maintain a wide diversification by currency, geography, provider, product and term.

Sources of liquidity include short term liquid assets, raising short term debt, uncommitted money market lines and cross border borrowing from Macquarie Group entities.

Contractual undiscounted cash flows:

The table below summarises the maturity profile of the Company's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately.

30. Risk management (continued)

2018	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years
Trade portfolio liabilities	-	742,585,541	-	-	-
Collateral on securities lent	-	25,556,000	-	-	-
Derivatives financial instruments	-	96,119,169	34,087,516	392,911	-
Financial liabilities at fair value through profit or loss	-	45,689,949	2,434,335,881	100,878,115	-
Intercompany	82,350,883	11,569,059	634,194,354	321,048,383	-
Other liabilities	-	68,029,092	1,340,230	1,291,773	-
	82,350,883	**989,548,810**	**3,103,957,981**	**423,611,182**	**-**

2017	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years
Trade portfolio liabilities	-	661,899,221	-	-	-
Collateral on securities lent	-	690,517,516	-	-	-
Debt issued at amortised cost	-	169,933,741	-	-	-
Derivatives financial instruments	-	1,213,392,817	111,078,709	1,183,839	-
Financial liabilities at fair value through profit or loss	-	1,302,102,776	1,353,908,440	122,390,915	-
Intercompany	38,832,383	-	1,453,142,798	970,837,016	-
Other liabilities	-	928,798,374	1,119,218	1,021,945	-
	38,832,383	**4,966,644,445**	**2,919,249,165**	**1,095,433,715**	**-**

The balance sheet is managed on a maturity basis where liquidity is managed to ensure there are sufficient assets to meet liabilities as and when they become due. In the short-term (0 – 3months), there is sufficient liquidity in Money Market instruments and funds R1,1bn (Note 6) to meet current obligations.

The remainder of the assets are sufficient to meet the liabilities in the 3 to 12 month time period.

Interest rate risk

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

Interest rate risk is monitored on a portfolio basis rather than at an asset class level and it is therefore appropriate to disclose the risk in the way it is managed.

The Company is exposed to the general South African interest rate market, the table below indicates the Group's exposure to movements in interest rates as at 31 March.

Interest rate risk	2018 - Movement in interest rate	2018 - Sensitivity of profit before tax	2017 - Movement in interest rate	2017 - Sensitivity of profit before tax
South African Rand	+50 bps	1,177,599	+50 bps	218,790
South African Rand	-50 bps	(1,177,599)	-50 bps	(218,790)

30. Risk management (continued)

Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

The responsibility for approval of credit exposures is delegated to specific individuals by the Macquarie Group Board. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year, or more frequently if necessary.

All credit exposures are monitored regularly against limits.

Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Exposures for derivatives depend on potential future asset prices. To mitigate credit risk, the Group makes use of margining and other forms of collateral or credit enhancement techniques where appropriate.

All wholesale exposures are allocated to an internal Macquarie Group rating ("Macquarie rating") on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. Macquarie Group is rated as Investment Grade.

All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

Macquarie wholesale ratings broadly correspond to Standard & Poor's credit ratings as follows:

Credit Rating	Internal Rating	External Rating
Investment Grade	MQ1 to MQ8	AAA to BBB
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure provisioning is adequate.

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Macquarie Group Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Macquarie Group has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

Collateral and credit enhancements held

Cash and cash equivalents

No collateral is held in relation to cash and cash equivalents. These exposures are monitored daily per counterparty against internally approved risk limits.

Loan assets held at amortised cost

Macquarie lends to clients for investment and financing purposes. Where Macquarie lends for investment, Macquarie holds the investment as collateral. Of the loans held at amortised cost, Rnil (2017: R391m) is fully collateralised.

30. Risk management (continued)

Financial assets at fair value through profit or loss

Included in financial assets designated at fair value are term deposits of R304m (2017: R1,117m) which are supported by liabilities of R303m (2017: R1,112m) with limited recourse. Therefore the Company is not exposed to the credit risk of these assets.

Derivative financial instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are usually referred to as Over The Counter (OTC) derivatives.

Exchange traded contracts have reduced credit risk as the counterparty is a clearing house that is responsible for risk managing their members to ensure the clearing house has adequate resources to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values.

The Company has exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2018 of R131m (2017: R1,328m). In addition, the Company has placed margins on proprietary positions with exchanges, the balance at 31 March 2018 being R16m (2017: R38m), which is recorded in Cash and cash equivalents.

For OTC derivative contracts, the Company often has master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (eg derivatives and cash margins) to be terminated and settled on a net basis. The Company also often executes a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

At 31 March 2018, no OTC derivative assets subject to master netting agreement were in issue.

Trade and other receivables

Other assets include R45m (2017: R153m) of unsettled equity trades which are traded on exchange. They have reduced credit risk as our counterparty is a clearing house responsible for settling the balances.

Collateral on securities borrowed

Securities borrowed are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount. The Company has credit exposure relative to excess collateral placed relative to the underlying securities borrowed.

2018	Investment grade AAA	Below investment grade BB+	Unrated	Total
Cash and cash equivalents	-	22,266,880	-	22,266,880
Collateral on securities borrowed	-	536,620,705	-	536,620,705
Financial assets designated at fair value	-	2,488,105,182	96,082,695	2,584,187,877
Derivative financial instruments	-	103,705,744	828,384,602	932,090,346
Trade and other receivables	-	3,728,387	51,988,833	55,717,220
Trade Portfolio Assets	-	122,999,616	-	122,999,616
Intercompany	153,191,259	-	-	153,191,259
	153,191,259	**3,277,426,514**	**976,456,130**	**4,407,073,903**

30. Risk management (continued)

2017	**Investment grade AAA**	**Below investment grade BB+**	**Unrated**	**Total**
Cash and cash equivalents	-	51,208,126	-	51,208,126
Collateral on securities borrowed	996,746,787	6,390,000	245,000,000	1,248,136,787
Financial assets designated at fair value	-	3,438,228,299	528,088,806	3,966,317,104
Loans at amortised cost	-	-	560,401,846	560,401,846
Derivative financial instruments	-	1,309,457,311	315,615,772	1,625,073,083
Trade and other receivables	-	153,237,243	3,577,270	156,814,513
Trade Portfolio Assets	-	897,332,101	-	897,332,101
Intercompany	159,526,558	-	-	159,526,558
	1,156,273,345	**5,855,853,080**	**1,652,683,694**	**8,664,810,118**

At year end no assets are past due or individually impaired.

The mapping of external credit ratings are in line with those used by the Macquarie Group. Where appropriate, credit mitigants are in place including collateral, security structures and economic hedging.

Intercompany balances have been classified according to Macquarie Group's credit rating.

Credit risk on issued debt is assessed on trade date and is monitored for material fluctuations over the life of the trade. During the year there were no material movements in credit risk on issued debt.

Foreign exchange risk

Foreign currency exposures arise from related party cost recoveries. No hedges have been entered to cover this risk.

Management monitors the exposure and minimises the risk through regular settlement of inter-group balances. All foreign exchange exposures are reviewed by management on a monthly basis.

The table below indicates the foreign currency markets to which the Company had significant exposure at 31 March on its intercompany assets.

Foreign currency exposure at the end of the reporting period

Foreign exchange	**Movement in rate**	**2018 - Sensitivity of profit before tax**	**2017 - Sensitivity of profit before tax**
AUD	+10%	(2,044,176)	(2,559,966)
EUR	+10%	(2,280)	(2,240)
GBP	+10%	(910,975)	(779,575)
HKD	+10%	(395,799)	(418,336)
SGD	+10%	(155,344)	(10,365)
USD	+10%	(8,001,472)	(6,297,348)
AUD	-10%	2,044,176	2,559,966
EUR	-10%	2,280	2,240
GBP	-10%	910,975	779,575
HKD	-10%	395,799	418,336
SGD	-10%	155,344	10,365
USD	-10%	8,001,472	6,297,348

30. Risk management (continued)

Market risk

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

Equities: changes in the price and volatility of individual equities, equity derivatives, equity baskets and equity indices, including the risks arising from equity underwriting activity. All equity positions that are held by the Company at year end are listed on the JSE's Main Exchange;

Interest rates: changes in the level, shape and volatility of yield curves, the basis between different interest rate securities and derivatives and credit margins;

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

Equity Price Risk

The table below indicates the equity markets to which the Company had significant exposure at year end on its trading investment portfolio:

	Movement in equity price-%		Sensitivty of profit before tax	
Equity price risk	2018	2017	2018	2017
Listed and unlisted securities - South Africa	10%	10%	876,473	1,238,642
Listed and unlisted securities - South Africa	-10%	-10%	(876,473)	(1,238,642)

31. Off balance sheet items

Non-cash collateral

Securities including shares, NCDs and bonds have been pledged and received during the year as collateral. Legal title to these securities passes from the lender to the borrower although the lender retains the right to recall the securities at any time. Assets pledged as security are never removed from the balance sheet and assets received as collateral are never recognised on the balance sheet.

The collateral is measured at fair value. These instruments are subject to master netting arrangements.

	2018	**2017**
Collateral pledged	1,077,725,096	1,140,859,515
Liability related to collateral pledged	(911,480,656)	(931,433,199)
	166,244,440	209,426,316
Collateral received	(775,037,631)	(523,256,144)
Asset related to collateral received	665,566,225	458,727,589
	(109,471,406)	**(64,528,555)**

32. Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

• Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

• Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

• Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The carrying value of the assets and liabilities approximate the fair value of those assets and liabilities for all classes disclosed below.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2018	Level 1	Level 2	Level 3	Total
Trade portfolio assets	122,999,616	-	-	122,999,616
Derivative financial instruments	131,238,093	800,852,253	-	932,090,346
Financial assets at fair value through profit or loss	-	2,489,667,177	94,520,700	2,584,187,877
	254,237,709	**3,290,519,430**	**94,520,700**	**3,639,277,839**
Trade portfolio liabilities	(742,585,541)	-	-	(742,585,541)
Derivative financial instruments	(130,206,685)	(367,402)	-	(130,574,087)
Financial liabilities at fair value through profit or loss	-	(2,344,094,668)	(114,233,608)	(2,229,861,059)
	(872,792,226)	**(2,344,462,070)**	**(114,233,608)**	**(3,103,020,687)**

2017	Level 1	Level 2	Level 3	Total
Trade portfolio assets	897,332,101	-	-	897,332,101
Derivative financial instruments	1,328,248,447	293,838,498	2,986,138	1,625,073,083
Financial assets at fair value through profit or loss	-	3,854,682,303	111,634,803	3,966,317,105
	2,225,580,548	**4,148,520,801**	**114,620,941**	**6,488,722,289**
Trade portfolio liabilities	(661,899,221)	-	-	(661,899,221)
Derivative financial instruments	(1,324,471,523)	(1,666,546)	-	(1,326,138,069)
Financial liabilities at fair value through profit or loss	-	(2,487,707,170)	(106,367,290)	(2,594,075,460)
	(1,986,370,744)	**(2,489,373,716)**	**(106,367,290)**	**(4,582,112,750)**

During the year there were no transfers of securities from Level 1 to Level 2 of the fair value hierarchy.

The Level 1 Derivative Financial instruments relate to listed futures.

The following tables shows a reconciliation from beginning balances to ending balances for fair value measurements in Level 3 of the fair value hierarchy:

2018	Derivative Financial Instruments	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss

32. Valuation of financial instruments (continued)

Opening balance	2,986,138	111,634,803	106,367,287
Disposals	-	(33,000,059)	-
Total gains and (losses) in profit or loss	(2,986,138)	15,885,956	7,866,319
	-	**94,520,700**	**114,233,606**

2017	**Derivative Financial Instruments**	**Financial assets at fair value through profit or loss**	**Financial liabilities at fair value through profit or loss**
Opening balance	39,961,807	93,537,144	99,005,950
Transfers to Level 2	(36,480,593)	-	-
Purchases	-	22,899,999	-
Disposals	-	(4,750,000)	-
Total gains and (losses) in profit or loss	(495,076)	(52,340)	7,361,337
	2,986,138	**111,634,803**	**106,367,287**

All of the gains and losses included in profit and loss for the period are included as net trading income in the Statement of Profit or Loss and Other Comprehensive Income.

During the 2017 year there were transfers of derivative assets from Level 3 to Level 2 of the fair value hierarchy.

The financial assets at fair value through profit and loss in level 3 represent investments into unlisted funds where the value is based on the Net Asset Value of the fund.

The financial liability at fair value through profit and loss in level 3 represents notes linked to the unlisted fund investments. As such, the Company has limited exposure to the underlying funds.

The level 3 assets in the prior year are sensitive to future dividends, volatility and unlisted fund prices. The current year level 3 assets are sensitive to unlisted fund prices. The change in variable relating to the derivative financial instruments relates to the future dividend and the volatility. The change in variable relating to the financial assets and liabilities at fair value through profit and loss relates to unlisted fund prices. The sensitivity to these inputs is shown in the following table.

Future dividends are estimated using data from multiple independent market data providers, with growth based on historic growth rates.

Sensitivity of Level 3 assets	**Change in variable**	**2018 - Sensitivity of profit before tax**	**2017 - Sensitivity of profit before tax**
Derivative financial instruments	20%	-	(1,338,605)
Financial assets at fair value through profit or loss	10%	9,452,070	11,163,480
Financial liabilities at fair value through profit or loss	10%	(8,020,051)	(9,462,703)
Derivative financial instruments	-20%	-	1,410,672
Financial assets at fair value through profit or loss	-10%	(9,452,070)	(11,163,480)
Financial liabilities at fair value through profit or loss	-10%	8,020,051	9,462,703

32. Valuation of financial instruments (continued)
The details of the funds are as follows:

2018	% Holding	Holding	Assets under management
Blue Ink Fixed Income Fund	7.4%	69,473,851	941,238,585
Blue Ink Long Short Aggressive Fund	5.3%	25,046,849	473,001,862

2017	% Holding	Holding	Assets under management
Blue Ink Fixed Income Fund	7.7%	68,047,356	884,257,752
Blue Ink Long Short Aggressive Fund	7.1%	44,782,035	634,087,119

33. Future Commitments

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Lease of premises	2018	2017
- within one year	3,885,095	3,603,985
- later than 1 year but less than 5 years	5,618,680	9,503,776
	9,503,775	**13,107,761**

The lease term is for five years ending July 2020.

34. Segment reporting

The business can be classified in three distinct segments. The trading segment contains the revenue generating activities comprising of derivative trading and providing financial solutions for corporate clients. The treasury segment contains capital management and stocklending activities which support the trading business and hence all amounts relating to the treasury segment are "inter-segment". The corporate head office contains support costs not allocated to the first two segments. It is not an operating segment, but reconciles to that of the Company as a whole.

Segments have been classified based on the grouping that management uses for key decision making. Internal financial reporting is segregated in this manner for group reporting purposes. The Company is monitored as part of the global Macquarie Securities Group. Decision makers review financial information monthly at the segment level. The executive directors as described in the Report on Corporate Governance acts as the chief operating decision maker.

Due to the nature of the trading activities, the Chief Operating Decision Maker reviews the net interest to make decisions on allocating resources.

34. Segment reporting (continued)

2018	Trading	Treasury	Corporate Head Office	Total
Net interest income/(loss)	86,895,157	15,605,643	(4,925,043)	97,575,757
Net trading gain/(loss)	(62,662,651)	(24,147,593)	(797,412)	(87,607,656)
Net profit/(loss)	(71,153,250)	(26,710,665)	(15,322,405)	(113,186,320)

2018	Trading	Treasury	Corporate Head Office	Total
Net Asset Value at year end	37,748,907	58,733,514	(12,714,754)	83,767,667

2017 Restated	Trading	Treasury	Corporate Head Office	Total
Net interest income/(loss)	145,319,993	90,014,684	7,761,883	243,096,560
Net trading gain/(loss)	(4,855,385)	(71,634,823)	(32,388,963)	(108,879,171)
Net profit/(loss)	36,429,615	(1,436,328)	(45,812,705)	(10,819,418)

2017 Restated	Trading	Treasury	Corporate Head Office	Total
Net Asset Value at year end	2,051,507	(6,064,612)	109,244,527	105,231,422

35. Prior period errors

In the current year an error was noted in the valuation of an investment in preference shares. The error arose due to the use of an incorrect strike price that was included as an input into the valuation model. This resulted in an overstatement of the preference share investment. The preference shares were measured as at fair value through profit and loss. A third balance sheet was not presented because the impact of the error was immaterial on the opening balance of equity on 1 April 2017.

The correction of the error results in adjustments as follows:

Statement of Financial Position (extract)	2017	Increase/ (Decrease)	2017 Restated
Derivative financial assets	1,631,049,651	(5,976,568)	1,625,073,083

Statement of Profit and Loss and Other Comprehensive Income (extract)	2017	Increase/ (Decrease)	2017 Restated
Net trading gains and losses	(102,902,603)	(5,976,568)	(108,879,171)
(Loss)/profit before taxation	(4,842,850)	(5,976,568)	(10,819,418)
Taxation	8,527,677	-	8,527,677
(Loss)/profit for the period	**3,684,827**	**(5,976,568)**	**(2,291,741)**

36. Going concern

The company recorded a net loss after tax for the year ended 31 March 2018 of R121,463,755 (2017: Restated net loss after tax R 2,291,741). The loss was predominantly driven by unwinds of equity linked assets where market movements were difficult to hedge. This contributed R45m to the loss and is included in net trading (loss) on the statement of profit or loss. These assets have fully unwound and there are no further investments in similar assets at year end. Therefore the directors are confident that similar losses on such products will not impact future results. There was a decrease in interest income during the year due to reduced collateral balances on stock lending activities.

The results also include deferred tax asset on assessed losses of R45,796,762 which have not been recognised. The deferred tax asset has only been recognised to the extent that future taxable profits are probable. This has been based on forecast revenue and expenses for a 5 year period. Deferred tax assets has not been recognised for expected future taxable profit beyond this 5 year period due to uncertainty in forecasting beyond the period.

The directors have performed assessments and concluded that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. The directors are reviewing the cost base of the company and formalising plans to reduce non-core expenditure without impacting revenue. During the year the shareholders injected R100,000,000 of ordinary share capital (Refer to Note 14) which has given the company sufficient capital and liquidity. In addition there are ZAR 600,000,000 of subordinated loans from Macquarie Group companies (Refer to Note 5). Detailed forecasts have been prepared and approved at group level showing the company returning to profitability in the short to medium term. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The company has access to short term borrowing facilities from group companies. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company. Post year end, the financial performance has been tracking ahead of forecasts and is positive on a year to date basis.