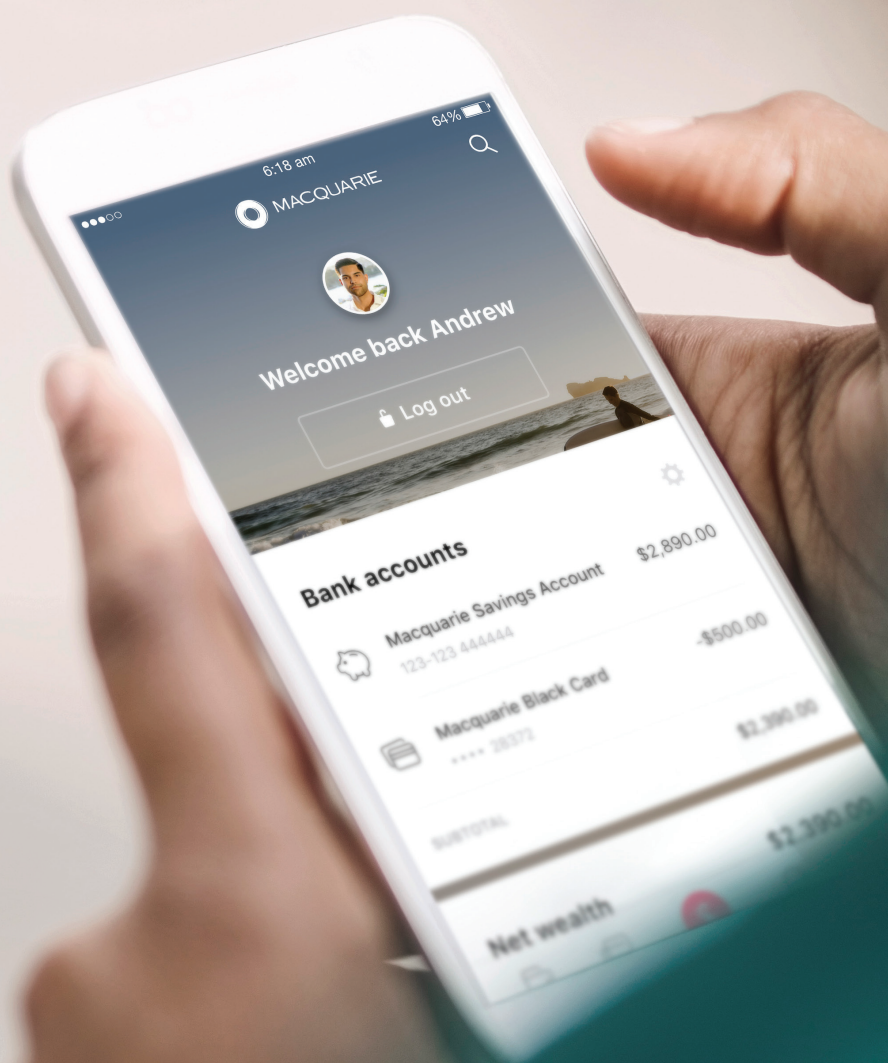


# 2018 Annual Report

Macquarie Bank

Year ended 31 March 2018



## 2018 Annual General Meeting

Macquarie Bank Limited's 2018 Annual General Meeting (AGM) will be held in the Macquarie Auditorium, Level 10, 50 Martin Place, Sydney NSW 2000 after the Macquarie Group Limited AGM but not earlier than 2:00 pm on Thursday 26 July 2018.

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

## Cover image

Macquarie has embraced new technologies to deliver superior client experiences, building a leading digital experience with personalised and intuitive features that are firsts in Australian banking. We built Australia's first open banking platform to give our customers control over their own data and the power to securely manage how they want to share it, and last year launched DEFT AuctionPay – a real time digital payments service – which changes the way Australians buy property at auction.

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

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Macquarie Bank Limited is a subsidiary of Macquarie Group Limited ACN 122 169 279 and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit-taking institution (ADI). Macquarie Group Limited is regulated by APRA as a non-operating holding company of an ADI.





## 1

# OPERATING AND FINANCIAL REVIEW



## OPERATING AND FINANCIAL REVIEW

### REVIEW OF PERFORMANCE AND FINANCIAL POSITION

#### PERFORMANCE

Macquarie Bank's consolidated net profit attributable to ordinary equity holders of \$A1,568 million for the year ended 31 March 2018 increased 28% from \$A1,221 million.

	Full year to 31 Mar 2018 \$A million	Full year to 31 Mar 2017 \$A million	Movement %
Net operating income	6,163	5,821	6
Total operating expenses	(4,010)	(4,088)	(2)
Income tax expense	(570)	(509)	12
(Profit)/loss attributable to non-controlling interests	(1)	12	*
Distribution paid or provided for on Macquarie Income Securities	(14)	(15)	(7)
Profit attributable to ordinary equity holders	1,568	1,221	28

#### Annuity-style businesses

Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) generated a combined net profit contribution for the year ended 31 March 2018 of \$A1,898 million, up 8% on the prior year. Key drivers included:

##### MACQUARIE ASSET MANAGEMENT

**165%↑**  
on prior year

- higher net gains on sale and revaluation of equity and debt investments primarily due to income from the sell down of infrastructure debt in MSIS
- the release of accruals relating to legacy business activities
- base fees broadly in line.

##### CORPORATE AND ASSET FINANCE

**1%↑**  
on prior year

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

Partially offset by:

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

##### BANKING AND FINANCIAL SERVICES

**9%↑**  
on prior year

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

Partially offset by:

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

#### Capital markets facing businesses

Commodities and Global Markets (CGM) delivered a net profit contribution for the year ended 31 March 2018 of \$A866 million, broadly in line with the prior year. Key drivers included:

##### COMMODITIES AND GLOBAL MARKETS

**1%↓**  
on prior year

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

Partially offset by:

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



## OPERATING AND FINANCIAL REVIEW

### REVIEW OF PERFORMANCE AND FINANCIAL POSITION

CONTINUED

#### Net operating income

Net operating income of \$A6,163 million for the year ended 31 March 2018 increased 6% from \$A5,821 million in the prior year. The result included lower charges for impairments and provisions and increased fee and commission income, partially offset by lower investment income.

Key drivers included:

#### Net interest and trading income

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million	
3,899	3,837	↑ 2% on prior year

- growth in average Australian loan portfolio and deposit volumes in BFS
- lower costs of holding long-term liquidity and the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting in Corporate
- significant opportunities for the North American Gas and Power business to capitalise on price dislocations across regions in CGM.

Offset by:

- lower interest income as a result of the reduction in the Principal Finance portfolio in CAF
- sustained low volatility and tighter credit spreads impacting income from interest rate and credit products and timing of income recognition relating to tolling agreements and capacity contracts in CGM
- impact of Australian Government Major Bank Levy.

#### Fee and commission income

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million	
890	820	↑ 9% on prior year

- increase driven by demand for advisory and structured products, primarily in Asia and North America in CGM.

#### Net operating lease income

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million	
937	922	↑ 2% on prior year

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

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

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million	
22	(19)	↑ significantly on prior year

- increase includes CGM's share of net profits from equity investments
- non-recurrence of equity accounted losses recognised in the prior year in Corporate, reflecting the reclassification of non-core assets to investments held for sale that were subsequently disposed of during the current year.

#### Other operating income and charges

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million	
415	261	↑ 59% on prior year

- lower charges for provisions and impairments across most Operating Groups due to improved credit conditions
- the release of accruals related to legacy business activities as well as higher revenue for MSIS Retail in MAM, as well as the sale of certain CAF Principal Finance assets in the US.

Partially offset by:

- lower investment income mainly due to the non-recurrence of gains in the prior year including the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in BFS and the sale of a number of investments in the energy and related sectors in CGM. This was partially offset by the sell down of infrastructure debt in MAM in the current year.



## Operating expenses

Total operating expenses of \$A4,010 million for the year ended 31 March 2018 decreased 2% from \$A4,088 million in the prior year mainly driven by Occupancy and Other operating expenses and Non-salary technology expenses.

Key drivers included:

### Employment expenses

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million
<b>1,487</b>	1,487

—  
**in line with  
prior year**

- average headcount broadly line with prior year.

### Brokerage, commission and trading-related expenses

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million
<b>619</b>	626

**↓1%**  
**on prior year**

- decrease mainly driven by a reduction in physical metals inventory levels in CGM.

Partially offset by:

- higher brokerage and commission expense in the MSIS Retail business in MAM.

### Non-salary technology expenses

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million
<b>133</b>	158

**↓16%**  
**on prior year**

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

### Occupancy and Other operating expenses

Full year to

31 Mar 2018 \$A million	31 Mar 2017 \$A million
<b>1,771</b>	1,817

**↓3%**  
**on prior year**

- lower professional fees in the current year and non-recurring Other operating expenses in the prior year in BFS
- lower Other operating expenses in CGM driven by benefits of cost synergies following the merger of Commodities and Financial Markets and Macquarie Securities Group.

Partially offset by:

- increased deal and project related expenses in CAF.

## INCOME TAX EXPENSE

Income tax expense for the year ended 31 March 2018 was \$A570 million, a 12% increase from \$A509 million in the prior year. The effective tax rate for the year ended 31 March 2018 was 26.5%, down from 29.2% in the prior year.

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



## OPERATING AND FINANCIAL REVIEW

### REVIEW OF PERFORMANCE AND FINANCIAL POSITION

CONTINUED

## FINANCIAL POSITION

### Balance sheet

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

#### Total Assets

As at

31 Mar 2018 \$A billion	31 Mar 2017 \$A billion
173.2	167.4

↑ **3%**  
on prior year

- Receivables from financial institutions of \$A36.6 billion at 31 March 2018 increased 43% from \$A25.6 billion at 31 March 2017 mainly due to an increase in stock borrowing and reverse repurchase trades in CGM driven by short term funding opportunities and client flow
- Loan assets held at amortised cost of \$A80.1 billion at 31 March 2018 increased 6% from \$A75.6 billion at 31 March 2017 mainly due to net new loans written in BFS' mortgages and business lending portfolios, and an increase in CGM's lending in the Fixed Income and Currencies and Futures businesses. This was partially offset by a decrease of 8% in CAF's loan and finance lease portfolio to \$A24.1 billion at 31 March 2018 from \$A26.3 billion at 31 March 2017 mainly in Principal Finance
- Other assets of \$A9.3 billion at 31 March 2018 increased 7% from \$A8.6 billion at 31 March 2017 mainly due to an increase in unsettled trade balances in CGM and Held for sale investments in CAF. The receivable following the sale of the Canadian mortgages portfolio in BFS in the prior year was partially offset by the receivable on the sale of CAF's US commercial vehicles financing business in the current year
- Derivative assets of \$A12.7 billion at 31 March 2018 increased 5% from \$A12.1 billion at 31 March 2017 mainly due an increase in US Gas derivatives due to the acquisition of Cargill and positive price movements on energy derivatives in CGM
- Interests in associates and joint ventures accounted for using the equity method of \$A0.7 billion increased significantly from \$A0.2 billion at 31 March 2017 mainly due to an additional investment by CAF, which resulted in the reclass of an investment from Available for sale to Associate
- Trading portfolio assets of \$A14.9 billion at 31 March 2018 decreased 44% from \$A26.6 billion at 31 March 2017 mainly due to a decrease in long equity positions and a reduction in the holdings of physical commodities and volume of oil cargo contracts.

#### Total Liabilities

As at

31 Mar 2018 \$A billion	31 Mar 2017 \$A billion
160.1	154.9

↑ **3%**  
on prior year

- Due to related body corporate entities of \$A14.0 billion at 31 March 2018 increased 90% from \$A7.4 billion at 31 March 2017 mainly due to new non-bank debt issuances placed by MGL and other entities with MBL
- Trading portfolio liabilities of \$A7.9 billion at 31 March 2018 increased 61% from \$A4.9 billion at 31 March 2017 mainly due to an increase in short equity positions
- Deposits of \$A59.4 billion at 31 March 2018 increased 3% from \$A57.7 billion at 31 March 2017 mainly due to an increase in transaction and savings accounts and business deposit volumes
- Derivative liabilities of \$A11.8 billion increased 6% from \$A11.1 billion at 31 March 2017 reflecting increased activity in CGM's Commodity business
- Debt issued at amortised cost of \$A39.7 billion at 31 March 2018 decreased 8% from \$A43.1 billion at 31 March 2017, mainly driven by a reduction in CAF leasing facilities and bond repayments in BFS Mortgages. This was partially offset by Treasury's funding and liquidity management activities which included a US commercial paper issuance
- Payables to financial institutions of \$A11.7 billion at 31 March 2018 decreased 18% from \$A14.2 billion at 31 March 2017 mainly due to a net repayment of Treasury funding facilities and a decrease in cash collateral on securities lent in CGM
- Other liabilities of \$A8.8 billion at 31 March 2018 decreased 6% from \$A9.4 billion at 31 March 2017 mainly due a decrease in unsettled trade balances in CGM
- Loan capital of \$A4.3 billion decreased 8% from \$A4.6 billion mainly due to the redemption of Exchangeable Capital Securities notes during the year.

#### Total Equity

As at

31 Mar 2018 \$A billion	31 Mar 2017 \$A billion
13.1	12.6

↑ **4%**  
on prior year

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



# 3.9yrs

**The weighted average term to maturity of term funding maturing beyond one year at 31 March 2018**

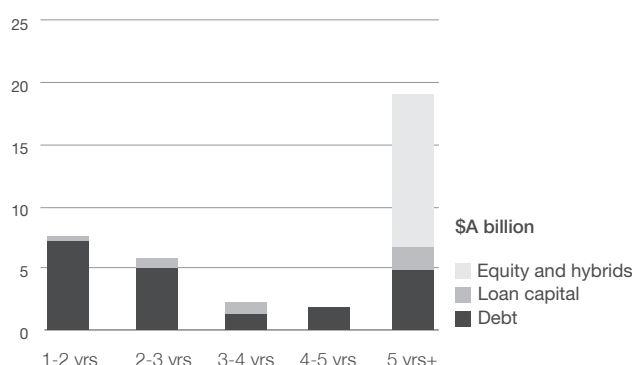
## Funding

Macquarie Bank's liquidity risk management framework is designed to ensure that it is able to meet its funding requirements as they fall due under a range of market conditions.

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

## Term funding profile

*Detail of drawn term funding maturing beyond one year*



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

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

		Total \$A billion
Secured Funding	Term securitisation	2.2
Issued paper	Senior	3.1
Macquarie Air Finance Term Loan <sup>(1)</sup>	Unsecured and secured term loan	5.1
<b>Total</b>		<b>10.4</b>

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

## Capital

Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum BCBS Basel III leverage ratio requirement of 3% is effective from 1 Jan 2018<sup>(2)</sup>.

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 31 March 2018.

Bank Group Basel III ratios as at 31 Mar 2018	Harmonised Basel III <sup>(3)</sup>	APRA Basel III
Common Equity Tier 1 Capital Ratio	13.5%	11.0%
Tier 1 Capital Ratio	15.3%	12.8%
Leverage Ratio	6.9%	6.0%



For further information relating to the capital adequacy of Macquarie Bank, refer to section 6.0 Capital of the Management Discussion and Analysis available at [macq.co/FY18MDA](http://macq.co/FY18MDA)

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

(2) APRA has proposed a minimum leverage ratio of 4% from July 2019.

(3) 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.

## OPERATING AND FINANCIAL REVIEW

### OUR STRATEGY

## Our Purpose

Macquarie Bank's purpose is to realise opportunity for the benefit of our clients, shareholders and staff. We are in business to be profitable and to achieve an appropriate and resilient long-term return on capital. Ultimately though, it is the way we do business that defines Macquarie Bank.

# What We Stand For

Opportunity, Accountability and Integrity. These long-held principles form the basis of Macquarie Group's expectations of our staff and adherence to them is required under the *Code of conduct*.

The balance between opportunity and accountability, while operating with integrity within a strong risk management framework, is a feature of Macquarie Group's success and a key factor in our long record of unbroken profitability.



The *Code of conduct* is available at [macquarie.com/what-we-stand-for](http://macquarie.com/what-we-stand-for)

## Our Business Strategy

Consistent with our *What We Stand For* principles, Macquarie Bank adopts a business strategy focused on the medium-term. It is consistent with the Macquarie Group business strategy and approach. Key aspects include:

### Risk management approach

Adopting a conservative approach to risk management. Macquarie Bank's robust risk management framework is embedded across all Bank Group entities. This equips the business for unanticipated disruptions with the objective of ensuring that both the relevant business and Macquarie Bank can survive a worst case outcome from any existing or new activity.

### Strong balance sheet

Maintaining a strong and conservative balance sheet.

This is consistent with Macquarie Bank's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie Bank remains well funded, with diversified funding sources, including deposits.

We continue to pursue the strategy of diversifying funding sources by growing our deposit base and accessing different funding markets.

### Business mix

Conducting a mix of annuity-style and capital markets facing businesses that deliver solid returns in a range of market conditions.

Macquarie Bank has dynamically developed its annuity-style businesses, providing steady returns to the business and our shareholders, and certainty to clients.

### Diversification

Operating a diversified set of businesses across different locations and service offerings: asset finance, lending, banking, and risk and capital solutions across debt, equity and commodities.

Macquarie Bank offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie Bank, as highlighted by Macquarie Bank's results in the challenging global markets of recent years.

### Proven expertise

Utilising proven deep expertise has allowed Macquarie Bank to establish leading market positions as a global specialist in sectors including resources and commodities, energy, financial institutions and real estate. This is coupled with deep knowledge of Asia-Pacific financial markets.

### Adjacencies

Expanding progressively by pursuing adjacencies through organic opportunities and selective acquisitions.

These include products and geographies adjacent to our established areas of expertise. This results in sustainable evolutionary growth.

### Pursuit of growth opportunities

Targeting continued evolution and growth through innovation. We start with real knowledge and skill, and we encourage ingenuity and entrepreneurial spirit coupled with accountability.

Ideas for new businesses are typically generated in the Operating Groups. Additionally, there are no specific businesses, markets or regions in which our strategy demands we operate. This means we retain operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the *Risk Appetite Statement (RAS)* approved by the Board.



## Risk Management

Macquarie Bank recognises that a sound risk culture is a fundamental requirement of an effective risk management framework. Macquarie Bank's risk culture is well established and the risk management framework is embedded across all operations.

The long-held foundations of Macquarie Bank's risk culture are the principles of *What We Stand For*:



### Opportunity

We seek to identify opportunity and realise it for our clients, community, shareholders and our people.



### Accountability

We are accountable for all our actions, to our clients, our community, our shareholders and each other.



### Integrity

We earn the trust of our clients, colleagues, community and shareholders through the quality of our work and our high ethical standards.



Staff are made aware that these principles must form the basis of all behaviours and actions.

The acceptance of risk is an integral part of Macquarie Bank's businesses. Strong independent prudential management has been a key to Macquarie Bank's success and stability over many years. The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities.

Refer to the Risk Management Report in the MGL Annual Report for details on Macquarie Group's risk management framework, risk culture and conduct risk management, which apply to all Macquarie Group businesses including the Bank Group entities.

## Macroeconomic factors

The key macroeconomic risks to Macquarie Bank's short and medium-term financial outlook noted on page 10 are:

### Market conditions

The general condition of markets, driven mainly by macroeconomic factors, will influence the volume of transactions that businesses experience. For example, an increase in market volatility may increase the income CGM derives from hedging transactions performed on behalf of clients. Market conditions can also influence the value of various credit, market and equity risk exposures held by Macquarie Bank.

### The value of the Australian dollar

A significant proportion of Macquarie Bank's net income is denominated in foreign currency. Therefore, net income will be lower in Australian dollar terms if it appreciates against these currencies.

### Potential regulatory changes

Macquarie Bank, like all financial institutions, is affected by changes in regulation. Regulatory change, particularly for banks, continues to be developed at both the global and Australian levels and has the potential to affect the capital adequacy, funding and profitability of businesses.

### Funding and liquidity

Macquarie Bank uses deposits and debt markets to fund its assets. Macquarie Bank is therefore exposed to the risk of an increase in the cost of funding, or of reduced access to funding sources, which could affect the volume of income earning assets and the margin earned on those assets.



In addition, there are specific risks which relate to the nature of Macquarie Bank's operations. These include conduct, credit, cyber and information security, data, environmental and social (including climate change), equity, legal, liquidity, market, model, operational, regulatory and compliance, reputation and tax risks. All of these risks, including those mentioned above are monitored, mitigated and managed under Macquarie Bank's risk management framework.



Further details on the management of these risks are available at [macquarie.com/risk-management](http://macquarie.com/risk-management)

## OPERATING AND FINANCIAL REVIEW

### RISK MANAGEMENT

#### CONTINUED

The risk management framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Macquarie businesses (including Bank Group entities). The framework is supported by a Macquarie-wide approach to policies and procedures. Macquarie Bank adopts policies, procedures and risk limits in accordance with the risk profile of each Bank Group entity.

The Risk Management Group (RMG) consistently adopts the same level of rigour in relation to risk acceptance, monitoring and reporting for all Macquarie entities.

**The core risk management principles underlying the framework have remained stable and continue to be effective.**

– **Ownership of risk at the business level:**

Group Heads are responsible for identifying risks within their businesses and ensuring appropriate management. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of the Bank Group entities.

– **Understanding worst case outcomes:**

Highly experienced professionals use both quantitative and qualitative inputs to examine the consequences of worst case outcomes and determine whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, the market risk management framework is based primarily on the application of stress tests, rather than statistical models. Macquarie Bank applies limits to contingent losses from worst case scenarios that include market movements larger than have occurred historically. For example, an instantaneous 40% gap move in stock prices. These limits effectively constrain position taking by divisions trading in products where the current risk appears low but potential risk exists in extreme loss events. Macquarie Bank has over 15,000 contingent loss limits that consider a variety of worst case scenarios.

– **Requirement for an independent sign-off by risk management:**

Macquarie Bank places significant importance on having a strong, independent RMG charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals, many with previous banking or trading experience. For all material proposals, RMG's opinion is sought at an early stage in the decision-making process. The approval document submitted to Senior Management includes independent input from RMG on risk and return.

## OUTLOOK

Macquarie Bank currently expects that the combined net profit contribution from Operating Groups for the financial year ending 31 March 2019 will be broadly in line with the financial year ended 31 March 2018.

The tax rate for the financial year ending 31 March 2019 is currently expected to be broadly in line with the financial year ended 31 March 2018.

Macquarie Bank's short-term outlook remains subject to market conditions, the impact of foreign exchange, potential regulatory changes and tax uncertainties and the geographic composition of income.

Macquarie Bank remains well positioned to deliver superior performance in the medium-term due to: its deep expertise in major markets; strength in diversity and ability to adapt its portfolio mix to changing market conditions; the ongoing benefits of continued cost initiatives; a strong and conservative balance sheet; and a proven risk management framework and culture.



Directors' Report

Schedule 1 – Directors' experience and special responsibilities

Schedule 2 – Remuneration Report



# 2

# DIRECTORS' REPORT

## **DIRECTORS' REPORT**

### **FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018**

The Directors of MBL submit their report with the financial report of the Consolidated Entity and the Company for the year ended 31 March 2018.

#### **DIRECTORS**

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

##### **Independent Directors**

P.H. Warne, Chairman

G.R. Banks AO

G.M. Cairns

M.J. Coleman

P.A. Cross

D.J. Grady AM

M.J. Hawker AM

G.R. Stevens AC

N.M. Wakefield Evans

##### **Executive Voting Directors**

M.J. Reemst, Managing Director and Chief Executive Officer (CEO)

N.W. Moore

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

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

#### **PRINCIPAL ACTIVITIES**

The principal activity of MBL during the financial year ended 31 March 2018 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. MBL is a subsidiary of MGL and is regulated by the APRA as an authorised deposit-taking institution (ADI). In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

#### **RESULT**

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

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2018 was \$A1,568 million (2017: \$A1,221 million). This result represents profit from continuing operations of \$A1,568 million (2017:\$A1,221 million) and profit from discontinued operations of \$A nil million (2017:\$A nil million).



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

## DIVIDENDS AND DISTRIBUTIONS

MBL paid dividends and paid or provided distributions during the financial year as set out in the table below:

Security	Payment Date	Payment Type	\$A million	In respect of financial year ended/period	
Ordinary Shares	11 May 2017	Final	607.0	31 March 2017	Paid
	8 November 2017	Interim	603.0	31 March 2018	Paid
Macquarie Income Securities (MIS) <sup>(1)</sup>	18 April 2017	Periodic	3.4	15 January 2017 to 14 April 2017	Paid
	17 July 2017	Periodic	3.5	15 April 2017 to 14 July 2017	Paid
	16 October 2017	Periodic	3.4	15 July to 14 October 2017	Paid
	15 January 2018	Periodic	3.4	15 October 2017 to 14 January 2018	Paid
	16 April 2018	Periodic	2.9	15 January 2018 to 31 March 2018	Provided

Subsequent to the year ended 31 March 2018 the Directors have resolved to pay a final ordinary dividend of \$A924 million on 16 May 2018.

No other dividends or distributions were declared or paid during the financial year.

## STATE OF AFFAIRS

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

## OPERATING AND FINANCIAL REVIEW

Please refer to Section 1 of this Annual Report for the following in respect of the Consolidated Entity, which includes:

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

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

(1) MIS are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note), and a preference share in MBL. The MIS are quoted on the ASX. The MIS distributions set out above represent payment as made, or to be made, by MBL to its members. The MIS are classified as equity under Australian Accounting Standards – see Note 27 and Note 28 to the financial statements in the Financial Report for further information on the MIS and MIS distributions.

## DIRECTORS' REPORT

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### DIRECTORS' RELEVANT INTERESTS

At the date of this report, none of the Directors held a relevant interest, as required to be notified by the Directors to the Australian Securities Exchange (ASX) in accordance with the *Corporations Act 2001 (Cth)* (the Act), in ordinary shares or share options of MBL. The relevant interests of Directors in MBL securities, managed investment schemes made available by related companies of MBL and other disclosable relevant interests are listed in the table below:

Name and position	Direct and indirect interests	Number held
<b>Executive Voting Director</b>		
M.J. Reemst	Macquarie ordinary shares (MQG)	10,850
	Macquarie Group Retained Equity Plan (MEREP) Restricted Share Units (RSUs)	90,226
	MEREP Performance Share Units (PSUs)	76,381
N.W. Moore	MQG	2,310,976
	MEREP RSUs	632,575
	MEREP PSUs	195,826
	2006 Macquarie Timber Land Trust units	75
	Macquarie Global Infrastructure Fund III (B) units	2,163,106
<b>Independent Directors</b>		
G.R. Banks	MQG	6,416
G.M. Cairns	MQG	12,734
	Macquarie Income Securities	900
M.J. Coleman	MQG	7,199
	Macquarie Group Capital Notes 2 (MCN2)	2,000
P.A. Cross	MQG	7,636
D.J. Grady	MQG	8,427
	Macquarie Group Capital Notes (MCN)	400
	MCN2	100
M.J. Hawker	MQG	7,335
	MCN2	500
G.R. Stevens	MQG	1,028
	Macquarie Atlas Roads Group Limited Stapled Securities	413
N.M. Wakefield Evans	MQG	5,267
P.H. Warne	MQG	14,933

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## MEETING ATTENDANCE

### Board and Board Committee meetings and attendance

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

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

The Macquarie Board Audit Committee (BAC) is a joint committee of MGL and MBL. The BAC assists the Boards of MGL and MBL in fulfilling the responsibility for oversight of the quality and integrity of the accounting and financial reporting practices of Macquarie.

The Macquarie Board Risk Committee (BRiC) is a joint committee of MGL and MBL. The membership of the Committee consists of all the Non-Executive Voting Directors (NEDs) of Macquarie. The BRiC assists the Boards of MGL and MBL by providing oversight of the implementation and operation of Macquarie's risk management framework and advising the Boards on Macquarie's risk position, risk appetite, risk culture and risk management strategy.

There was one Board sub-committee convened during the period, with two meetings held. Both meetings were attended by all the eligible sub-committee members, being Mr Warne, Mr Moore, Ms Reemst, Mr Coleman and the Chief Financial Officer, Mr Upfold.

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

The Chairman of the Board, Macquarie Group CEO and the Macquarie Bank CEO, attend BAC meetings by invitation as a matter of course. The Macquarie Group CEO and Macquarie Bank CEO attend BRiC meetings as a matter of course.

### DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE

Under MBL's Constitution, MBL indemnifies all past and present directors and secretaries of MBL and its wholly-owned subsidiaries (including at this time the Directors named in this report and the Secretaries) certain liabilities and costs incurred by them in their respective capacities.

The indemnity covers the following liabilities and legal costs (subject to the exclusions described as follows):

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

The indemnity does not apply to the extent that:

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

MBL has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (as amended from time to time) (Deed) with each of the Directors.

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

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



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

Under the Deed, MBL, inter alia, agrees to:

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

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

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

### ENVIRONMENTAL REGULATIONS

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

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

### NON-AUDIT SERVICES

Fees paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), for non-audit services during the period ended 31 March 2018 total \$A5.5 million. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 40 – Audit and other services provided by PwC in the Financial Report.

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

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

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

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## ROUNDING OF AMOUNTS

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

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

## EVENTS SUBSEQUENT TO BALANCE DATE

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

## AUDITOR'S INDEPENDENCE DECLARATION

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

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

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

A handwritten signature in black ink, appearing to read 'P. Warne'.

**Peter Warne**  
*Independent Director and Chairman*

A handwritten signature in black ink, appearing to read 'K. G. Smith'.

**K.G. Smith**  
*Partner*  
**PricewaterhouseCoopers**

Sydney  
4 May 2018

A handwritten signature in black ink, appearing to read 'M. Reemst'.

**Mary Reemst**  
*Managing Director and Chief Executive Officer*

Sydney  
4 May 2018

Liability limited by a scheme approved under Professional Standards Legislation

## DIRECTORS' REPORT SCHEDULE 1

### DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

#### PETER H WARNE, BA (MACQUARIE), FAICD

Independent Chairman of MGL and MBL since April 2016

Independent Voting Director of MBL since July 2007

Independent Voting Director of MGL since August 2007

*Mr Warne is a member of the BRiC*

##### Experience

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

Age: 62

Mr Warne is a resident of New South Wales.

##### Listed Company directorships (last three years)

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

##### Other current directorships/appointments

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

#### MARY J REEMST, BA (MACQUARIE), DIP FIN MGT (ACCOUNTANCY)(UNE), MAICD

Managing Director and Chief Executive Officer of MBL since July 2014

Executive Voting Director of MBL since July 2014

##### Experience

Mary Reemst joined Macquarie in 1999, having held senior investment banking roles at Bankers Trust Australia.

Ms Reemst was Head of Credit in the Risk Management Group for 11 years, with oversight of Macquarie's wholesale and retail exposures, including lending, trading activities, equity investments and new products.

Age: 60

Ms Reemst is a resident of New South Wales.

##### Other current directorships/appointments

- Director, Australian Bankers' Association
- Director, Financial Markets Foundation for Children
- Director, Australian Financial Markets Association
- Board member, Asylum Seekers Centre Incorporated
- Board member, Sisters of Charity Foundation
- Member, UNE Senior Advisory Board

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### NICHOLAS W MOORE, BCOM LLB (UNSW), FCA

Managing Director and Chief Executive Officer of MGL since May 2008

Executive Voting Director of MBL since May 2008

Executive Voting Director of MGL since February 2008

#### Experience

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

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

Age: 59

Mr Moore is a resident of New South Wales.

#### Other current directorships/appointments

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

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

Independent Voting Director of MBL and MGL since August 2013

*Mr Banks is a member of the BRiC*

#### Experience

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

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

Age: 68

Mr Banks is a resident of Victoria.

#### Other current directorships/appointments

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

### GORDON M CAIRNS, MA (HONS) (EDIN)

Independent Voting Director of MBL and MGL since November 2014

*Mr Cairns is a member of the BRiC*

#### Experience

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

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

Age: 67

Mr Cairns is a resident of New South Wales.

#### Listed Company directorships (last three years)

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

#### Other current directorships/appointments

- Director, World Education Australia



## DIRECTORS' REPORT SCHEDULE 1

### DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

CONTINUED

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

Independent Voting Director of MBL and MGL since November 2012

*Mr Coleman is Chairman of the BAC and a member of the BRiC*

##### Experience

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

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

Age: 67

Mr Coleman is a resident of New South Wales.

##### Listed Company directorships (last three years)

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

##### Other current directorships/appointments

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

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

Independent Voting Director of MBL and MGL since August 2013

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

##### Experience

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

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

Age: 58

Mrs Cross is a resident of Victoria.

##### Listed Company directorships (last three years)

- Director, Aviva plc (since October 2013)

##### Other current directorships/appointments

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

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

Independent Voting Director of MBL and MGL since May 2011

*Ms Grady is a member of the BRiC*

### Experience

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

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

Age: 69

Ms Grady is a resident of New South Wales.

### Listed Company directorships (last three years)

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

### Other current directorships/appointments

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

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

Independent Voting Director of MBL and MGL since March 2010

*Mr Hawker is a member of the BAC and BRiC*

### Experience

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

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

Age: 58

Mr Hawker is a resident of New South Wales.

### Listed Company directorships (last three years)

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

### Other current directorships/appointments

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

## DIRECTORS' REPORT SCHEDULE 1

### DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

CONTINUED

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

Independent Voting Director of MGL and MBL since November 2017

*Mr Stevens is a member of the BRiC*

##### Experience

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

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

Age: 60

Mr Stevens is a resident of New South Wales.

##### Other current directorships/appointments

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

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

Independent Voting Director of MBL and MGL since February 2014

*Ms Wakefield Evans is a member of the BAC and BRiC*

##### Experience

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

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

Age: 57

Ms Wakefield Evans is a resident of New South Wales.

##### Listed Company directorships (last three years)

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

##### Other current directorships/appointments

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

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## COMPANY SECRETARIES' QUALIFICATIONS AND EXPERIENCE

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

*Company Secretary since October 1993*

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

### **IDA LAWRENCE, BCOM (HONS) (QUEENS), LLM (UNSW), AGIA, GAICD**

*Assistant Company Secretary since January 2014*

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



## DIRECTORS' REPORT SCHEDULE 2 REMUNERATION REPORT

### INTRODUCTION

Macquarie Bank is a subsidiary of the Macquarie Group. Whilst subject to the remuneration framework determined by the Macquarie Group, the Board considers remuneration recommendations relating to the senior executives of Macquarie Bank. Throughout this Remuneration Report, for consistency, references are made to the Macquarie Group's remuneration arrangements rather than Macquarie Bank's remuneration arrangements.

During the year, the MGL Board and the BRC have reviewed the Macquarie Group's remuneration framework to ensure it continues to support our overarching objective of delivering superior company performance over both the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and the long-held foundations of the Macquarie Group's risk culture, the principles of *What We Stand For* – Opportunity, Accountability and Integrity.

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

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

Our approach is characterised by:

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

### MACQUARIE GROUP'S REMUNERATION FRAMEWORK

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

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

#### Overall remuneration objectives and principles

### SUPERIOR LONG-TERM COMPANY PERFORMANCE

Align interests of staff and shareholders

Attract, motivate and retain high quality people

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

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

### CREATING A LONG-TERM FOCUS

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## MACQUARIE GROUP'S REMUNERATION STRUCTURE

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

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

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

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

### Retained profit share: retention and vesting

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

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

(1) Both the MEREP and DPS Plan are fundamental tools in the Macquarie Group's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in MGL ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 31 to the financial statements in the Financial Report.  
The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.

## DIRECTORS' REPORT SCHEDULE 2

### REMUNERATION REPORT

CONTINUED

#### MACQUARIE GROUP'S REMUNERATION STRUCTURE CONTINUED

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

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

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

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

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

#### Forfeiture of retained profit share – Malus Events

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

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

Each of the above is a Malus Event.

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

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

(3) Above certain monetary thresholds.

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

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

#### Early vesting and release of retained profit share

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

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

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

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

In addition to the Malus provisions set out above, where discretion has been exercised to accelerate the vesting of the retained profit share of any departing Executive Director, the Board may reduce or eliminate in full their retained profit share, if it determines that the Executive Director has at any time during their employment, or the relevant release periods after their employment, committed a Malus Event (as described on page 26) or:

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

Each of the above is a Post Employment Event.

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

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

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

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



## DIRECTORS' REPORT SCHEDULE 2

### REMUNERATION REPORT

CONTINUED

#### MACQUARIE GROUP'S REMUNERATION STRUCTURE CONTINUED

##### Performance Share Units (PSUs)

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

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

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

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

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

##### Rationale for hurdles

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

##### Forfeiture

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

(5) A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 31 to the financial statements in the Financial Report.

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

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### Testing of hurdles

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

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

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

### Other features of the Macquarie Group remuneration structure

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

### Employment contracts

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

<b>Length of contract</b>	Permanent open-ended
<b>Remuneration review period</b>	1 April to 31 March annually
<b>Profit share participation</b>	Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'. Refer to pages 25 to 27 for details.
<b>PSU participation</b>	Executive Committee members are eligible to receive PSUs. Refer to pages 28 to 29 for details.
<b>Termination of employment</b>	Requires no more than four weeks' notice <sup>(9)</sup> by Macquarie Group or the Executive Committee member (Post-employment restrictions apply).
<b>Post-employment restrictions</b>	Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie Group's election, for up to three months post-termination.

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

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

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

## DIRECTORS' REPORT SCHEDULE 2

### REMUNERATION REPORT

CONTINUED

#### APPROACH TO DETERMINING REMUNERATION OUTCOMES

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

#### FIXED REMUNERATION

<b>Fixed</b>	<ul style="list-style-type: none"> <li>Reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements.</li> </ul>
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#### PERFORMANCE-BASED REMUNERATION

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

## RISK CONSIDERATIONS AND CONSEQUENCE MANAGEMENT

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

### Risk culture

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

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

### Alignment of remuneration with prudent risk taking

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

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

#### To assist the Macquarie Group and the BRC:

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

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

### Consequence Management

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

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

#### To assist the Board and the BRC:

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



## DIRECTORS' REPORT SCHEDULE 2

### REMUNERATION REPORT

CONTINUED

#### ALIGNMENT OF REMUNERATION OUTCOMES TO RESULTS

Macquarie Bank's FY2018 net profit after tax (NPAT) is up 28% compared to FY2017.

	2014 <sup>(10)</sup>	2015 <sup>(10)</sup>	2016 <sup>(10)</sup>	2015 <sup>(11)</sup>	2016 <sup>(11)</sup>	2017 <sup>(11)</sup>	2018
NPAT attributable to ordinary equity holders (\$Am)	752	1,096	2,090	906	1,050	1,221	<b>1,568</b>
Return on average ordinary shareholders' funds (% p.a.)	8.5	11.5	18.3	9.5	9.2	10.1	<b>12.9</b>

#### REMUNERATION GOVERNANCE

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

##### Strong Board oversight

The Macquarie Group Board oversees the Macquarie Group's remuneration framework. The Macquarie Group Board has a BRC whose objective is to assist the Boards of Macquarie Group and Macquarie Bank with their remuneration policies and practices.

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

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

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

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

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

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

- regulatory
- risk management and compliance
- customer outcomes
- financial performance
- investing in the future.

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

The MGL Board and the BRC also consider formal documentation for each Executive Committee member, which covers financial performance, risk management and compliance, business leadership and people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

In addition, the BRC considers remuneration levels for organisations in an international reference group that broadly operate in the same markets and compete for the same people as the Macquarie Group. This information helps the BRC and Board make decisions about remuneration.



The Charter is available on the Macquarie Group's website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance)

(10) Including the profit from discontinued operations on the transfer of the MIM business from the Bank to the Non-Bank as reported in the Financial Statements for the year ended 31 March 2016.

(11) Excluding the profit from discontinued operations on the transfer of the MIM business from the Bank to the Non-Bank as reported in the Financial Statements for the year ended 31 March 2016.

### Independent remuneration review

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

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

This year, Pay Governance:

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

Pay Governance's findings included that:

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

### NON-EXECUTIVE DIRECTOR REMUNERATION

Macquarie Group's remuneration approach seeks to ensure that the Non-Executive Directors (NEDs) are appropriately remunerated. The remuneration arrangements applicable to NEDs of MGL and MBL are outlined in this section and significantly differ from the arrangements applicable to Executives.

#### Non-Executive Director remuneration policy

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

All NEDs of MGL are also NEDs of MBL. The following framework governs the remuneration of NEDs of both MGL and MBL.

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

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

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

The Macquarie Group CEO and the Macquarie Bank CEO are not remunerated separately for acting as Executive Voting Directors of MBL.

#### MBL Annual Director Fees

	Chairman \$A	Member \$A
Board	250,000	72,500

MBL does not have standalone Board committees. The Macquarie Group BAC and the Macquarie Group BRiC are joint committees of MGL and MBL. The BRC also advises both Boards. The MGL Board Committee Chairman annual fee is \$A75,000 and the annual member fee is \$A35,000 for each of the BAC, BRiC and BRC.

NEDs are remunerated for their services from the maximum aggregate amount approved by Macquarie Group for this purpose. MGL shareholders approved the current limit (\$A4.6 million per annum) at MGL's 2015 AGM. The Board ensures that NED remuneration for MGL and MBL taken together does not exceed this shareholder approved maximum amount.

Information on the number of Board and Committee meetings is included on page 15 of the Directors' Report.

**DIRECTORS' REPORT SCHEDULE 2**  
**REMUNERATION REPORT**  
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Schedule 2 – Remuneration Report

## APPENDIX 1: KEY MANAGEMENT PERSONNEL (KMP) FOR FY2018

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

Name	Position	Term as KMP for FY2018
<b>Executive Voting Directors</b>		
N.W. Moore	Macquarie Group CEO	Full year
M.J. Reemst	Macquarie Bank CEO	Full year
<b>Non-Executive Directors</b>		
G.R. Banks AO	Independent Director	Full year
G.M. Cairns	Independent Director	Full year
M.J. Coleman	Independent Director	Full year
P.A. Cross	Independent Director	Full year
D.J. Grady AM	Independent Director	Full year
M.J. Hawker AM	Independent Director	Full year
G.R. Stevens AC	Independent Director	Appointed to the Board effective from 1 November 2017
N.M. Wakefield Evans	Independent Director	Full year
P.H. Warne	Independent Chairman	Full year
<b>Executives<sup>(1)</sup></b>		
S.D. Allen	Former CRO and Head of RMG	Ceased to be a member of the Executive Committee on 31 December 2017
B.A. Brazil	Co-Head of CAF	Full year
A.J. Downe	Head of CGM	Full year
G.A. Farrell	Co-Head of CAF	Full year
A. Harvey	CFO, Head of FMG	Appointed to the Executive Committee effective from 1 January 2018
M. McLaughlin	Former Country Head, USA	Ceased to be a member of the Executive Committee on 15 June 2017
N. O'Kane	Head of Commodity Markets and Finance (CMF)	Appointed to the Executive Committee effective from 15 June 2017
N. Sorbara	COO, Head of COG	Full year
P.C. Upfold <sup>(2)</sup>	CFO, Head of FMG	Full year
G.C. Ward	Macquarie Group Deputy Managing Director and Head of BFS	Full year
S. Wikramanayake	Head of MAM	Full year

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

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

## DIRECTORS' REPORT SCHEDULE 2

### REMUNERATION REPORT

CONTINUED

#### APPENDIX 2: STATUTORY REMUNERATION DISCLOSURES

##### Executive KMP Remuneration Disclosure (in accordance with Australian Accounting Standards)

		SHORT-TERM EMPLOYEE BENEFITS			
Name	Position	Year	Salary (including super- annuation) \$A	Performance related remuneration \$A	Total short- term employee benefits \$A
Executive Voting Directors					
N.W. Moore	Macquarie Group CEO	2018	447,377	1,974,935	2,422,312
		2017	452,760	1,925,749	2,378,509
M.J. Reemst	Macquarie Bank CEO	2018	700,750	1,590,412	2,291,162
		2017	700,800	1,401,648	2,102,448
Other Executives					
B.A. Brazil	Co-Head of CAF	2018	700,750	5,728,513	6,429,263
		2017	700,800	6,387,347	7,088,147
A.J. Downe	Head of CGM	2018	435,236	4,910,094	5,345,330
		2017	757,509	5,015,848	5,773,357
G.A. Farrell	Co-Head of CAF	2018	698,144	2,994,236	3,692,380
		2017	698,181	2,984,964	3,683,145
N. Sorbara	COO, Head of COG	2018	414,746	1,258,979	1,673,725
		2017	386,356	998,852	1,385,208
P.C. Upfold	CRO, Head of RMG	2018	552,795	1,667,830	2,220,625
		2017	565,634	1,594,365	2,159,999
G.C. Ward	Macquarie Group Deputy Managing Director, Head of BFS	2018	692,889	3,123,218	3,816,107
		2017	690,458	3,012,845	3,703,303
S. Wikramanayake	Head of MAM	2018	94,598	407,394	501,992
		2017	104,339	203,028	307,367
Total Remuneration – Comparable Executive KMP <sup>(1)</sup>		2018	4,737,285	23,655,611	28,392,896
		2017	5,056,837	23,524,646	28,581,483
New Executives					
A. Harvey <sup>(2)</sup>	CFO, Head of FMG	2018	107,279	433,811	541,090
		2017	–	–	–
N. O’Kane <sup>(2)</sup>	Head of CMF	2018	298,543	4,050,098	4,348,641
		2017	–	–	–
Former Executives					
S.D. Allen <sup>(3)</sup>	Former CRO, Head of RMG	2018	394,537	1,028,682	1,423,219
		2017	514,182	1,600,124	2,114,306
M. McLaughlin <sup>(3)</sup>	Former Country Head, USA	2018	111,416	–	111,416
		2017	523,213	342,764	865,977
S. Vrcelj <sup>(3)</sup>	Former Head of MSG	2018	–	–	–
		2017	73,043	167,265	240,308
Total Remuneration – Executive KMP (including new and former executives)		2018	5,649,060	29,168,202	34,817,262
		2017	6,167,275	25,634,799	31,802,074

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

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

(3) Mr Allen, Mr McLaughlin and Mr Vrcelj ceased to be members of the Executive Committee on 31 December 2017, 15 June 2017 and 29 November 2016 respectively.



Directors' Report  
Schedule 1 – Directors' experience and special responsibilities  
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LONG-TERM EMPLOYEE BENEFITS			SHARE BASED PAYMENTS				Percentage of remuneration that consists of PSUs %
Restricted profit share \$A	Earnings on prior year restricted profit share \$A	Total long-term employee benefits \$A	Equity awards including shares \$A	PSUs \$A	Total share-based payments \$A	Total Remuneration \$A	
<b>789,974</b>	<b>438,670</b>	<b>1,228,644</b>	<b>5,283,633</b>	<b>1,796,979</b>	<b>7,080,612</b>	<b>10,731,568</b>	<b>16.74</b>
770,300	267,171	1,037,471	5,030,134	2,003,276	7,033,410	10,449,390	19.17
<b>238,562</b>	<b>110,241</b>	<b>348,803</b>	<b>1,397,486</b>	<b>1,349,723</b>	<b>2,747,209</b>	<b>5,387,174</b>	<b>25.05</b>
210,247	72,717	282,964	1,223,635	1,112,092	2,335,727	4,721,139	23.56
<b>859,277</b>	<b>481,598</b>	<b>1,340,875</b>	<b>7,231,912</b>	<b>1,914,747</b>	<b>9,146,659</b>	<b>16,916,797</b>	<b>11.32</b>
958,102	223,087	1,181,189	6,973,281	1,619,586	8,592,867	16,862,203	9.60
<b>736,514</b>	<b>965,835</b>	<b>1,702,349</b>	<b>4,773,652</b>	<b>2,197,132</b>	<b>6,970,784</b>	<b>14,018,463</b>	<b>15.67</b>
752,377	795,839	1,548,216	4,252,383	2,263,567	6,515,950	13,837,523	16.36
<b>449,135</b>	<b>296,281</b>	<b>745,416</b>	<b>3,260,608</b>	<b>2,281,630</b>	<b>5,542,238</b>	<b>9,980,034</b>	<b>22.86</b>
447,745	212,138	659,883	3,152,855	2,468,658	5,621,513	9,964,541	24.77
<b>188,847</b>	<b>62,003</b>	<b>250,850</b>	<b>964,220</b>	<b>884,910</b>	<b>1,849,130</b>	<b>3,773,705</b>	<b>23.45</b>
149,828	28,367	178,195	759,931	932,470	1,692,401	3,255,804	28.64
<b>250,174</b>	<b>94,799</b>	<b>344,973</b>	<b>1,606,089</b>	<b>990,798</b>	<b>2,596,887</b>	<b>5,162,485</b>	<b>19.19</b>
239,155	41,971	281,126	1,442,428	835,802	2,278,230	4,719,355	17.71
<b>936,965</b>	<b>291,146</b>	<b>1,228,111</b>	<b>2,511,574</b>	<b>2,191,456</b>	<b>4,703,030</b>	<b>9,747,248</b>	<b>22.48</b>
903,853	140,936	1,044,789	2,283,535	2,294,326	4,577,861	9,325,953	24.60
<b>475,293</b>	<b>161,557</b>	<b>636,850</b>	<b>306,122</b>	<b>196,518</b>	<b>502,640</b>	<b>1,641,482</b>	<b>11.97</b>
152,271	30,152	182,423	105,937	87,667	193,604	683,394	12.83
<b>4,924,741</b>	<b>2,902,130</b>	<b>7,826,871</b>	<b>27,335,296</b>	<b>13,803,893</b>	<b>41,139,189</b>	<b>77,358,956</b>	
4,583,878	1,812,378	6,396,256	25,224,119	13,617,444	38,841,563	73,819,302	
<b>65,072</b>	<b>21,131</b>	<b>86,203</b>	<b>367,481</b>	<b>69,200</b>	<b>436,681</b>	<b>1,063,974</b>	<b>6.50</b>
–	–	–	–	–	–	–	–
<b>607,515</b>	<b>303,968</b>	<b>911,483</b>	<b>4,323,099</b>	<b>410,528</b>	<b>4,733,627</b>	<b>9,993,751</b>	<b>4.11</b>
–	–	–	–	–	–	–	–
<b>154,302</b>	<b>104,953</b>	<b>259,255</b>	<b>1,068,115</b>	<b>645,039</b>	<b>1,713,154</b>	<b>3,395,628</b>	<b>19.00</b>
240,019	86,412	326,431	1,374,770	1,150,466	2,525,236	4,965,973	23.17
<b>–</b>	<b>47,027</b>	<b>47,027</b>	<b>126,973</b>	<b>66,450</b>	<b>193,423</b>	<b>351,866</b>	<b>18.89</b>
51,415	102,350	153,765	552,993	241,098	794,091	1,813,833	13.29
–	–	–	–	–	–	–	–
39,028	22,708	61,736	695,774	813,866	1,509,640	1,811,684	44.92
<b>5,751,630</b>	<b>3,379,209</b>	<b>9,130,839</b>	<b>33,220,964</b>	<b>14,995,110</b>	<b>48,216,074</b>	<b>92,164,175</b>	
4,914,340	2,023,848	6,938,188	27,847,656	15,822,874	43,670,530	82,410,792	

## DIRECTORS' REPORT SCHEDULE 2

### REMUNERATION REPORT

CONTINUED

#### APPENDIX 2: STATUTORY REMUNERATION DISCLOSURES CONTINUED

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

The remuneration disclosures set out in this appendix have been prepared in accordance with Australian Accounting standards. Under the requirements of AASB 124 Related Party Disclosures, the remuneration disclosures for the years ended 31 March 2018 and 31 March 2017 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

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

##### (1) Short-term employee benefits:

- a) *Salary*: includes superannuation and an accrual for long service leave
- b) *Performance-related remuneration*: this represents the cash portion of each person's profit share allocation for the reporting period as an Executive KMP.

##### (2) Long-term employee benefits:

- a) *Restricted profit share*: this represents the amount of retained profit share that is deferred to future periods and held as a notional investment in Macquarie-managed fund equity (Post-2009 DPS Plan).
- b) *Earnings on prior years restricted profit share*: Profit share amounts retained under the Post-2009 DPS Plan are notionally invested in Macquarie-managed funds, providing Executive Directors with an economic exposure to the underlying investments. Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. The notional returns are calculated based on total shareholder return. Where these amounts are positive, they may be paid to Executive Directors and are included in these remuneration disclosures as part of 'Earnings on prior year restricted profit share'. If there is a notional loss, this loss will be offset against any future notional income until the loss is completely offset, and is reported as a negative amount in the same column. These earnings reflect the investment performance of the assets in which prior year retained amounts have been notionally invested. Their inclusion in the individual remuneration disclosures on the following pages may, therefore, cause distortions when year-on-year remuneration trends are examined. They do not reflect remuneration review decisions made about the individual's current year performance.

##### (3) Share-based payments:

- a) *Equity awards including shares*: This represents the current year expense for retained profit share that is invested in Macquarie ordinary shares under the MEREP as described on page 26. This is recognised as an expense over the respective vesting periods as described on page 26 and includes amounts that relates to prior year equity awards that have been previously disclosed. Equity awards in respect of FY2018 performance will be granted during FY2019, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity awards expected to vest. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each equity award when granted and will use this validation for recognising the expense over the remaining vesting period.
- b) *PSUs*: This represents the current year expense for PSUs that is recognised over the vesting period as described on page 28. This includes amounts that relate to prior year PSU awards. PSUs will be granted during FY2019, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity instruments expected to vest. The estimate also incorporates an interest rate to maturity of 2.45% per annum, expected vesting dates of PSUs of 1 July 2021 and 1 July 2022, and a dividend yield of 4.96% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

Directors' Report  
Schedule 1 – Directors' experience and special responsibilities  
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## APPENDIX 2: STATUTORY REMUNERATION DISCLOSURES CONTINUED

### Non-Executive Director Remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on page 33 of this Remuneration Report.

	Year	Fees \$A	Other benefits \$A <sup>(7)</sup>	Total Compensation \$A
G.R. Banks	2018	72,500	–	72,500
	2017	72,500	–	72,500
G.M. Cairns	2018	72,500	–	72,500
	2017	72,500	–	72,500
M.J. Coleman	2018	72,500	–	72,500
	2017	72,500	3,000	75,500
P.A. Cross	2018	72,500	–	72,500
	2017	72,500	–	72,500
D.J. Grady	2018	72,500	–	72,500
	2017	72,500	–	72,500
M.J. Hawker	2018	72,500	–	72,500
	2017	72,500	–	72,500
G. R. Stevens <sup>(8)</sup>	2018	30,208	–	30,208
	2017	–	–	–
N.M. Wakefield Evans	2018	72,500	–	72,500
	2017	72,500	–	72,500
P.H. Warne	2018	250,000	–	250,000
	2017	250,000	–	250,000
<b>Total Remuneration – Non-Executive KMP</b>	<b>2018</b>	<b>787,708</b>	<b>–</b>	<b>787,708</b>
	2017	757,500	3,000	760,500

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

(8) Mr Stevens was appointed to the MBL Board as an Independent Voting Director effective 1 November 2017.

## APPENDIX 3: LOAN DISCLOSURES

### Loans to Key Management Personnel and their related parties

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

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

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

(2) Alls loans provided by Macquarie Group to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been non write-downs or allowances for doubtful debts.

## DIRECTORS' REPORT SCHEDULE 2

### REMUNERATION REPORT

CONTINUED

#### APPENDIX 4: OTHER KMP DISCLOSURES

##### Other transactions with KMP and their related parties

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

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

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

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

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

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

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

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

Throughout this Remuneration Report financial information for Macquarie Bank relating to the years ended 31 March 2014 through to 31 March 2018 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).



Income Statements  
Statements of comprehensive income  
Statements of financial position  
Statements of changes in equity  
Statements of cash flows  
Notes to the financial statements  
Directors' declaration  
Independent auditor's report



# 3

# FINANCIAL REPORT



## FINANCIAL REPORT

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

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

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## INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
Interest and similar income	2	<b>4,619</b>	4,778	<b>4,120</b>	4,276
Interest expense and similar charges	2	<b>(2,601)</b>	(2,608)	<b>(2,637)</b>	(2,490)
Net interest income		<b>2,018</b>	2,170	<b>1,483</b>	1,786
Fee and commission income	2	<b>890</b>	820	<b>503</b>	414
Net trading income	2	<b>1,881</b>	1,667	<b>1,192</b>	773
Net operating lease income	2	<b>937</b>	922	<b>37</b>	24
Share of net profits/(losses) of associates and joint ventures	2	<b>22</b>	(19)	<b>–</b>	–
Other operating income and charges	2	<b>415</b>	261	<b>2,022</b>	785
Net operating income		<b>6,163</b>	5,821	<b>5,237</b>	3,782
Employment expenses	2	<b>(1,487)</b>	(1,487)	<b>(1,094)</b>	(1,105)
Brokerage, commission and trading-related expenses	2	<b>(619)</b>	(626)	<b>(403)</b>	(427)
Occupancy expenses	2	<b>(124)</b>	(118)	<b>(89)</b>	(87)
Non-salary technology expenses	2	<b>(133)</b>	(158)	<b>(104)</b>	(123)
Other operating expenses	2	<b>(1,647)</b>	(1,699)	<b>(1,277)</b>	(1,319)
Total operating expenses		<b>(4,010)</b>	(4,088)	<b>(2,967)</b>	(3,061)
<b>Operating profit before income tax</b>		<b>2,153</b>	1,733	<b>2,270</b>	721
Income tax expense	4	<b>(570)</b>	(509)	<b>(251)</b>	(73)
<b>Profit after income tax</b>		<b>1,583</b>	1,224	<b>2,019</b>	648
(Profit)/loss attributable to non-controlling interests		<b>(1)</b>	12	<b>–</b>	–
<b>Profit attributable to equity holders of Macquarie Bank Limited</b>		<b>1,582</b>	1,236	<b>2,019</b>	648
Distributions paid or provided for on Macquarie Income Securities	5	<b>(14)</b>	(15)	<b>–</b>	–
<b>Profit attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>1,568</b>	1,221	<b>2,019</b>	648

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

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

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Profit after income tax</b>		<b>1,583</b>	1,224	<b>2,019</b>	648
Other comprehensive income/(expense):					
Movements in items that may be subsequently reclassified to profit or loss:					
Available for sale investments, net of tax:	27				
Revaluation (losses)/gains transferred to equity		<b>(33)</b>	11	<b>(15)</b>	36
Transferred to income statement on:					
Impairment		<b>12</b>	22	<b>11</b>	20
Sale or reclassification		<b>(80)</b>	(29)	<b>(68)</b>	(26)
Cash flow hedges, net movement taken to equity, net of tax	27	<b>77</b>	16	<b>24</b>	(12)
Share of other comprehensive expense of associates and joint ventures, net of tax	27	<b>(1)</b>	(1)	–	–
Exchange differences on translation of foreign operations, net of hedge and tax		<b>132</b>	(129)	–	3
Movements in items that will not be reclassified to profit or loss:					
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	27	<b>37</b>	(30)	<b>37</b>	(30)
Total other comprehensive income/(expense)		<b>144</b>	(140)	<b>(11)</b>	(9)
<b>Total comprehensive income</b>		<b>1,727</b>	1,084	<b>2,008</b>	639
Total comprehensive (income)/expense attributable to non-controlling interests		<b>(4)</b>	12	–	–
Total comprehensive income attributable to Macquarie Income Securities holders		<b>(14)</b>	(15)	–	–
<b>Total comprehensive income attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>1,709</b>	1,081	<b>2,008</b>	639

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

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## STATEMENTS OF FINANCIAL POSITION

### AS AT 31 MARCH 2018

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Assets</b>					
Receivables from financial institutions	6	36,629	25,565	35,085	23,907
Trading portfolio assets	7	14,894	26,637	11,823	20,609
Derivative assets		12,695	12,067	10,668	10,788
Investment securities available for sale	8	5,322	5,182	5,158	4,801
Other assets	9	9,287	8,646	5,583	5,179
Loan assets held at amortised cost	10	80,143	75,550	54,542	52,680
Other financial assets at fair value through profit or loss	12	707	760	542	594
Due from related body corporate entities		1,383	1,733	1,212	1,535
Due from subsidiaries	29	–	–	27,841	31,071
Property, plant and equipment	13	11,074	10,743	1,127	568
Interests in associates and joint ventures	14	727	203	432	53
Intangible assets	15	214	193	91	104
Investments in subsidiaries	16	–	–	7,390	9,331
Deferred tax assets	17	143	162	139	319
<b>Total assets</b>		<b>173,218</b>	<b>167,441</b>	<b>161,633</b>	<b>161,539</b>
<b>Liabilities</b>					
Trading portfolio liabilities	18	7,938	4,922	8,286	5,143
Derivative liabilities		11,788	11,101	10,043	10,280
Deposits	19	59,379	57,682	57,919	56,298
Other liabilities	20	8,845	9,375	5,712	6,216
Payables to financial institutions	21	11,653	14,236	9,011	11,212
Due to related body corporate entities	29	13,993	7,367	11,830	5,959
Due to subsidiaries	29	–	–	10,549	17,480
Debt issued at amortised cost	22	39,685	43,137	30,674	29,691
Other debt issued at fair value through profit or loss	23	1,992	1,934	1,839	3,921
Deferred tax liabilities	17	586	484	114	131
<b>Total liabilities excluding loan capital</b>		<b>155,859</b>	<b>150,238</b>	<b>145,977</b>	<b>146,331</b>
<b>Loan capital</b>	25	<b>4,256</b>	<b>4,615</b>	<b>4,256</b>	<b>4,615</b>
<b>Total liabilities</b>		<b>160,115</b>	<b>154,853</b>	<b>150,233</b>	<b>150,946</b>
<b>Net assets</b>		<b>13,103</b>	<b>12,588</b>	<b>11,400</b>	<b>10,593</b>
<b>Equity</b>					
Contributed equity	26	9,928	9,911	9,821	9,812
Reserves	27	477	373	(3)	45
Retained earnings	27	2,686	2,296	1,582	736
<b>Total capital and reserves attributable to equity holders of Macquarie Bank Limited</b>		<b>13,091</b>	<b>12,580</b>	<b>11,400</b>	<b>10,593</b>
Non-controlling interests	27	12	8	–	–
<b>Total equity</b>		<b>13,103</b>	<b>12,588</b>	<b>11,400</b>	<b>10,593</b>

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

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
CONSOLIDATED							
Balance as at 1 April 2016		9,882	483	2,333	12,698	12	12,710
Profit after income tax		–	–	1,236	1,236	(12)	1,224
Other comprehensive expense, net of tax		–	(110)	(30)	(140)	–	(140)
Total comprehensive (expense)/income		–	(110)	1,206	1,096	(12)	1,084
Transactions with equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,241)	(1,241)	–	(1,241)
Non-controlling interests:							
Change in non-controlling ownership interests	27	–	–	(2)	(2)	9	7
Distributions paid or provided for		–	–	–	–	(1)	(1)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	26	29	–	–	29	–	29
		29	–	(1,243)	(1,214)	8	(1,206)
<b>Balance as at 31 March 2017</b>		<b>9,911</b>	<b>373</b>	<b>2,296</b>	<b>12,580</b>	<b>8</b>	<b>12,588</b>
Profit after income tax		–	–	<b>1,582</b>	<b>1,582</b>	<b>1</b>	<b>1,583</b>
Other comprehensive income, net of tax		–	<b>104</b>	<b>37</b>	<b>141</b>	<b>3</b>	<b>144</b>
Total comprehensive income		–	<b>104</b>	<b>1,619</b>	<b>1,723</b>	<b>4</b>	<b>1,727</b>
Transactions with equity holders:							
Dividends and distributions paid or provided for	5	–	–	<b>(1,224)</b>	<b>(1,224)</b>	–	<b>(1,224)</b>
Non-controlling interests:							
Change in non-controlling ownership interests	27	–	–	<b>(5)</b>	<b>(5)</b>	–	<b>(5)</b>
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	26	<b>17</b>	–	–	<b>17</b>	–	<b>17</b>
		<b>17</b>	–	<b>(1,229)</b>	<b>(1,212)</b>	–	<b>(1,212)</b>
<b>Balance as at 31 March 2018</b>		<b>9,928</b>	<b>477</b>	<b>2,686</b>	<b>13,091</b>	<b>12</b>	<b>13,103</b>



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**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018**  
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	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
					COMPANY
Balance as at 1 April 2016		9,808	24	1,344	11,176
Profit after income tax		–	–	648	648
Other comprehensive income/(expense), net of tax		–	21	(30)	(9)
Total comprehensive income		–	21	618	639
Transactions with equity holders:					
Dividends and distributions paid	5	–	–	(1,226)	(1,226)
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments	26	4	–	–	4
		4	–	(1,226)	(1,222)
<b>Balance as at 31 March 2017</b>		<b>9,812</b>	<b>45</b>	<b>736</b>	<b>10,593</b>
Profit after income tax		–	–	2,019	2,019
Other comprehensive (expense)/income, net of tax		–	(48)	37	(11)
Total comprehensive (expense)/income		–	(48)	2,056	2,008
Transactions with equity holders:					
Dividends and distributions paid	5	–	–	(1,210)	(1,210)
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments	26	9	–	–	9
		9	–	(1,210)	(1,201)
<b>Balance as at 31 March 2018</b>		<b>9,821</b>	<b>(3)</b>	<b>1,582</b>	<b>11,400</b>

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

## STATEMENTS OF CASH FLOWS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Cash flows from/(used in) operating activities</b>					
Interest and similar income received		4,628	4,835	4,157	4,316
Interest expense and similar charges paid		(2,612)	(2,558)	(2,646)	(2,447)
Fees and other non-interest income received		1,026	869	834	726
Fees and commissions paid		(696)	(662)	(567)	(457)
Operating lease income received		1,855	1,627	292	59
Dividends and distributions received		26	14	1,489	745
Employment expenses paid		(1,318)	(1,297)	(1,084)	(1,091)
Operating expenses paid		(1,800)	(1,756)	(1,327)	(1,504)
Income tax paid		(99)	(176)	(6)	(98)
Changes in operating assets and liabilities:					
Net receipts from trading portfolio assets and other assets/liabilities		3,526	4,069	(1,821)	3,805
Net movement in deposits		1,493	5,559	1,451	5,448
Net movement in debt issued at amortised cost		(3,857)	(11,362)	207	(10,120)
Net movement in payables to financial institutions and other borrowings		(899)	(3,971)	(812)	(3,940)
Net movement in loan assets in balances with related entities		2,699	318	992	4,310
Net margin money (paid)/received		(105)	(1,113)	627	(213)
Net payments for assets under operating lease		(1,206)	(301)	(878)	(245)
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		1,104	1,181	–	–
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		(1,099)	(1,077)	–	–
Net cash flow from/(used in) operating activities	28	2,666	(5,801)	908	(706)
<b>Cash flows from investing activities</b>					
Net proceeds from investment securities available for sale and financial instruments designated at fair value		197	2,547	60	2,415
Proceeds from the disposal or capital return of associates, subsidiaries and businesses, net of cash deconsolidated		224	1,487	3,029	386
Payments for the acquisition of associates or capital contribution, subsidiaries and businesses, net of cash acquired		(273)	(152)	(831)	(2,178)
Proceeds from the disposal of property, plant and equipment and intangible assets		35	–	–	–
Payments for the acquisition of property, plant and equipment and intangible assets		(109)	(151)	(18)	(29)
Net cash flows from investing activities		74	3,731	2,240	594
<b>Cash flows used in financing activities</b>					
Proceeds from the issue of loan capital		–	980	–	980
Payments on redemption of loan capital		(330)	(221)	(330)	(221)
Proceeds from non-controlling interests		–	6	–	–
Dividends and distributions paid		(1,224)	(1,241)	(1,210)	(1,226)
Net cash flows used in financing activities		(1,554)	(476)	(1,540)	(467)
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,186	(2,546)	1,608	(579)
Cash and cash equivalents at the beginning of the financial year		10,164	12,710	8,122	8,701
<b>Cash and cash equivalents at the end of the financial year</b>	28	11,350	10,164	9,730	8,122

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

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

### NOTE 1

#### Summary of significant accounting policies

##### (i) Basis of preparation

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

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

##### Compliance with IFRS as issued by the IASB

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

##### Historical cost convention

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

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

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

##### Critical accounting estimates and significant judgements

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

- fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 37)
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures and assets under operating lease (Notes 1(xiii), 1(xv), 1(xvii), 8, 10, 13, 14)
- distinguishing between whether assets or a business is acquired under a business combination (Note 1(iii))
- determination of control of subsidiaries and structured entities (Notes 1(ii) and 34)
- determination of significant influence over associates and joint control over joint ventures (Note 1(ii))
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(vii), 4 and 17)
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Notes 1(xviii) and 15)
- recognition and measurement of supplemental income, maintenance liabilities and end of lease compensation (Note 1(xx), 9 and 20).

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

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

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

###### AASB 9 Financial Instruments

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

###### Classification and Measurement:

###### Financial assets

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

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

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

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

###### Amortised cost

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

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

###### FVTOCI

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

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

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

### NOTE 1

#### Summary of significant accounting policies continued

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

###### FVTPL

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

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

###### Business model assessment

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

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

###### Financial liabilities:

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

###### Impairment:

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

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

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

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

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

###### (i) Stage 1 – 12 month ECL

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

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

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

###### (iii) Stage 3 – Lifetime ECL credit-impaired

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

###### (iv) Purchased or originated credit-impaired

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

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

###### Hedge accounting:

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

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

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## NOTE 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

##### Transition:

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

The transition adjustment will reduce the Consolidated Entity's shareholders' equity by approximately \$125 million after tax and will not have a material impact on the Consolidated Entity's minimum regulatory capital requirements. The estimated transition adjustment relates primarily to the implementation of the impairment requirements, which will reduce opening retained earnings by \$150 million after tax. The Consolidated Entity will not restate comparatives.

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

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

In the separate financial statements of the Company, adoption will result in additional credit provisioning in relation to amounts due from subsidiaries. In addition, the Company will measure certain loan assets and amounts due from subsidiaries, currently measured at amortised costs, at FVOCI and FVTPL respectively. The total transition impact to the Company's shareholders' equity on transition is a reduction of approximately \$100 million.

##### AASB 7 Financial Instruments: Disclosures

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

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

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

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

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

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

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

##### AASB 15 Revenue from Contracts with Customers

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

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

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

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

AASB 15 specifically excludes financial instruments recognised under AASB 9 Financial Instruments. As such, the impacted revenue streams for Macquarie Bank are limited to fee-based revenue items such as brokerage and commissions and portfolio administration fees.

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

The Consolidated Entity and the Company expects presentation changes in the income statements relating to certain charges from subsidiaries and related body corporate entities under fee sharing and other arrangements, previously recognised net of any associated revenue.



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

### NOTE 1

#### Summary of significant accounting policies continued

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

###### AASB 16 Leases

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

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

An initial assessment has been performed based on operating leases that exist in the current reporting period. Based on this assessment it is not anticipated that there will be a material impact to retained earnings. This assessment is subject to the composition of operating leases at the date of transition. A schedule of current operating lease commitments is disclosed in Note 33.

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

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

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

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

Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments. It requires assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances come to light.

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

##### (ii) Principles of consolidation

###### Subsidiaries

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

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

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

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

###### Structured entities

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

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

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### Summary of significant accounting policies continued

#### (ii) Principles of consolidation continued

##### Consolidation

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Consolidated Entity owns less than 100% of the issued capital, are shown separately in the consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position.

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

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

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

##### Interests in associates and joint ventures

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

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

##### (iii) Business combinations

Business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the acquisition date) of assets acquired, equity instruments issued or liabilities incurred or assumed at the date of acquisition. Transaction costs arising on the issue of equity instruments are recognised

directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

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

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

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

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

##### (iv) Segment reporting

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

##### (v) Foreign currency translation

###### Functional and presentation currency

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

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

### NOTE 1

#### Summary of significant accounting policies *continued* Transactions and balances

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

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

#### Subsidiaries and other entities

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

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

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

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

#### (vi) Revenue and expense recognition

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

##### Net interest income

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

over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

##### Fee and commission income

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

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

##### Net trading income

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

##### Net operating lease income

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

##### Dividends and distributions

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

#### (vii) Taxation

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

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

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

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### Summary of significant accounting policies *continued* *(vii) Taxation continued*

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

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

#### Tax consolidation

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

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

#### Goods and services tax (GST)

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

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

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

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

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

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

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

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

### *(ix) Recognition and derecognition of financial instruments*

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

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

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

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

### *(x) Trading portfolio assets and liabilities*

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

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 37). Commodities are measured at fair value less costs to sell, in accordance with the broker-trader exception. Realised and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise.

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

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



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

### NOTE 1

#### Summary of significant accounting policies *continued*

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

#### *(xi) Derivative instruments*

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

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

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

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

#### *(xii) Hedge accounting*

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

#### Cash flow hedges

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

#### Fair value hedges

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

#### Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in Note 35 – Derivative Financial Instruments. Movements in the cash flow hedging reserve in equity are shown in Note 27 – Reserves, retained earnings and non-controlling interests.

#### *(xiii) Investments and other financial assets*

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

#### Loans and receivables

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

#### Other financial assets at fair value through profit or loss

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

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

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

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



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

#### Investment securities available for sale

Investment securities in this category are available for sale and may be sold should the need arise, including for purposes of liquidity, or due to fair value movements resulting from the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair values are recognised through OCI in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

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

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

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

#### Life investment linked assets and liabilities

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

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

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

Where there is a planned partial disposal of a subsidiary resulting in loss of control, all of the assets and liabilities of the subsidiary are classified as held for sale.

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

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

### *(xv) Impairment*

#### Loan assets held at amortised cost

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

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

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

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

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

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

#### Investment securities available for sale

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

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

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

### NOTE 1

#### Summary of significant accounting policies *continued* (xv) *Impairment continued*

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

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

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

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

#### Interests in associates and joint ventures

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

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

#### (xvi) *Investments in subsidiaries*

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

#### (xvii) *Property, plant and equipment*

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

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

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

- (1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.  
(2) Includes aircraft, for which depreciation is calculated on a diminishing-value basis.

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

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

#### (xviii) *Goodwill and other identifiable intangible assets* Goodwill

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

#### Other identifiable intangible assets

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

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

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

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

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

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## NOTE 1

### Summary of significant accounting policies *continued* (xviii) *Goodwill and other identifiable intangible assets* *continued*

#### Software

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

#### Impairment

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

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

#### (xix) *Financial liabilities*

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

#### *Other debt issued at fair value through profit or loss*

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

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

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

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

#### (xx) *Supplemental rent, maintenance liability and end of lease compensation*

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

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

At the beginning and throughout the term of each lease, the Consolidated Entity estimates the maintenance liability for MMEs which are expected to occur during the lease and accrues for this over the same term. Management determines this estimate based on quantitative and qualitative information including aircraft utilisation, area of operation, costs and timing of MMEs. Maintenance expenses are recorded in the income statement net of supplemental rent revenue. Maintenance liabilities are recognised separately and disclosed in Note 20 – Other liabilities.

#### (xxi) *Provisions*

##### *Employee benefits*

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

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

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

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

##### *Dividends*

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

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

### NOTE 1

#### Summary of significant accounting policies *continued* (xxii) *Performance based remuneration*

##### Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (including those delivered through the MEREP) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 31. The Consolidated Entity recognises an expense and a corresponding increase in equity in case of equity settled awards or a corresponding increase in liability in case of cash settled awards granted to employees. The awards are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

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

##### Profit share remuneration

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

#### (xxiii) *Cash and cash equivalents*

Cash and cash equivalents comprise of:

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

#### (xxiv) *Investment property*

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

#### (xxv) *Leases*

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

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

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

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

#### (xxvi) *Offsetting financial instruments*

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

#### (xxvii) *Loan capital*

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

#### (xxviii) *Contributed equity*

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

#### (xxix) *Changes in ownership interests*

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

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

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

#### (xxx) *Discontinued operations*

A discontinued operation is a component of the entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operations, if any, are presented separately on the face of the income statements.

#### (xxxii) *Comparatives*

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

#### (xxxii) *Rounding of amounts*

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



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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 2</b>				
<b>Operating profit before income tax</b>				
<b>Net interest income</b>				
Interest and similar income	4,619	4,778	4,120	4,276
Interest expense and similar charges	(2,601)	(2,608)	(2,637)	(2,490)
Net interest income	2,018	2,170	1,483	1,786
<b>Fee and commission income</b>				
Brokerage and commissions	369	369	250	247
Portfolio administration fee	274	237	21	7
Lending and securitisation fee	137	140	112	111
Other fee and commission income <sup>(1)</sup>	110	74	120	49
Total fee and commission income	890	820	503	414
<b>Net trading income<sup>(2)</sup></b>				
Equities	473	436	290	317
Commodities <sup>(3)</sup>	1,145	1,152	566	561
Credit, interest rate and foreign exchange products	263	79	336	(105)
Net trading income	1,881	1,667	1,192	773
<b>Net operating lease income</b>				
Rental income <sup>(4)</sup>	1,922	1,666	330	70
Depreciation on operating lease assets (Note 13)	(985)	(744)	(293)	(46)
Net operating lease income	937	922	37	24
<b>Share of net profits/(losses) of associates and joint ventures</b>	22	(19)	–	–

(1) Includes charges from other Macquarie Bank entities under fee sharing and other arrangements.

(2) Includes net fair value loss of \$26 million (2017: \$16 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This also includes the ineffective portion of hedges and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk where hedge accounting requirements are not met. Refer to Note 1(xi) – Derivative instruments.

(3) Includes \$364 million (2017: \$266 million) of transportation and storage costs.

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



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 2</b>				
<b>Operating profit before income tax continued</b>				
<i>Other operating income and charges</i>				
<b>Investment income</b>				
Net gain on sale of investment securities available for sale	31	39	16	34
Net gain on sale of interests in associates and joint ventures	27	110	26	57
Net fair value gains on financial instruments designated at fair value	46	–	46	–
Net gain on acquisition, disposal, reclassification and change in ownership interest of investments, associates and businesses and assets held for sale	168	377	79	51
Dividend/distributions from investment securities available for sale	6	10	3	11
Dividends/distributions from Subsidiaries (Note 29)	–	–	1,485	734
Total investment income	278	536	1,655	887
<b>Impairment (charge)/reversal</b>				
Investment securities available for sale	(16)	(32)	(15)	(28)
Intangible assets and other non-financial assets	(26)	(45)	–	(18)
Interests in associates and joint ventures	(8)	(6)	(1)	(11)
Investment in subsidiaries	–	–	19	(164)
Total impairment (charge)/reversal	(50)	(83)	3	(221)
<b>(Provision)/recovery on loans and other receivables</b>				
Individually assessed provisions	(93)	(173)	(80)	(142)
Recovery of individually assessed provisions	33	23	23	12
Collective allowance for credit losses reversed	134	–	112	25
Amounts written off	(134)	(147)	(60)	(92)
Recovery of amounts previously written off	41	44	22	25
Total (provision)/recovery on loan and other receivables	(19)	(253)	17	(172)
Other income	206	61	347	291
Total other operating income and charges	415	261	2,022	785
<b>Net operating income<sup>(1)</sup></b>	<b>6,163</b>	<b>5,821</b>	<b>5,237</b>	<b>3,782</b>

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

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 2</b>				
<b>Operating profit before income tax continued</b>				
<b>Employment expenses</b>				
Salary and related costs including commissions, superannuation and performance-related profit share	(1,331)	(1,319)	(990)	(997)
Share-based payments	(152)	(163)	(101)	(104)
Provision for long service leave and annual leave	(4)	(5)	(3)	(4)
Total employment expenses	(1,487)	(1,487)	(1,094)	(1,105)
<b>Brokerage, commission and trading-related expenses</b>				
Brokerage and other trading-related expenses	(510)	(518)	(312)	(335)
Other fee and commission expenses	(109)	(108)	(91)	(92)
Total brokerage, commission and trading-related expenses	(619)	(626)	(403)	(427)
<b>Occupancy expenses</b>				
Operating lease rentals	(9)	(10)	(1)	(1)
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 13)	(3)	(2)	(1)	–
Other occupancy expenses	(112)	(106)	(87)	(86)
Total occupancy expenses	(124)	(118)	(89)	(87)
<b>Non-salary technology expenses</b>				
Information services	(73)	(83)	(55)	(63)
Depreciation: equipment (Note 13)	(3)	(3)	(3)	(2)
Service provider and other non-salary technology expenses	(57)	(72)	(46)	(58)
Total non-salary technology expenses	(133)	(158)	(104)	(123)
<b>Other operating expenses</b>				
Professional fees	(189)	(185)	(122)	(129)
Travel and entertainment expenses	(54)	(51)	(36)	(36)
Amortisation of intangible assets	(21)	(11)	(20)	(13)
Auditor's remuneration (Note 40)	(22)	(22)	(10)	(10)
Advertising and promotional expenses	(19)	(14)	(18)	(14)
Communication expenses	(15)	(17)	(10)	(11)
Depreciation: infrastructure assets (Note 13)	(14)	(15)	–	–
Other expenses <sup>(1)</sup>	(1,313)	(1,384)	(1,061)	(1,106)
Total other operating expenses	(1,647)	(1,699)	(1,277)	(1,319)
<b>Total operating expenses</b>	<b>(4,010)</b>	<b>(4,088)</b>	<b>(2,967)</b>	<b>(3,061)</b>
<b>Operating profit before income tax</b>	<b>2,153</b>	<b>1,733</b>	<b>2,270</b>	<b>721</b>

(1) Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 3

##### Segment reporting

##### (i) Operating segments

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

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

The Operating Groups comprise:

**MAM** offers a range of investment solutions with an alternate fixed income focus, for its fiduciary clients within the infrastructure debt sector and balance sheet lending to shipping, export credit agency backed debt, hedge funds and private equity investors.

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

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

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

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

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

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

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

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

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

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### NOTE 3

#### Segment reporting *continued*

##### *(i) Operating segments continued*

#### Internal funding arrangements

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

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

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

#### Transactions between Operating Groups

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms or as agreed by the Consolidated Entity's CEO or CFO. There is a requirement for accounting symmetry in such transactions.

Internal transactions are recognised in each of the relevant categories of income and expense as appropriate.

#### Accounting for derivatives that economically hedge interest rate risk

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

#### Central service groups

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

#### Performance-related profit share and share based payments expense

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

#### Income tax

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

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	Macquarie Asset Management \$m	Corporate and Asset Finance \$m
<b>NOTE 3</b>		
<b>Segment reporting continued</b>		
<b>(i) Operating segments continued</b>		
The following is an analysis of the Consolidated Entity's revenue and results by reportable segment		
Net interest and trading income	108	569
Fee and commission income/(expense)	65	43
Net operating lease income	3	929
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	–	(3)
Other operating income and charges		
Impairment charges, write-offs and provisions, net of recoveries	–	(15)
Other operating income and charges	106	351
Internal management revenue/(charge)	8	4
Net operating income	290	1,878
Total operating expenses	(147)	(676)
Operating profit/(loss) before income tax	143	1,202
Income tax expense	–	–
Operating profit/(loss) after income tax	143	1,202
Profit/(loss) attributable to non-controlling interests	–	(4)
Profit/(loss) attributable to equity holders	143	1,198
Distributions paid or provided for on MIS	–	–
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>143</b>	<b>1,198</b>
<b>Reportable segment assets</b>	<b>3,279</b>	<b>36,690</b>
Net interest and trading income	104	694
Fee and commission income/(expense)	65	58
Net operating lease income	13	904
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–	–
Other operating income and charges:		
Impairment charges, write-offs and provisions, net of recoveries	1	(111)
Other operating income and charges	(13)	233
Internal management revenue/(charge)	1	40
Net operating income	171	1,818
Total operating expenses	(117)	(631)
Profit/(loss) before income tax	54	1,187
Income tax expense	–	–
Profit/(loss) after income tax	54	1,187
Loss/(profit) attributable to non-controlling interests	–	1
Profit/(loss) attributable to equity holders	54	1,188
Distributions paid or provided for on MIS	–	–
Net profit/(loss) attributable to ordinary equity holders	54	1,188
<b>Reportable segment assets</b>	<b>2,742</b>	<b>37,959</b>



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CONSOLIDATED 2018			
1,182	1,874	166	3,899
463	390	(71)	890
–	–	5	937
3	22	–	22
(26)	(90)	62	(69)
13	45	(31)	484
3	4	(19)	–
1,638	2,245	112	6,163
(1,081)	(1,379)	(727)	(4,010)
557	866	(615)	2,153
–	–	(570)	(570)
557	866	(1,185)	1,583
–	–	3	(1)
557	866	(1,182)	1,582
–	–	(14)	(14)
557	866	(1,196)	1,568
42,318	84,047	6,884	173,218
CONSOLIDATED 2017			
1,049	1,982	8	3,837
469	339	(111)	820
–	–	5	922
6	–	(25)	(19)
(91)	(157)	22	(336)
205	148	24	597
5	11	(57)	–
1,643	2,323	(134)	5,821
(1,133)	(1,447)	(760)	(4,088)
510	876	(894)	1,733
–	–	(509)	(509)
510	876	(1,403)	1,224
–	(1)	12	12
510	875	(1,391)	1,236
–	–	(15)	(15)
510	875	(1,406)	1,221
38,096	81,366	7,278	167,441

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#### NOTE 3

##### Segment reporting *continued*

##### *(ii) Products and services*

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

**Lending:** corporate and structured finance, banking activities, mortgages and leasing

**Financial Markets:** trading in fixed income securities, equities, currency, commodities and derivative products

**Asset and Wealth Management:** manufacture and distribution of fund management products, and

**Capital Markets:** underwriting, facilitation, broking.

	CONSOLIDATED	
	2018 \$m	2017 \$m
<b>Revenue from external customers</b>		
Lending	6,069	5,720
Financial Markets	3,475	3,238
Asset and Wealth Management	510	778
Capital Markets	102	151
<b>Total revenue from external customers<sup>(1)</sup></b>	<b>10,156</b>	<b>9,887</b>

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

##### *(iii) Geographical areas*

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

	CONSOLIDATED 2018		CONSOLIDATED 2017	
	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m
Australia	4,613	1,350	4,731	784
Europe, Middle East and Africa <sup>(2)</sup>	2,909	9,528	2,689	9,266
Americas <sup>(3)</sup>	1,909	1,081	1,699	1,350
Asia Pacific	725	97	768	117
<b>Total</b>	<b>10,156</b>	<b>12,056</b>	<b>9,887</b>	<b>11,517</b>

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

(2) Includes external revenue generated in the United Kingdom of \$2,172 million (2017: \$1,956 million).

(3) Includes external revenue generated in the United States of America of \$1,815 million (2017: \$1,605 million)

##### *(iv) Major customers*

The Consolidated Entity does not rely on any major customers.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 4</b>				
<b>Income tax expense</b>				
<b>(i) Income tax (expense)/benefit</b>				
Current tax expense	(426)	(387)	(73)	(109)
Deferred tax (expense)/benefit	(144)	(122)	(178)	36
<b>Total income tax expense</b>	<b>(570)</b>	<b>(509)</b>	<b>(251)</b>	<b>(73)</b>
<b>(ii) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable</b>				
Prima facie income tax expense on operating profit <sup>(1)</sup>	(646)	(520)	(681)	(217)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	77	4	(16)	(43)
Impairment charge on subsidiaries	–	–	(4)	(40)
Intra-group dividends	–	–	455	220
Other items	(1)	7	(5)	7
<b>Total income tax expense</b>	<b>(570)</b>	<b>(509)</b>	<b>(251)</b>	<b>(73)</b>
<b>(iii) Tax benefit/(expense) relating to items of other comprehensive income</b>				
Available for sale reserve	32	19	17	–
Cash flow hedge reserve	(19)	(14)	(2)	1
Foreign currency translation reserve	(1)	2	–	–
Own credit risk	(3)	–	–	–
<b>Total tax benefit/(expense) relating to items of other comprehensive income</b>	<b>9</b>	<b>7</b>	<b>15</b>	<b>1</b>
<b>(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities</b>				
Fixed assets	(22)	(1)	(13)	17
Intangible assets	–	(1)	–	(1)
Investments	17	(15)	(1)	(20)
Tax losses	(49)	(27)	26	(7)
Leasing and financial instruments	81	(115)	(112)	(14)
Other assets and liabilities	(171)	37	(78)	61
<b>Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities</b>	<b>(144)</b>	<b>(122)</b>	<b>(178)</b>	<b>36</b>

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

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

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 5</b>				
<b>Dividends and distributions paid or provided for</b>				
<i>(i) Dividends paid</i>				
<b>Ordinary share capital</b>				
Final dividend paid	607	644	607	644
Interim dividend paid	603	582	603	582
<b>Total dividends paid (Note 27)</b>	<b>1,210</b>	<b>1,226</b>	<b>1,210</b>	<b>1,226</b>

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

Since the end of the financial year, the Directors have resolved to pay a dividend. The aggregate amount of the proposed dividend expected to be paid on 16 May 2018 from retained profits, but not recognised as a liability at the end of the financial year, is \$924 million (2017: \$607 million).

#### *(iii) Distributions paid or provided for Macquarie Income Securities<sup>(1)</sup>*

Distributions paid (net of distributions previously provided for)	11	12	–	–
Distributions provided for	3	3	–	–
<b>Total distributions paid or provided for (Note 27)</b>	<b>14</b>	<b>15</b>	<b>–</b>	<b>–</b>

(1) Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Company. Refer to Note 26 – Contributed equity for further details on these instruments.

## NOTE 6

### Receivables from financial institutions

Cash and other receivables <sup>(1)</sup>	7,852	7,645	6,648	6,179
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(2)</sup>	28,777	17,920	28,437	17,728
<b>Total receivables from financial institutions</b>	<b>36,629</b>	<b>25,565</b>	<b>35,085</b>	<b>23,907</b>

(1) Includes \$130 million (2017: \$107 million) provided as security over payables to other financial institutions.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2018 is \$28,615 million (2017: \$18,120 million). Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral that the Consolidated Entity is permitted to sell or re-pledge in the absence of default is \$28,615 million (2017: \$18,120 million), of which the fair value of collateral sold or re-pledged is \$10,650 million (2017: \$4,605 million).

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

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 7</b>				
<b>Trading portfolio assets</b>				
Equities				
Listed	4,429	12,003	3,837	8,796
Unlisted	391	10	1	2
Debt securities				
Commonwealth and Foreign government securities	5,846	6,310	5,722	6,241
Corporate loans and securities	798	1,620	588	863
Treasury notes	611	1,061	222	474
Other debt securities	323	31	2	6
Commodities	2,496	5,602	1,451	4,227
<b>Total trading portfolio assets<sup>(1)</sup></b>	<b>14,894</b>	<b>26,637</b>	<b>11,823</b>	<b>20,609</b>

(1) Includes \$2,837 million (2017: \$5,124 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending arrangements.

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

**NOTE 8**  
**Investment securities available for sale**

Debt securities <sup>(1)</sup>	5,244	4,585	5,113	4,334
Equity securities				
Listed	18	56	15	49
Unlisted	60	541	30	418
<b>Total investment securities available for sale</b>	<b>5,322</b>	<b>5,182</b>	<b>5,158</b>	<b>4,801</b>

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

Of the above amounts, \$2,850 million (2017: \$1,831 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$2,850 million (2017: \$1,636 million) by the Company.

**NOTE 9**  
**Other assets**

Debtors and prepayments	4,766	4,475	2,728	2,928
Security settlements	3,108	2,315	2,729	2,105
Life investment linked contracts and other unitholder assets	648	722	–	–
Assets of disposal groups classified as held for sale	345	477	–	–
Income tax receivable	234	254	117	133
Other	186	403	9	13
<b>Total other assets<sup>(1)</sup></b>	<b>9,287</b>	<b>8,646</b>	<b>5,583</b>	<b>5,179</b>

(1) Includes \$510 million (2017: \$434 million) provided as security over payables to financial institutions.

Of the above amounts, \$8,938 million (2017: \$7,917 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$5,183 million (2017: \$4,766 million) by the Company.



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	2018			2017		
	Gross \$m	Individually assessed provisions for impairment \$m	Net \$m	Gross \$m	Individually assessed provisions for impairment \$m	Net \$m
<b>NOTE 10</b>						
<b>Loan assets held at amortised cost</b>						
					CONSOLIDATED	
Mortgages <sup>(1)</sup>	36,937	(3)	36,934	32,791	(3)	32,788
Asset financing <sup>(1)</sup>	19,125	(41)	19,084	19,579	(66)	19,513
Corporate, commercial and other lending	14,437	(76)	14,361	15,007	(287)	14,720
Margin money placed	8,010	–	8,010	7,270	–	7,270
Investment lending	2,001	–	2,001	1,656	(1)	1,655
<b>Total loan assets before collective allowance for credit losses</b>	<b>80,510</b>	<b>(120)</b>	<b>80,390</b>	<b>76,303</b>	<b>(357)</b>	<b>75,946</b>
Less collective allowance for credit losses			(247)			(396)
<b>Total loan assets held at amortised cost<sup>(2)</sup></b>			<b>80,143</b>			<b>75,550</b>
					COMPANY	
Mortgages	35,381	(3)	35,378	31,704	(3)	31,701
Corporate, and commercial and other lending	10,920	(153)	10,767	10,774	(263)	10,511
Margin money placed	4,862	–	4,862	4,878	–	4,878
Asset financing	3,552	(13)	3,539	5,504	(30)	5,474
Investment lending	140	(1)	139	460	(83)	377
<b>Total loan assets before collective allowance for credit losses</b>	<b>54,855</b>	<b>(170)</b>	<b>54,685</b>	<b>53,320</b>	<b>(379)</b>	<b>52,941</b>
Less collective allowance for credit losses			(143)			(261)
<b>Total loan assets held at amortised cost<sup>(2)</sup></b>			<b>54,542</b>			<b>52,680</b>

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

(2) Includes other loans of \$613 million (2017: \$464 million) provided as security against payables to financial institutions.

Of the above amounts, \$31,230 million (2017: \$28,490 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$19,234 million (2017: \$19,054 million) by the Company.

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 10</b>				
<b>Loan assets held at amortised cost continued</b>				
<b>Individually assessed provisions for impairment</b>				
Balance at the beginning of the financial year	357	299	379	329
Provided for during the financial year	91	168	80	138
Loan assets written off or sold, previously provided for	(311)	(114)	(275)	(97)
Recovery of loans previously provided for	(23)	(19)	(20)	(12)
Net transfer from collective provisions	5	25	5	23
Foreign exchange movements	1	(2)	1	(2)
<b>Balance at the end of the financial year</b>	<b>120</b>	<b>357</b>	<b>170</b>	<b>379</b>
<b>Individually assessed provisions as a percentage of total gross loan assets</b>	<b>0.15%</b>	<b>0.47%</b>	<b>0.31%</b>	<b>0.71%</b>
<b>Collective allowance for credit losses</b>				
Balance at the beginning of the financial year	396	438	261	310
Reversed during the financial year	(140)	(5)	(114)	(26)
(Disposal)/acquisition during the financial year	(7)	(7)	–	3
Net transfer to specific provisions	(5)	(25)	(5)	(23)
Foreign exchange movements	3	(5)	1	(3)
<b>Balance at the end of the financial year</b>	<b>247</b>	<b>396</b>	<b>143</b>	<b>261</b>

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

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

	2018			2017		
	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m
						CONSOLIDATED
Not later than one year	1,914	(197)	1,717	2,496	(259)	2,237
Later than one year and not later than five years	3,991	(410)	3,581	3,715	(429)	3,286
Later than five years	90	(16)	74	107	(24)	83
<b>Total</b>	<b>5,995</b>	<b>(623)</b>	<b>5,372</b>	<b>6,318</b>	<b>(712)</b>	<b>5,606</b>

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 11</b>				
<b>Impaired financial assets</b>				
Impaired loan assets and other financial assets before individually assessed provisions for impairment	467	875	448	922
Less individually assessed provisions for impairment	(127)	(379)	(172)	(387)
Loan assets and other financial assets after individually assessed provisions for impairment	340	496	276	535
<b>Total net impaired financial assets</b>	<b>340</b>	<b>496</b>	<b>276</b>	<b>535</b>
<b>NOTE 12</b>				
<b>Other financial assets at fair value through profit or loss</b>				
Investment securities				
Equity	339	405	317	379
Debt	72	72	72	72
Loan assets	296	283	153	143
<b>Total other financial assets at fair value through profit or loss<sup>(1)</sup></b>	<b>707</b>	<b>760</b>	<b>542</b>	<b>594</b>

(1) Includes \$5 million (2017: \$10 million) provided as security against payables to financial institutions.

Of the above amounts, \$516 million (2017: 569 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$394 million (2017: \$416 million) by the Company.

	CONSOLIDATED 2018			CONSOLIDATED 2017		
	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m
<b>NOTE 13</b>						
<b>Property, plant and equipment</b>						
<b>Assets for own use</b>						
Land and buildings	2	–	2	9	–	9
Furniture, fittings and leasehold improvements	42	(26)	16	32	(25)	7
Equipment	21	(11)	10	13	(8)	5
Infrastructure assets	551	(30)	521	490	(23)	467
<b>Total assets for own use</b>	<b>616</b>	<b>(67)</b>	<b>549</b>	<b>544</b>	<b>(56)</b>	<b>488</b>
<b>Assets under operating lease</b>						
Aviation	9,938	(2,437)	7,501	10,167	(1,996)	8,171
Meters	1,629	(541)	1,088	1,146	(411)	735
Rail cars	862	(176)	686	762	(129)	633
Telecommunication	963	(255)	708	208	(20)	188
Others	784	(242)	542	730	(202)	528
<b>Total assets under operating lease</b>	<b>14,176</b>	<b>(3,651)</b>	<b>10,525</b>	<b>13,013</b>	<b>(2,758)</b>	<b>10,255</b>
<b>Total property, plant and equipment</b>	<b>14,792</b>	<b>(3,718)</b>	<b>11,074</b>	<b>13,557</b>	<b>(2,814)</b>	<b>10,743</b>

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

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	COMPANY 2018			COMPANY 2017		
	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m
<b>NOTE 13</b>						
<b>Property, plant and equipment continued</b>						
<b>Assets for own use</b>						
Furniture, fittings and leasehold improvements	17	(9)	8	11	(9)	2
Equipment	11	(5)	6	7	(3)	4
<b>Total assets for own use</b>	<b>28</b>	<b>(14)</b>	<b>14</b>	<b>18</b>	<b>(12)</b>	<b>6</b>
<b>Assets under operating lease</b>						
Telecommunication	963	(255)	708	208	(20)	188
Meters	33	(4)	29	–	–	–
Others	474	(98)	376	445	(71)	374
<b>Total assets under operating lease</b>	<b>1,470</b>	<b>(357)</b>	<b>1,113</b>	<b>653</b>	<b>(91)</b>	<b>562</b>
<b>Total property, plant and equipment</b>	<b>1,498</b>	<b>(371)</b>	<b>1,127</b>	<b>671</b>	<b>(103)</b>	<b>568</b>

Movement in the Consolidated Entity's property, plant and equipment at their written down value:

	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
<b>Assets for own use</b>					
Balance as at 1 April 2016	9	7	5	419	440
Acquisitions	–	3	3	122	128
Foreign exchange movements	–	(1)	–	(59)	(60)
Depreciation expense (Note 2)	–	(2)	(3)	(15)	(20)
<b>Balance as at 31 March 2017</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>467</b>	<b>488</b>
Acquisitions	–	13	8	80	101
Disposals	(2)	(1)	–	–	(3)
Reclassification and other adjustments	(5)	(1)	–	(64)	(70)
Foreign exchange movements	–	1	–	52	53
Depreciation expense (Note 2)	–	(3)	(3)	(14)	(20)
<b>Balance as at 31 March 2018</b>	<b>2</b>	<b>16</b>	<b>10</b>	<b>521</b>	<b>549</b>

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### NOTE 13

#### Property, plant and equipment continued

	Aviation \$m	Meters \$m	Rail Cars \$m	Telecom- muni- cation \$m	Other \$m	Total \$m
<b>Assets under operating lease</b>						
Balance as at 1 April 2016	8,879	690	726	2	567	10,864
Acquisitions	43	272	3	206	47	571
Disposals	(256)	–	–	–	(14)	(270)
Reclassification and other adjustments	1	(33)	–	–	1	(31)
Impairments	(18)	–	–	–	–	(18)
Foreign exchange movements	43	(91)	(68)	–	(1)	(117)
Depreciation expense (Note 2)	(521)	(103)	(28)	(20)	(72)	(744)
<b>Balance as at 31 March 2017</b>	<b>8,171</b>	<b>735</b>	<b>633</b>	<b>188</b>	<b>528</b>	<b>10,255</b>
Acquisitions	7	437	–	847	114	1,405
Disposals	(104)	–	–	(65)	(14)	(183)
Reclassification and other adjustments	(42)	(48)	–	–	(1)	(91)
Impairments	(12)	–	–	–	–	(12)
Foreign exchange movements	(42)	95	82	–	1	136
Depreciation expense (Note 2)	(477)	(131)	(29)	(262)	(86)	(985)
<b>Balance as at 31 March 2018</b>	<b>7,501</b>	<b>1,088</b>	<b>686</b>	<b>708</b>	<b>542</b>	<b>10,525</b>

Included in the balance of assets under operating lease are assets pledged as security over payables to financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is \$2,765 million (2017: \$3,028 million).

The future minimum lease payments expected to be received under non-cancellable operating leases are as follows:

	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Not later than one year	1,474	1,150	439	26
Later than one year and not later than five years	2,421	2,591	261	100
Later than five years	402	640	87	110
<b>Total future minimum lease payments receivable</b>	<b>4,297</b>	<b>4,381</b>	<b>787</b>	<b>236</b>

### NOTE 14

#### Interests in associates and joint ventures

Loans and investments without provisions for impairment	617	123	425	42
Loans and investments with provisions for impairment	182	147	37	37
Less provisions for impairment	(72)	(67)	(30)	(26)
Loans and investments with provisions for impairment at recoverable amount	110	80	7	11
<b>Total interests in associates and joint ventures<sup>(1),(2)</sup></b>	<b>727</b>	<b>203</b>	<b>432</b>	<b>53</b>

(1) Includes \$629 million (2017: \$172 million) relating to interests in associates and \$98 million (2017: \$31 million) relating to interests in joint ventures held by the Consolidated Entity, and \$408 million (2017: \$29 million) relating to interests in associates and \$24 million (2017: \$24 million) relating to interests in joint ventures held by the Company.

(2) Financial statements of associates and joint ventures have various reporting dates. There are no associates or joint ventures individually material to the Consolidated Entity or the Company.

All of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Company.



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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 15</b>				
<b>Intangible assets</b>				
<b>Goodwill</b>				
Cost	97	68	–	–
Less accumulated impairment loss	(30)	(12)	–	–
Total goodwill	67	56	–	–
<b>Other identifiable intangible assets</b>				
Cost	383	309	277	270
Less accumulated amortisation and impairment loss	(236)	(172)	(186)	(166)
Total other identifiable intangible assets	147	137	91	104
<b>Total intangible assets</b>	<b>214</b>	<b>193</b>	<b>91</b>	<b>104</b>

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

**Movement in Consolidated Entity's intangible assets at the written down value:**

	Goodwill \$m	Other identifiable intangible assets \$m	Total \$m
Balance as at 1 April 2016	68	156	224
Acquisitions	–	52	52
Disposals, reclassifications and other adjustments	–	(39)	(39)
Impairments	(8)	(19)	(27)
Amortisation	–	(11)	(11)
Foreign exchange movements	(4)	(2)	(6)
<b>Balance as at 31 March 2017</b>	<b>56</b>	<b>137</b>	<b>193</b>
Acquisitions	18	70	88
Impairments	(10)	(5)	(15)
Amortisation <sup>(1)</sup>	–	(57)	(57)
Foreign exchange movements	3	2	5
<b>Balance as at 31 March 2018</b>	<b>67</b>	<b>147</b>	<b>214</b>

(1) The balance contains amortisation of \$36m which is included in net trading income.

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	COMPANY	
	2018 \$m	2017 \$m
<b>NOTE 16</b>		
<b>Investments in subsidiaries</b>		
Investments at cost without provisions for impairment	<b>6,727</b>	8,731
Investments at cost with provisions for impairment	<b>1,316</b>	1,289
Less provisions for impairment <sup>(1)</sup>	<b>(653)</b>	(689)
Investments with provisions for impairment at recoverable amount	<b>663</b>	600
<b>Total investments in subsidiaries</b>	<b>7,390</b>	9,331

(1) The recoverable amount has been estimated using valuation techniques which incorporate the subsidiary's consolidated earnings, financial position and growth rates.

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

The material subsidiaries of the Company, based on contribution to the Consolidated Entity's profit after income tax, the size of the investment made by the Company or the nature of activities conducted by the subsidiary, are:

- Macquarie Aerospace Limited (Ireland)
- Macquarie Bank International Limited (Germany, United Kingdom)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Commodities Brasil S/A (Brazil)
- Macquarie Emerging Markets Asian Trading Pte Limited (Singapore)
- Macquarie Energy Canada Limited. (United States)
- Macquarie Energy LLC (United States)
- Macquarie Equities Limited (Australia)
- Macquarie Euro Limited (United Kingdom)
- Macquarie Finance Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Futures USA LLC (United States)
- Macquarie Inc. (United States)
- Macquarie International Finance Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty. Limited (Australia)
- Macquarie Physical Metals (USA) Inc. (United States)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Securitisation Limited (Australia)
- PUMA SUBFUND B-1 (Australia)

The country of incorporation has been stated in brackets next to the name of the subsidiary.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all material subsidiaries is 100%.

All material subsidiaries have a 31 March reporting date.

In accordance with ASIC instruments 15-0518, 16-0119 and 18-0145 the Consolidated Entity has been granted relief under section 340 of the Act from synchronising the year-end of the following consolidated entities to 31 March:

- Macquarie Energy Mexico, S. de R.L. de C.V. (formerly Macquarie Gas de Sonora S. De R.L de C.V.)
- Comercializadora Energia de la Reforma S. de R.L. de C.V.
- Macquarie Servicios Electricos de Mexico S. de R.L. de C.V.

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 17</b>				
<b>Deferred tax assets/(liabilities)</b>				
The balance comprises temporary differences attributable to:				
Tax losses	239	288	30	4
Fixed assets	80	93	80	93
Intangible assets	5	6	4	4
Other assets and liabilities	356	534	231	324
Investments	63	51	75	70
Leasing and financial instruments	36	5	–	–
Set-off of deferred tax liabilities	(636)	(815)	(281)	(176)
<b>Net deferred tax assets</b>	<b>143</b>	<b>162</b>	<b>139</b>	<b>319</b>
Leasing and financial instruments	(997)	(1,025)	(283)	(166)
Other assets and liabilities	(195)	(216)	(112)	(130)
Fixed assets	(27)	(18)	–	–
Intangible assets	(3)	(4)	–	–
Investments	–	(36)	–	(11)
Set-off of deferred tax assets	636	815	281	176
<b>Net deferred tax liabilities</b>	<b>(586)</b>	<b>(484)</b>	<b>(114)</b>	<b>(131)</b>

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

Potential tax assets of approximately \$111 million (2017: \$60 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable. Included in this amount are gross losses of \$3 million (2017: \$3 million) that will expire within 2 years; \$2 million (2017: \$1 million) that will expire in 2 – 5 years; \$1 million (2017: nil) that will expire in 5 – 10 years and \$137 million (2017: \$25 million) that will expire in 10 – 20 years. \$310 million (2017: \$271 million) of gross losses do not expire and can be carried forward indefinitely.

## NOTE 18

### Trading portfolio liabilities

Equity securities	7,540	4,321	7,888	4,541
Debt Securities				
Foreign government securities	328	530	328	530
Corporate securities	70	71	70	72
<b>Total trading portfolio liabilities</b>	<b>7,938</b>	<b>4,922</b>	<b>8,286</b>	<b>5,143</b>

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 19</b>				
<b>Deposits</b>				
Interest bearing deposits				
Call	38,606	38,539	38,563	38,509
Term	7,109	7,144	7,063	7,144
Client monies, segregated fund and margin money held	11,008	10,178	9,700	8,887
Non-interest bearing call deposits	2,656	1,821	2,593	1,758
<b>Total deposits</b>	<b>59,379</b>	<b>57,682</b>	<b>57,919</b>	<b>56,298</b>

<b>NOTE 20</b>				
<b>Other Liabilities</b>				
Security settlements	2,977	3,440	2,901	3,321
Creditors	2,750	2,849	1,511	1,595
Accrued charges, income received in advance and other liabilities	1,274	1,162	639	542
Aircraft and rail maintenance liabilities	846	782	620	657
Life investment linked contracts and other unitholder liabilities	640	714	–	–
Liabilities of disposal groups classified as held for sale	219	217	–	–
Income tax payable	139	211	41	101
<b>Total other liabilities</b>	<b>8,845</b>	<b>9,375</b>	<b>5,712</b>	<b>6,216</b>

<b>NOTE 21</b>				
<b>Payables to financial institutions</b>				
Borrowings from banks	6,273	7,357	3,631	4,333
Cash collateral on securities lent and repurchase agreements	5,380	6,879	5,380	6,879
<b>Total payables to financial institutions</b>	<b>11,653</b>	<b>14,236</b>	<b>9,011</b>	<b>11,212</b>

<b>NOTE 22</b>				
<b>Debt issued at amortised cost</b>				
Debt issued at amortised cost <sup>(1)</sup>	39,685	43,137	30,674	29,691
<b>Total debt issued at amortised cost</b>	<b>39,685</b>	<b>43,137</b>	<b>30,674</b>	<b>29,691</b>

(1) Included within this balance are amounts payable to SPE note holders and debt holders of \$8,979 million (2017: \$13,430 million).

The Consolidated Entity and the Company have not had any defaults of principal, interest or other breaches with respect to its debt during the financial years reported.

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 22</b>				
<b>Debt issued at amortised cost continued</b>				
<b>Reconciliation of debt issued at amortised cost by major currency</b>				
<b>(In Australian dollar equivalent):</b>				
United States dollar	19,087	18,379	18,641	17,032
Australian dollar	12,082	14,877	3,687	3,148
Euro	4,945	5,650	4,774	5,282
Swiss franc	1,487	1,912	1,487	1,912
Great British pound	727	767	727	767
Japanese yen	579	715	579	715
Yuan renminbi	225	218	225	218
Norwegian krone	163	153	163	153
Hong Kong dollar	152	222	152	222
Canadian dollar	126	125	127	123
Korean won	112	107	112	107
Others	–	12	–	12
<b>Total</b>	<b>39,685</b>	<b>43,137</b>	<b>30,674</b>	<b>29,691</b>

The Consolidated Entity's and the Company's primary sources for domestic and international debt funding are their multi-currency, multi-jurisdictional Debt Instrument Program and domestic Negotiable Certificate of Deposits (NCD) issuance.

## NOTE 23

### Other debt issued at fair value through profit or loss

Structured notes <sup>(1),(2)</sup>	1,992	1,934	1,839	3,921
<b>Total Other debt issued at fair value through profit or loss</b>	<b>1,992</b>	<b>1,934</b>	<b>1,839</b>	<b>3,921</b>

(1) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or other assets.

(2) Includes cumulative fair value gain of \$25 million (2017: \$12 million losses) due to changes in the Consolidated Entity's credit risk.

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through profit or loss for the Consolidated Entity is \$2,822 million (2017: \$2,684 million) and for the Company is \$2,668 million (2017: \$4,672 million)

### Reconciliation of Other debt issued at fair value through profit or loss by major currency

(In Australian dollar equivalent):

United States dollar	1,901	1,813	1,748	1,813
Australian dollar	70	56	70	2,061
South African rand	–	42	–	42
Others	21	23	21	5
<b>Total</b>	<b>1,992</b>	<b>1,934</b>	<b>1,839</b>	<b>3,921</b>



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#### NOTE 24

##### Capital management strategy

The Consolidated Entity's and the Company's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The Consolidated Entity's capital management objectives are to:

- continue to support the Consolidated Entity's credit rating
- ensure sufficient capital resources to support the Consolidated Entity's business and operational requirements
- maintain sufficient capital to exceed externally imposed capital requirements
- safeguard the Consolidated Entity's ability to continue as a going concern.

The Consolidated Entity's capital management strategy uses both internal and external measures of capital. Internally, the Consolidated Entity has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify the Company's aggregate level of risk. The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of the Company's risk profile. The economic capital model is used to support business decision-making and has three main applications:

- capital adequacy assessment
- risk appetite setting, and
- risk-adjusted performance measurement.

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. APRA requires the Consolidated Entity to have an Internal Capital Adequacy Assessment Process (ICAAP) that is Board approved and which meets a range of minimum requirements. The Consolidated Entity reports to APRA under Basel III capital requirements and is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB). The capital ratios disclosed in this report are relevant for comparisons with banks regulated by APRA.

Regulatory capital requirements are measured for the Company and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Banking Group (Level 2 reporting). Level 2 consists of the Company, its subsidiaries and its immediate parent less certain subsidiaries of the Company which are deconsolidated for APRA reporting purposes. These include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations.

Under Basel III rules, APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk weighted assets (RWA) of 8.5% including 2.5% of capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition APRA may impose ADI-specific minimum capital ratios which may be higher than these levels.

The Consolidated Entity's Common Equity Tier 1 capital consists of share capital, retained earnings, and certain reserves, net of deductions. Additional Tier 1 capital consists of hybrid instruments. The hybrid instruments include Macquarie Additional Capital Securities, Macquarie Income Securities and Macquarie Bank Capital Notes. Information on details of capital instruments is available in the Regulatory Disclosures section of the Macquarie public website. Deductions from Common Equity Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, special purpose securitisation entities and non-financial entities are fully deducted from Common Equity Tier 1 capital. The Consolidated Entity's Tier 2 capital includes term subordinated debt, certain reserves and applicable deductions.

The Consolidated Entity and the Company have complied with all internal and external capital management requirements throughout the financial year.

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## NOTE 25

### Loan capital

#### *Subordinated debt*

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Consolidated Entity. Details of selected capital instruments with conditional repayment obligations are discussed below.

#### *Macquarie Bank Capital Notes (BCN)*

On 8 October 2014, the Company issued 4.3 million BCN at face value of \$100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

BCN may also be exchanged into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. The BCN may also be exchanged earlier on an acquisition event (where a person acquires control of MGL or the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, BCN Holders will receive up to approximately \$101 worth of MGL ordinary shares per BCN held. The total number of ordinary shares that would be issued if all BCN were exchanged at 31 March 2018 would be 4,151,492 (31 March 2017: 4,923,360). The maximum number of ordinary shares that can be issued on an exchange is 37,056,481.

The BCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits, paid semi-annually in arrears. If interest is not paid on the BCN, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

#### *Macquarie Additional Capital Securities (MACS)*

On 8 March 2017, the Company, acting through its London Branch, issued \$US750 million of MACS.

The MACS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 6.125% per annum, payable semi-annually in arrears, with the rate to be reset on the tenth anniversary (and each fifth anniversary thereafter), if the MACS remain outstanding after this time. If interest is not paid on the MACS, the Company will be restricted from paying dividends or returning capital on its ordinary shares until the next interest payment date.

The MACS may be exchanged on an acquisition event (where a person acquires control of the Company or MGL), where the Company's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL ordinary shares will be issued at a 1% discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange.

No MACS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if all MACS were exchanged at 31 March 2018 would be 9,469,528 (31 March 2017: 11,189,774). The maximum number of ordinary shares that can be issued on an exchange is 56,947,286.

The MACS will only be redeemable, subject to APRA's written approval, at the discretion of MBL in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the MACS.

#### *Exchangeable Capital Securities (ECS)*

On 26 March 2012, MBL, acting through its London Branch, issued \$US250 million of ECS. During the current financial year, MBL bought back ECS and extinguished the entire \$US250 million.

Under its terms, the ECS, being unsecured subordinated notes, paid discretionary, non-cumulative interest of 10.25% per annum, payable semi-annually in arrears.

The ECS were exchangeable for a variable number of fully paid ordinary shares of the Company.

No ECS were exchanged during the period before their buyback.

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 25</b>				
<b>Loan capital continued</b>				
<b>Maturity of loan capital:</b>				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	75	83	75	83
Subordinate debt instruments with fixed repayment obligations:				
30 May 2019	1	1	1	1
21 September 2020	773	689	773	689
7 April 2021	1,088	1,149	1,088	1,149
10 June 2025	930	978	930	978
Instruments with a conditional repayment obligation:				
BCN	430	430	430	430
MACS	976	980	976	980
ECS	–	327	–	327
	4,273	4,637	4,273	4,637
Less directly attributable issue cost	(17)	(22)	(17)	(22)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,256</b>	<b>4,615</b>	<b>4,256</b>	<b>4,615</b>

#### **Reconciliation of loan capital by major currency:**

##### **(In Australian dollar equivalent):**

United States dollar	3,047	3,498	3,047	3,498
Euro	796	709	796	709
Australian dollar	430	430	430	430
	4,273	4,637	4,273	4,637
Less directly attributable issue cost	(17)	(22)	(17)	(22)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,256</b>	<b>4,615</b>	<b>4,256</b>	<b>4,615</b>

(1) The balance includes fair value hedge accounting adjustments.

The Consolidated Entity and the Company have not had any defaults of principal, interest or other breaches with respect to their loan capital during the financial years reported.

In accordance with APRA guidelines, the Consolidated Entity includes the BCN, ECS and MACS as Additional Tier 1 capital and the applicable portion of the remaining loan capital as Tier 2 capital.

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	2018 Number of shares	2017 Number of shares	2018 \$m	2017 \$m
<b>NOTE 26</b>				
<b>Contributed equity</b>				
<b>Ordinary share capital<sup>(1)</sup></b>				
Opening balance of fully paid ordinary shares	<b>589,276,303</b>	589,276,303	<b>9,328</b>	9,328
<b>Closing balance of fully paid ordinary shares</b>	<b>589,276,303</b>	589,276,303	<b>9,328</b>	9,328

(1) Ordinary shares have no par value.

#### Equity contribution from ultimate parent entity

Balance at the beginning of the financial year	<b>192</b>	163	<b>93</b>	89
Additional paid up capital	<b>17</b>	29	<b>9</b>	4
<b>Balance at the end of the financial year</b>	<b>209</b>	192	<b>102</b>	93

MEREP awards are primarily settled in MGL ordinary shares. Where MEREP Awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP refer to Note 31 – Employee equity participation.

#### Macquarie Income Securities

4,000,000 Macquarie Income Securities of \$100 each	<b>400</b>	400	<b>400</b>	400
Less transaction costs for original placement	<b>(9)</b>	(9)	<b>(9)</b>	(9)
<b>Total Macquarie Income Securities</b>	<b>391</b>	391	<b>391</b>	391
<b>Contributed equity</b>	<b>9,928</b>	9,911	<b>9,821</b>	9,812

The MIS are redeemable (in whole or in part) at the Company's discretion. They are classified as equity in accordance with AASB 132 Financial Instruments: Presentation. Interest is paid quarterly at a floating rate of Bank Bill Swap Rate (BBSW) plus 1.7% p.a. Payment of interest to holders is subject to certain conditions, including the profitability of the Company. They are a perpetual instrument with no conversion rights.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 27</b>				
<b>Reserves, retained earnings and non-controlling interests</b>				
<b>Reserves</b>				
<b>Foreign currency translation reserve</b>				
Balance at the beginning of the financial year	363	492	(15)	(18)
Exchange differences on translation of foreign operations, net of hedge and tax	129	(129)	–	3
<b>Balance at the end of the financial year</b>	<b>492</b>	<b>363</b>	<b>(15)</b>	<b>(15)</b>
<b>Available for sale reserve</b>				
Balance at the beginning of the financial year	116	112	88	58
Revaluation movement for the financial year, net of tax	(33)	11	(15)	36
Transferred to income statement on:				
Impairment, net of tax	12	22	11	20
Sale or reclassification, net of tax	(80)	(29)	(68)	(26)
<b>Balance at the end of the financial year</b>	<b>15</b>	<b>116</b>	<b>16</b>	<b>88</b>
<b>Cash flow hedging reserve</b>				
Balance at the beginning of the financial year	(106)	(122)	(28)	(16)
Revaluation movement for the financial year, net of tax	77	16	24	(12)
<b>Balance at the end of the financial year</b>	<b>(29)</b>	<b>(106)</b>	<b>(4)</b>	<b>(28)</b>
<b>Share of reserves of associates and joint ventures</b>				
Balance at the beginning of the financial year	–	1	–	–
Share of other comprehensive expense of associates and joint ventures during the year, net of tax	(1)	(1)	–	–
<b>Balance at the end of the financial year</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total reserves at the end of the financial year</b>	<b>477</b>	<b>373</b>	<b>(3)</b>	<b>45</b>
<b>Retained earnings</b>				
Balance at the beginning of the financial year	2,296	2,333	736	1,344
Profit attributable to equity holders of MBL	1,582	1,236	2,019	648
Distributions paid on Macquarie Income Securities (Note 5)	(14)	(15)	–	–
Dividends paid on ordinary share capital (Note 5)	(1,210)	(1,226)	(1,210)	(1,226)
Loss on change in non-controlling ownership interest	(5)	(2)	–	–
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	37	(30)	37	(30)
<b>Balance at the end of the financial year</b>	<b>2,686</b>	<b>2,296</b>	<b>1,582</b>	<b>736</b>
<b>Non-controlling interests<sup>(1)</sup></b>				
Share capital and partnership interests	56	56	–	–
Foreign currency translation reserve	3	–	–	–
Accumulated losses	(47)	(48)	–	–
<b>Total non-controlling interests</b>	<b>12</b>	<b>8</b>	<b>–</b>	<b>–</b>

(1) NCI represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.



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**NOTE 28****Notes to the statements of cash flows****Reconciliation of cash and cash equivalents**

Cash and cash equivalents at the end of the financial year are reflected in the related items in the statements of financial position as follows:

	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Receivables from financial institutions <sup>(1)</sup>	<b>7,793</b>	7,606	<b>6,594</b>	6,162
Trading portfolio assets <sup>(2)</sup>	<b>611</b>	1,061	<b>222</b>	474
Debt investment securities available for sale <sup>(3)</sup>	<b>1,141</b>	324	<b>1,141</b>	324
Loan assets held at amortised cost <sup>(4)</sup>	<b>1,805</b>	1,173	<b>1,773</b>	1,162
<b>Cash and cash equivalents at the end of the financial year<sup>(5)</sup></b>	<b>11,350</b>	10,164	<b>9,730</b>	8,122

**Reconciliation of profit after income tax to net cash flows from/(used in) operating activities**

Profit after income tax	<b>1,583</b>	1,224	<b>2,019</b>	648
Adjustments to profit after income tax:				
Depreciation and amortisation	<b>1,063</b>	775	<b>317</b>	61
Unrealised foreign exchange and fair value movements on financial assets and liabilities	<b>276</b>	(733)	<b>(296)</b>	(972)
Credit losses and impairment charges	<b>110</b>	337	<b>(1)</b>	418
Investment income and gain on sale of operating lease assets and other non-financial assets	<b>(292)</b>	(526)	<b>(129)</b>	(131)
Share of net (profits)/losses of associates and joint ventures	<b>(22)</b>	19	<b>–</b>	–
Changes in assets and liabilities:				
Change in interest receivable and payable	<b>–</b>	105	<b>27</b>	83
Change in carrying values of associates and joint ventures due to dividends received	<b>19</b>	9	<b>–</b>	–
Change in fees and non-interest income receivable	<b>41</b>	13	<b>(11)</b>	12
Change in fees and commissions payable	<b>(78)</b>	(36)	<b>(164)</b>	(29)
Change in tax balances	<b>471</b>	333	<b>245</b>	(25)
Change in operating lease assets	<b>(1,206)</b>	(301)	<b>(878)</b>	(245)
Change in loan assets and balances with related entities	<b>2,699</b>	318	<b>992</b>	4,310
Change in margin money	<b>(105)</b>	(1,113)	<b>627</b>	(213)
Change in debtors, prepayments, accrued charges and creditors	<b>163</b>	418	<b>93</b>	(27)
Change in net trading portfolio assets and liabilities and net derivative financial instruments <sup>(6)</sup>	<b>1,207</b>	3,131	<b>(2,779)</b>	4,014
Change in payable to financial institutions and other borrowings	<b>(899)</b>	(3,971)	<b>(812)</b>	(3,939)
Change in debt issued at amortised cost	<b>(3,857)</b>	(11,362)	<b>207</b>	(10,119)
Change in deposits	<b>1,493</b>	5,559	<b>1,451</b>	5,448
<b>Net cash flows from/(used in) operating activities</b>	<b>2,666</b>	(5,801)	<b>908</b>	(706)

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

(3) Includes short-term debt securities.

(4) Includes margin balances at call.

(5) Cash and cash equivalents include \$4,330 million (31 March 2017: \$5,011 million) in the Consolidated Entity and \$3,478 million (31 March 2017: \$3,656 million)

in the Company in escrow accounts which are restricted for use or held by collateralised securitisation vehicles in segregated deposit fund.

(6) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 29

##### Related party information

##### *Ultimate and immediate parent entities*

The Company's ultimate parent entity is MGL. The Company's immediate parent entity is Macquarie B.H. Pty Limited. Both MGL and Macquarie B.H. Pty Limited are incorporated in Australia. MGL produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the ultimate and immediate parent entities principally arise from the provision and repayment of loans and the provision of management and administration services.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of this agreement are set out in Note 1(vii) – Taxation. Amount receivable from MGL includes amount receivable by the Company under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL are included in Due from related body corporate entities and Due to related body corporate entities, as appropriate, in the statement of financial position. The following balances with the ultimate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Amounts receivable <sup>(1)</sup>	159,979	184,052	110,250	128,370
Amounts payable	(4,153,013)	–	(3,430,424)	–

(1) As described in Note 1(xxii) – Performance based remuneration, the amounts receivable by the Company includes \$119,250 thousand (2017: \$100,929 thousand) for amounts paid in advance for MEREP awards offered to its employees net of share-based payment expense.

##### *Subsidiaries*

Transactions between the Company and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees. Significant transactions between the Company and its subsidiaries are disclosed below.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Company except when the parties have the legal right and intention to offset.

Balances arising from lending and borrowing activities between the Company and subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The Company enters into legal arrangements with certain subsidiaries and their customers whereby security deposits and maintenance claims are defeased to the Company. This removes the legal requirement for the subsidiary to reimburse the external counterpart and that liability sits with the Company. As of 31 March 2018 these defeased balances were \$570,789 thousand (2017: \$572,769 thousand) and \$115,393 thousand (2017: \$122,129 thousand) for maintenance and security deposits respectively.

The Company has entered into a repurchase transaction and pledged collateral to its subsidiary Macquarie Bank International Ltd for managing regulatory exposures in relation to over-the-counter derivatives. As of 31 March 2018, the collateral placed was \$381,410 thousand (2017: \$381,410 thousand).

A list of material subsidiaries is set out in Note 16 – Investments in subsidiaries.

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Interest income	–	–	927,447	682,693
Interest expense	–	–	(569,535)	(498,522)
Fee and commission income	–	–	65,388	45,845
Other operating income	–	–	40,631	83,289
Dividends and distributions	–	–	1,485,272	733,541
Management fees, group service charges and cost recoveries	–	–	381,135	291,805
Other expense	–	–	(6,038)	(4,825)

The following balances with subsidiaries were outstanding as at the end of the financial year:

Amounts receivable	–	–	27,841,404	31,071,245
Amounts payable	–	–	(10,549,451)	(17,479,969)

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**NOTE 29****Related party information continued*****Other related body corporate entities***

Transactions between the Consolidated Entity and other related body corporate entities under common control principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of guarantees.

Balances arising from lending and borrowing activities between the Consolidated Entity and other related body corporate entities are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The following income/(expense) resulted from transactions with other related body corporate entities during the financial year:

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Interest income	<b>5,709</b>	3,396	<b>8,604</b>	2,019
Interest expense	<b>(269,389)</b>	(232,263)	<b>(210,589)</b>	(181,643)
Rental income	<b>21,168</b>	21,169	<b>21,168</b>	21,169
Fee and commission expense	<b>(157,562)</b>	(220,674)	<b>(142,179)</b>	(196,975)
Other operating expenses	<b>(1,228,199)</b>	(1,312,102)	<b>(1,011,496)</b>	(1,084,432)
Other income/(expense)	<b>1,881</b>	(471)	<b>1,684</b>	(1,284)

The following balances with other related body corporate entities were outstanding as at financial year end:

Amounts receivable	<b>1,222,857</b>	1,548,724	<b>1,101,575</b>	1,406,923
Amounts payable	<b>(9,840,305)</b>	(7,367,119)	<b>(8,399,667)</b>	(5,959,434)

***Associates and joint ventures***

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All unrealised transactions undertaken with associates and joint ventures are eliminated in the consolidated income statement to the extent of ownership interests held by the Consolidated Entity. During the financial year, the following amounts of income/(expense) resulted from transactions with associates and joint ventures:

Interest income	<b>64,853</b>	19,287	<b>62,596</b>	18,502
Fee and commission expense	<b>(47,806)</b>	(38,539)	<b>(47,481)</b>	(37,964)
Brokerage and commission expense	<b>(6,015)</b>	(4,812)	<b>(5,529)</b>	(3,937)
Dividends and distributions <sup>(1)</sup>	<b>19,075</b>	9,000	<b>–</b>	–

(1) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 14 – Interests in associates and joint ventures):

Amounts receivable	<b>82,504</b>	242,262	<b>46,546</b>	228,272
Amounts payable	<b>(3,636)</b>	(3,488)	<b>(3,636)</b>	(3,488)

Balances arising from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures are typically extended on a term basis and where appropriate may be either subordinated or collateralised.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 30

##### Key Management Personnel disclosure

##### Key Management Personnel

The following persons were Directors of the Bank during the financial years ended 31 March 2018 and 31 March 2017, unless indicated:

##### Executive Voting Directors<sup>(1)</sup>

N.W. Moore	Macquarie Group CEO
M.J. Reemst	Macquarie Bank CEO

##### Non-Executive Directors

P.H. Warne <sup>(2)</sup>	Chairman
G.R. Banks AO	
G.M. Cairns	
M.J. Coleman	
P.A. Cross	
D.J. Grady AM	
M.J. Hawker AM	
G.R. Stevens AC	(appointed effective 1 November 2017)
N.M. Wakefield Evans	

In addition to the Executive Voting Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2018 and 31 March 2017, unless otherwise indicated.

##### Current Executives<sup>(1)</sup>

B.A. Brazil	Co-Head of CAF
A.J. Downe	Head of CGM
G.A. Farrell	Co-Head of CAF
A. Harvey	CFO, Head of FMG (appointed effective 1 January 2018)
N. O'Kane	Head of CMF (appointed effective 15 June 2017)
N. Sorbara	COO, Head of COG
P.C. Upfold <sup>(3)</sup>	CRO, Head of RMG
G.C. Ward	Macquarie Group Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

##### Former Executive

S.D. Allen	Former CRO, Head of RMG (ceased to be a member of the Executive Committee on 31 December 2017).
M. McLaughlin	Former Country Head, United States of America (ceased to be a member of the Executive Committee on 15 June 2017)
S. Vrcelj	Former Head of MSG (ceased to be a member of the Executive Committee on 29 November 2016)

The remuneration arrangements for all of the persons listed above are described on pages 29 to 36 of the Remuneration Report, contained in the Directors' Report.

- (1) Except where indicated otherwise, the Executive Voting Directors and all Current Executives listed above are members of the Company's Executive Committee as at 4 May 2018.
- (2) P.H. Warne commenced as Chairman of the MBL Board effective 1 April 2016.
- (3) Mr. Upfold was an Executive KMP for FY2018 but changed roles during the year, commencing as CRO, Head of RMG on 1 January 2018. He was formally CFO, Head of FMG.

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**NOTE 30****Key Management Personnel disclosure continued****Key Management Personnel remuneration**

The following table details the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS				LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		
	Salary and fees (including super- annuation) \$	Performance related remuneration <sup>(1)</sup> \$	Other benefits \$	Total short term Employee Benefits \$	Restricted profit share including earnings on restricted profit share <sup>(2)</sup> \$	Equity awards including shares <sup>(3)</sup> \$	PSUs <sup>(4)</sup> \$	Total remuneration \$
<b>Executive Remuneration</b>								
<b>2018</b>	<b>5,649,060</b>	<b>29,168,202</b>	<b>–</b>	<b>34,817,262</b>	<b>9,130,839</b>	<b>33,220,964</b>	<b>14,995,110</b>	<b>92,164,175</b>
2017	6,167,275	25,634,799	–	31,802,074	6,938,188	27,847,656	15,822,874	82,410,792
<b>Non-Executive Remuneration</b>								
<b>2018</b>	<b>787,708</b>	<b>–</b>	<b>–</b>	<b>787,708</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>787,708</b>
2017	757,500	–	3,000	760,500	–	–	–	760,500

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

(2) The amount of the retained profit share held via the Post-2009 DPS plan including earnings on notional investments from retained profit share in prior financial years.

(3) The current year amortisation for retained profit share calculated as described in Note 1(xxii) – Performance based remuneration.

(4) The current year amortisation for PSUs calculated as described in Note 1(xxii) performance based remuneration. Adjustments were made during the prior years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

**Loans to KMP and their related parties**

Details of loans provided by the Consolidated Entity to KMP and their related parties are disclosed in aggregate in the following tables:

	Opening balance at 1 April \$'000	Interest Charged \$'000	Write -downs \$'000	Closing balance at 31 March <sup>(1)</sup> \$'000
Total for key management personnel and their related parties				
<b>2018</b>	<b>–</b>	<b>3</b>	<b>–</b>	<b>464</b>
2017	–	–	–	–

(1) Number of persons included in the aggregate at 31 March 2018: 1 (31 March 2017: Nil).

Loans and other financial instrument transactions were made by the Consolidated Entity in the ordinary course of business with related parties.

**Other transactions with Key Management Personnel and their related parties**

Certain Key Management Personnel and their related parties have acquired investments in a number of products from subsidiaries within the Consolidated Entity. These products typically involve the issuance of investment units and have been financed with limited recourse loans. Some are accounted for as fee and commission income when acting on behalf of investors. This fee represents the service performed by the Consolidated Entity for transferring interest received from investors in exchange for their investment unit returns. The gross receipts by the Consolidated Entity were \$Nil (2017: \$2,700 thousand). Others are subject to swap agreements and are accounted for as derivatives by the Consolidated Entity.

All transactions with Key Management Personnel (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees. From an accounting perspective, amounts recognised by the Consolidated Entity in respect of these transactions are recognised net in either trading income or fee and commission income and have been disclosed below.

	Consolidated 2018 \$'000	Consolidated 2017 \$'000
Aggregated amounts recognised by the Consolidated Entity		
Trading income	–	838
Fee and commission income	–	397

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



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 31

##### Employee equity participation

###### MEREP

MGL continues to operate the MEREP in conjunction with other remuneration arrangements.

###### Award Types under the MEREP

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

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

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

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

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or direct the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs. Generally, where permitted by law, DSUs will provide for cash payments in lieu of dividends paid on

MGL ordinary shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights with respect to any underlying MGL ordinary shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs). DSUs have been granted with an expiry period of up to eight years.

###### Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest.

###### Restricted Shares

A Restricted Share is a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on, and to exercise the right of, the Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

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

	NUMBER OF RSU AWARDS	
	2018	2017
RSUs on issue at the beginning of the financial year	6,619,655	7,184,674
Granted during the financial year	1,571,969	1,970,285
Forfeited during the financial year	(1,815,730)	(135,300)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(180,167)	(2,293,701)
Transfers to related body corporate entities	(533,341)	(106,303)
RSUs on issue at the end of the financial year	5,662,386	6,619,655
RSUs vested and not withdrawn from the MEREP at the end of the financial year	1,979	2,637

The weighted average fair value of the RSU awards granted during the financial year was \$90.20 (2017: \$72.74).

	NUMBER OF DSU AWARDS	
	2018	2017
DSUs on issue at the beginning of the financial year	1,281,176	1,290,490
Granted during the financial year	453,383	464,300
Forfeited during the financial year	(358,627)	(767)
Exercised during the financial year	(55,598)	(468,409)
Transfers to related body corporate entities	(7,287)	(4,438)
DSUs on issue at the end of the financial year	1,313,047	1,281,176
DSUs exercisable at the end of the financial year	197,274	153,422

The weighted average fair value of the DSU awards granted during the financial year was \$90.21 (2017: \$72.86).

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**NOTE 31****Employee equity participation continued****Award Types under the MEREP continued**

	NUMBER OF PSU AWARDS	
	2018	2017
PSUs on issue at the beginning of the financial year	<b>539,176</b>	482,431
Granted during the financial year	<b>132,018</b>	149,077
Exercised during the financial year	<b>(186,212)</b>	(85,912)
Transfers to related body corporate entities	<b>(30,754)</b>	–
Expired during the financial year	–	(6,420)
PSUs on issue at the end of the financial year	<b>454,228</b>	539,176
PSUs exercisable at the end of the financial year	–	70,211

The weighted average fair value of the PSU awards granted during the financial year was \$73.00 (2017: \$65.53).

	NUMBER OF RESTRICTED SHARE AWARDS	
	2018	2017
Restricted on issue at the beginning of the financial year	<b>32,485</b>	46,183
Granted during the financial year	<b>13,623</b>	24,032
Transfers to related body corporate entities	<b>(9,525)</b>	–
Released during the financial year	<b>(21,756)</b>	(37,730)
Restricted shares on issue at the end of the financial year	<b>14,827</b>	32,485

The weighted average fair value of the Restricted Shares granted during the financial year was \$87.23 (2017: \$71.36).

The awards are measured at their grant dates based on their fair value<sup>1</sup> and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members 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 and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 2.26% per annum
- expected vesting dates of PSUs: 1 July 2020 and 1 July 2021
- dividend yield: 5.07% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2018 will be granted during FY2019, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.58% per annum, expected vesting dates of PSUs of 1 July 2021 and 1 July 2022, and a dividend yield of 4.96% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie Group staff with retained commission (Commission Awards)
- Macquarie Group staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive 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)
- members of the MBL and MGL Executive Committees who are eligible for PSUs
- in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group upon the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

(1) For employees categorised as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV remuneration requirements, the fair value of the awards granted for performance period after 1 April 2017 has been adjusted to take into account the prohibition of dividends on unvested awards.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 31

##### Employee equity participation *continued*

##### *Award Types under the MEREP continued*

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant <sup>(1)</sup>
Retained DPS Awards representing 2009 retention	Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant <sup>(2)</sup>
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant <sup>(2)</sup>
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3rd in the 3rd, 4th and 5th year following the year of grant <sup>(1)</sup>
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50% three and four years after the year of grant <sup>(3)</sup>
Commission Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant <sup>(1)</sup>
Incentive Awards	All Macquarie Group 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
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.

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

(3) Subject to achieving certain performance hurdles – refer below.

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

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

#### PSUs

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for this financial year.

The hurdles are outlined below.

#### Performance hurdle 1

Hurdle	REFERENCE GROUP	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three to four years) compared with a reference group of global financial institutions.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG.	The reference group comprised Bank of America Corporation, Citigroup Inc., Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).
A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.		

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## NOTE 31

### Employee equity participation continued

#### PSUs continued

#### Performance hurdle 2

Hurdle	REFERENCE GROUP	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9% and 100% at EPS CAGR of 13%. For example, if EPS CAGR were 11%, 75% of the awards would become exercisable.

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

#### Other arrangements

There are certain arrangements with staff that take the form of a share-based payment but that are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in the MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2018 was \$70 thousand (2017: \$193 thousand).

#### Employee Share Plan

MGL continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to \$1,000 worth of fully paid ordinary Macquarie shares for no cash consideration.

Shares allocated under the ESP cannot be sold until the earlier of three years after allocation or the time when the participant is no longer employed by MGL or a subsidiary of MGL. In all other respects, shares allocated rank equally with all other fully paid ordinary shares then on issue.

The latest offer under the ESP was made during November 2017. A total of 591 (2017: 507) staff participated in this offer. On 28 November 2017, the participants were each allocated 10 (2017: 11) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$99.33 (2017: \$84.13), a total of 5,910 (2017: 5,577) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2018, compensation expense relating to the ESP totalled \$585 thousand (2017: \$467 thousand).

#### Historical Share and Option Plans

Shares are no longer being issued under the Macquarie Group Staff Share Acquisition Plan or the Macquarie Group Non-Executive Director Share Acquisition plan. However employees and Non-Executive Directors still hold shares issued in previous years.

Options over unissued MGL fully paid shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

#### Other plans

MGL operates other local share-based compensation plans, none of which, individually or in aggregate are material.

## NOTES TO THE FINANCIAL STATEMENTS

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 32</b>				
<b>Contingent liabilities and commitments</b>				
<b>Contingent liabilities exist in respect of:</b>				
Letters of credit	874	682	891	681
Performance related contingents	237	305	247	320
Guarantees <sup>(1)</sup>	107	50	1,220	1,226
Indemnities	44	44	44	44
Total contingent liabilities <sup>(2),(3)</sup>	1,262	1,081	2,402	2,271
<b>Commitments exist in respect of:</b>				
Undrawn credit facilities and securities underwriting <sup>(4)</sup>	4,712	4,738	3,766	3,777
Forward asset purchases	7	816	–	719
Total commitments	4,719	5,554	3,766	4,496
<b>Total contingent liabilities and commitments</b>	<b>5,981</b>	<b>6,635</b>	<b>6,168</b>	<b>6,767</b>

(1) The Company guarantees the performance obligation of certain subsidiaries in relation to their external obligations.

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

(3) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

(4) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity and the Company. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

## NOTE 33

### Lease commitments

#### Non-cancellable operating leases expiring:

Not later than one year	10	8	–	–
Later than one year and not later than five years	16	18	–	–
Later than five years	1	3	–	–
<b>Total operating lease commitments</b>	<b>27</b>	<b>29</b>	<b>–</b>	<b>–</b>

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## NOTE 34

### Structured entities

The Consolidated Entity engages in various transactions with Structured entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (for example decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously.

### Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets, including mortgages, finance leases, credit card receivables, of the Consolidated Entity or of its clients.

Macquarie may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

### Asset-backed financing

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

The Consolidated Entity engages in raising finance for assets such as aircraft, rail cars, electronic and IT equipment. The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

SEs are consolidated when they meet the criteria described in Note 1 (ii) – Principles of consolidation.

### Interests held in unconsolidated structured entities

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

- (iv) creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)
- (v) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and
- (vi) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to interest, management fees, servicing fees, dividends and gains or losses from revaluing financial instruments.

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs:

	CONSOLIDATED 2018		CONSOLIDATED 2017	
	Securitisations \$m	Asset-backed financing \$m	Securitisations \$m	Asset-backed financing \$m
<b>Carrying value of assets</b>				
Trading portfolio assets	128	189	488	364
Derivative assets	110	–	33	–
Investment securities available for sale <sup>(1)</sup>	1,366	–	1,068	–
Loan assets held at amortised cost	237	794	504	381
<b>Total carrying value of assets<sup>(2)</sup></b>	<b>1,841</b>	<b>983</b>	<b>2,093</b>	<b>745</b>
<b>Maximum exposure to loss<sup>(3)</sup></b>				
Debt, equity and derivatives held	1,841	983	2,093	745
Undrawn commitments	–	7	3	37
<b>Total maximum exposure to loss</b>	<b>1,841</b>	<b>990</b>	<b>2,096</b>	<b>782</b>

(1) Securitisations includes \$1,158 million (2017: \$702 million) of investments that are managed by the Consolidated Entity under the liquid assets holding policy described in Note 36.2 – Liquidity risk.

(2) Total carrying value of assets includes \$798 million (2017: \$598 million) in subordinated interests, of which \$47 million (2017: \$361 million) is included in securitisation activities and \$751 million (2017: \$237 million) included in asset backed financing activities.

(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments. The amounts for commitments are reduced for any liabilities already recognised.

The subordinated securitisation interests are primarily trading positions that are typically managed under market risk described in Note 36.3 – Market risk. For these reasons, information on size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented. The subordinated asset backed interests that are included within investments available for sale and loan assets, involve unconsolidated SEs with a total size of \$3,913 million (2017: \$334 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.



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

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### NOTE 35

#### Derivative financial instruments

##### *Objectives of holding and issuing derivative financial instruments*

The Consolidated Entity is an active price-maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price-making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market.

All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in Note 1(xii) – Hedge accounting:

**Cash flow hedges:** The Consolidated Entity is exposed to volatility in future interest cash flows arising from the consolidated securitisation vehicles and floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps. The Consolidated Entity is also exposed to foreign exchange risk from foreign currency denominated issued debt and foreign currency denominated assets which are hedged with cross-currency swaps.

At 31 March 2018, the fair value of outstanding derivatives held by the Company and designated as cash flow hedges was \$3 million positive value (2017: \$20 million negative value).

During the financial year the Consolidated Entity recognised \$3 million of gains (2017: \$3 million gains) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$60 million negative value (2017: \$161 million negative value).

**Fair value hedges:** The Consolidated Entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates, and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$178 million negative value (2017: \$12 million negative value).

During the financial year fair value loss on the hedging instruments of \$166 million have been recognised (2017: \$329 million loss), offset by \$152 million gains (2017: \$313 million gains) on the hedged items.

**Net investment in foreign operations hedges:** The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its foreign operations.

At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$63 million negative value (2017: \$171 million positive value). During the financial year the Consolidated Entity recognised \$nil (2017: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to \$5,525 million (2017: \$4,927 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of \$93 million (2017: \$11 million loss) on translation of the foreign currency borrowing to Australian dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are – Futures, Forwards and forward rate agreements, Swaps, Options.

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## NOTE 36

### Financial risk management

#### *Risk Management Group (RMG)*

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are credit, liquidity, market, equity, conduct, regulatory and compliance, reputation, operational, legal, tax, model, cyber and information security, environmental and social, and data risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of the MGL Annual Report.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately.

RMG is independent of all other areas of the Consolidated Entity. RMG approval is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the MGL CEO with a secondary reporting line to the Board Risk Committee.

## NOTE 36.1

### Credit risk

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

#### *Analysis and limit approval*

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

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Derivative exposures are measured using high confidence potential future underlying asset prices. To mitigate credit risk, where appropriate, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance).

### *Ratings and reviews*

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate which reflects the estimated economic loss in the event of default occurring.

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

Credit Grading	Internal Rating	External Equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default <sup>(1)</sup>	MQ99	Default

(1) The Default category primarily correlates to the 'past due more than 90 days not impaired' and 'individually impaired' balances disclosed in the following pages.

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

### *Portfolio and country risk*

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

The Consolidated Entity has a country risk management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is mitigated by political risk insurance.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 36.1

##### Credit risk *continued*

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

##### *Maximum exposure to credit risk*

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

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2018										
<b>Australia</b>										
Governments	–	4,415	356	365	3	66	–	–	–	5,205
Financial institutions	6,941	160	979	3,941	908	2,205	2	–	139	15,275
Other	–	1	757	42	332	57,094	154	256	2,481	61,177
Total Australia	6,941	4,576	2,092	4,348	1,243	59,365	156	256	2,620	81,597
<b>Asia Pacific</b>										
Governments	–	1,191	7	165	286	3	70	–	–	1,722
Financial institutions	5,690	377	295	450	567	548	–	–	4	7,931
Other	–	292	379	–	865	1,157	2	269	76	3,040
Total Asia Pacific	5,690	1,860	681	615	1,718	1,708	72	269	80	12,693
<b>Europe, Middle East and Africa</b>										
Governments	–	130	2	–	134	19	–	–	13	298
Financial institutions	14,250	32	3,163	78	560	2,178	–	–	186	20,447
Other	–	68	1,187	–	1,334	6,449	–	697	951	10,686
Total Europe, Middle East and Africa	14,250	230	4,352	78	2,028	8,646	–	697	1,150	31,431
<b>Americas</b>										
Governments	–	863	155	–	29	11	–	–	6	1,064
Financial institutions	9,748	32	2,433	201	171	3,105	3	–	845	16,538
Other	–	17	2,982	2	1,650	7,308	137	161	1,280	13,537
Total Americas	9,748	912	5,570	203	1,850	10,424	140	161	2,131	31,139
<b>Total gross credit risk</b>	<b>36,629</b>	<b>7,578</b>	<b>12,695</b>	<b>5,244</b>	<b>6,839</b>	<b>80,143</b>	<b>368</b>	<b>1,383</b>	<b>5,981</b>	<b>156,860</b>

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

(2) This balance excludes other non-financial assets of \$1,800 million and Life Investment Linked contracts and other unitholder assets \$648 million which are included in Note 9 – Other assets.

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**NOTE 36.1****Credit risk continued****Maximum exposure to credit risk continued**

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2017										
<b>Australia</b>										
Governments	–	4,868	460	853	9	56	–	–	–	6,246
Financial institutions	6,320	126	1,755	2,581	601	1,805	1	–	213	13,402
Other	–	3	1,195	57	210	52,959	121	283	2,214	57,042
Total Australia	6,320	4,997	3,410	3,491	820	54,820	122	283	2,427	76,690
<b>Asia Pacific</b>										
Governments	–	1,065	3	54	472	4	75	–	–	1,673
Financial institutions	1,481	383	173	394	135	565	–	–	8	3,139
Other	–	315	326	–	898	754	7	598	10	2,908
Total Asia Pacific	1,481	1,763	502	448	1,505	1,323	82	598	18	7,720
<b>Europe, Middle East and Africa</b>										
Governments	–	508	3	42	52	2	–	–	12	619
Financial institutions	5,181	160	3,191	310	317	2,666	–	–	94	11,919
Other	–	78	1,576	–	1,639	5,842	10	686	2,180	12,011
Total Europe, Middle East and Africa	5,181	746	4,770	352	2,008	8,510	10	686	2,286	24,549
<b>Americas</b>										
Governments	–	671	143	–	34	11	–	–	2	861
Financial institutions	12,583	60	2,122	207	279	2,600	–	–	280	18,131
Other	–	785	1,120	87	1,285	8,286	141	166	1,622	13,492
Total Americas	12,583	1,516	3,385	294	1,598	10,897	141	166	1,904	32,484
<b>Total gross credit risk</b>	<b>25,565</b>	<b>9,022</b>	<b>12,067</b>	<b>4,585</b>	<b>5,931</b>	<b>75,550</b>	<b>355</b>	<b>1,733</b>	<b>6,635</b>	<b>141,443</b>

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

(2) This balance excludes other non-financial assets of \$1,993 million and Life Investment Linked contracts and other unitholder assets \$722 million which are included in Note 9 – Other assets.

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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 36.1

##### Credit risk *continued*

##### *Maximum exposure to credit risk continued*

	Receiv- ables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amort- ised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Due from subsidiaries \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
COMPANY 2018											
<b>Australia</b>											
Governments	–	4,415	357	364	2	46	–	–	–	–	5,184
Financial institutions	6,776	155	–	3,834	557	2,125	2	–	–	139	13,588
Other	–	1	753	37	584	42,409	126	144	14,314	2,380	60,748
Total Australia	6,776	4,571	1,110	4,235	1,143	44,580	128	144	14,314	2,519	79,520
<b>Asia Pacific</b>											
Governments	–	811	7	165	256	–	70	–	–	–	1,309
Financial institutions	5,414	270	288	450	549	253	–	–	–	4	7,228
Other	–	135	378	–	772	935	3	235	2,333	76	4,867
Total Asia Pacific	5,414	1,216	673	615	1,577	1,188	73	235	2,333	80	13,404
<b>Europe, Middle East and Africa</b>											
Governments	–	130	–	–	59	16	–	–	–	13	218
Financial institutions	13,797	32	2,940	71	555	1,803	–	–	–	186	19,384
Other	–	67	992	–	877	3,805	–	684	8,285	1,199	15,909
Total Europe, Middle East and Africa	13,797	229	3,932	71	1,491	5,624	–	684	8,285	1,398	35,511
<b>Americas</b>											
Governments	–	472	5	–	–	11	–	–	–	5	493
Financial institutions	9,098	30	3,592	192	143	1,465	3	–	–	222	14,745
Other	–	16	1,356	–	170	1,674	21	149	2,909	1,944	8,239
Total Americas	9,098	518	4,953	192	313	3,150	24	149	2,909	2,171	23,477
<b>Total gross credit risk</b>	<b>35,085</b>	<b>6,534</b>	<b>10,668</b>	<b>5,113</b>	<b>4,524</b>	<b>54,542</b>	<b>225</b>	<b>1,212</b>	<b>27,841</b>	<b>6,168</b>	<b>151,912</b>

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

(2) This balance excludes other non-financial assets of \$1,059 million which are included in Note 9 – Other assets.

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**NOTE 36.1****Credit risk continued****Maximum exposure to credit risk continued**

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amort- ised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Due from subsidiaries \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
COMPANY 2017											
<b>Australia</b>											
Governments	–	4,868	461	852	7	53	–	–	–	–	6,241
Financial institutions	6,078	139	1,269	2,434	540	1,774	1	–	–	213	12,448
Other	–	3	1,192	47	514	40,609	133	159	15,697	2,079	60,433
Total Australia	6,078	5,010	2,922	3,333	1,061	42,436	134	159	15,697	2,292	79,122
<b>Asia Pacific</b>											
Governments	–	996	3	54	429	–	75	–	–	–	1,557
Financial institutions	1,386	269	170	369	98	294	–	–	–	8	2,594
Other	–	103	321	–	900	660	6	589	3,956	11	6,546
Total Asia Pacific	1,386	1,368	494	423	1,427	954	81	589	3,956	19	10,697
<b>Europe, Middle East and Africa</b>											
Governments	–	508	3	–	3	–	–	–	–	12	526
Financial institutions	4,850	160	3,170	302	296	2,192	–	–	–	54	11,024
Other	–	76	1,425	–	1,301	3,811	–	684	8,885	2,244	18,426
Total Europe, Middle East and Africa	4,850	744	4,598	302	1,600	6,003	–	684	8,885	2,310	29,976
<b>Americas</b>											
Governments	–	84	–	–	–	11	–	–	–	2	97
Financial institutions	11,593	44	2,329	192	263	1,471	–	–	–	150	16,042
Other	–	334	445	84	147	1,805	–	103	2,533	1,994	7,445
Total Americas	11,593	462	2,774	276	410	3,287	–	103	2,533	2,146	23,584
<b>Total gross credit risk</b>	<b>23,907</b>	<b>7,584</b>	<b>10,788</b>	<b>4,334</b>	<b>4,498</b>	<b>52,680</b>	<b>215</b>	<b>1,535</b>	<b>31,071</b>	<b>6,767</b>	<b>143,379</b>

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

(2) This balance excludes other non-financial assets of \$681 million which are included in Note 9 – Other assets.



## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 36.1

##### Credit risk *continued*

##### *Credit quality of financial assets*

The table below details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer to section on collateral and credit enhancements).

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2018					
<b>Receivables from financial institutions<sup>(1)</sup></b>	<b>32,359</b>	<b>4,270</b>	<b>–</b>	<b>–</b>	<b>36,629</b>
<b>Trading portfolio assets</b>					<b>7,578</b>
Governments	6,515	84	–	–	6,599
Financial institutions	573	28	–	–	601
Other	158	187	33	–	378
<b>Derivative assets</b>					<b>12,695</b>
Governments	520	–	–	–	520
Financial institutions	6,221	649	–	–	6,870
Other	3,072	2,233	–	–	5,305
<b>Debt investment securities available for sale</b>					<b>5,244</b>
Governments	530	–	–	–	530
Financial institutions	4,638	32	–	–	4,670
Other	7	37	–	–	44
<b>Other financial assets<sup>(2)</sup></b>					<b>6,839</b>
Governments	401	–	51	–	452
Financial institutions	1,561	627	18	–	2,206
Other	2,463	1,639	70	9	4,181
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					<b>80,143</b>
Governments	68	31	–	–	99
Financial institutions	6,638	1,397	1	–	8,036
Other	32,669	36,772	2,236	331	72,008
<b>Other financial assets at fair value through profit or loss</b>					<b>368</b>
Governments	70	–	–	–	70
Financial institutions	–	5	–	–	5
Other	74	194	25	–	293
<b>Due from related body corporate entities</b>					<b>1,383</b>
Other	1,383	–	–	–	1,383
<b>Total</b>	<b>99,920</b>	<b>48,185</b>	<b>2,434</b>	<b>340</b>	<b>150,879</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) Excludes other non-financial assets of \$1,800 million and Life Investment Linked contracts and other unitholder assets \$648 million which are included in Note 9 – Other assets

(3) Mortgages are classified as investment grade when the Consolidated Entity has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Consolidated Entity bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

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**NOTE 36.1****Credit risk continued****Credit quality of financial assets continued**

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2017					
<b>Receivables from financial institutions<sup>(1)</sup></b>	23,009	2,556	–	–	25,565
<b>Trading portfolio assets</b>					9,022
Governments	6,979	133	–	–	7,112
Financial institutions	579	150	–	–	729
Other	309	832	40	–	1,181
<b>Derivative assets</b>					12,067
Governments	609	–	–	–	609
Financial institutions	7,045	196	–	–	7,241
Other	2,681	1,536	–	–	4,217
<b>Debt investment securities available for sale</b>					4,585
Governments	949	–	–	–	949
Financial institutions	3,476	16	–	–	3,492
Other	12	132	–	–	144
<b>Other financial assets<sup>(2)</sup></b>					5,931
Governments	525	–	42	–	567
Financial institutions	942	371	19	–	1,332
Other	2,137	1,809	69	17	4,032
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					75,550
Governments	57	16	–	–	73
Financial institutions	6,073	1,563	–	–	7,636
Other	31,830	33,209	2,324	478	67,841
<b>Other financial assets at fair value through profit or loss</b>					355
Governments	75	–	–	–	75
Financial institutions	–	1	–	–	1
Other	123	148	7	1	279
<b>Due from related body corporate entities</b>					1,733
Other	1,733	–	–	–	1,733
<b>Total</b>	<b>89,143</b>	<b>42,668</b>	<b>2,501</b>	<b>496</b>	<b>134,808</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) Excludes other non-financial assets of \$1,993 million and Life Investment Linked contracts and other unitholder assets \$722 million which are included in Note 9 – Other assets

(3) Mortgages are classified as investment grade when the Consolidated Entity has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Consolidated Entity bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 36.1

##### Credit risk *continued*

##### Credit quality of financial assets *continued*

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
					COMPANY 2018
<b>Receivables from financial institutions<sup>(1)</sup></b>	<b>30,957</b>	<b>4,128</b>	<b>–</b>	<b>–</b>	<b>35,085</b>
<b>Trading portfolio assets</b>					<b>6,534</b>
Governments	5,738	90	–	–	5,828
Financial institutions	460	27	–	–	487
Other	1	189	29	–	219
<b>Derivative assets</b>					<b>10,668</b>
Governments	369	–	–	–	369
Financial institutions	4,889	1,931	–	–	6,820
Other	2,123	1,356	–	–	3,479
<b>Debt investment securities available for sale</b>					<b>5,113</b>
Governments	529	–	–	–	529
Financial institutions	4,547	–	–	–	4,547
Other	–	37	–	–	37
<b>Other financial assets<sup>(2)</sup></b>					<b>4,524</b>
Governments	305	12	–	–	317
Financial institutions	1,229	562	13	–	1,804
Other	1,645	753	2	3	2,403
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					<b>54,542</b>
Governments	60	13	–	–	73
Financial institutions	4,870	776	–	–	5,646
Other	29,414	17,714	1,422	273	48,823
<b>Other financial assets at fair value through profit or loss</b>					<b>225</b>
Governments	70	–	–	–	70
Financial institutions	–	5	–	–	5
Other	–	125	25	–	150
<b>Due from related body corporate entities</b>					<b>1,212</b>
Other	1,212	–	–	–	1,212
<b>Due from subsidiary</b>					<b>27,841</b>
Other	27,841	–	–	–	27,841
<b>Total</b>	<b>116,259</b>	<b>27,718</b>	<b>1,491</b>	<b>276</b>	<b>145,744</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,059 million which are included in Note 9 – Other assets.

(3) Mortgages are classified as investment grade when the Company has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Company bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

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**NOTE 36.1****Credit risk continued****Credit quality of financial assets continued**

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
COMPANY 2017					
<b>Receivables from financial institutions<sup>(1)</sup></b>	21,460	2,447	–	–	23,907
<b>Trading portfolio assets</b>					7,584
Governments	6,342	114	–	–	6,456
Financial institutions	505	107	–	–	612
Other	98	389	29	–	516
<b>Derivative assets</b>					10,788
Governments	466	1	–	–	467
Financial institutions	6,492	446	–	–	6,938
Other	2,220	1,163	–	–	3,383
<b>Debt investment securities available for sale</b>					4,334
Governments	906	–	–	–	906
Financial institutions	3,297	–	–	–	3,297
Other	–	131	–	–	131
<b>Other financial assets<sup>(2)</sup></b>					4,498
Governments	428	11	–	–	439
Financial institutions	906	277	14	–	1,197
Other	1,409	1,429	14	10	2,862
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					52,680
Governments	52	12	–	–	64
Financial institutions	4,784	947	–	–	5,731
Other	25,492	19,333	1,536	524	46,885
<b>Other financial assets at fair value through profit or loss</b>					215
Governments	75	–	–	–	75
Financial institutions	–	1	–	–	1
Other	–	131	7	1	139
<b>Due from related body corporate entities</b>					1,535
Other	1,535	–	–	–	1,535
<b>Due from subsidiaries</b>					31,071
Other	31,071	–	–	–	31,071
<b>Total</b>	<b>107,538</b>	<b>26,939</b>	<b>1,600</b>	<b>535</b>	<b>136,612</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$681 million which are included in Note 9 – Other assets.

(3) Mortgages are classified as investment grade when the Company has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Company bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 36.1

##### Credit risk *continued*

##### *Ageing analysis of assets past due but not individually impaired and individually impaired assets:*

##### PAST DUE BUT NOT INDIVIDUALLY IMPAIRED

Class of financial asset	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m	Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2018							
<b>Other financial assets</b>							
Government	26	3	2	20	51	–	51
Financial institutions	6	2	1	9	18	–	18
Other	41	10	7	12	70	9	79
<b>Loan assets held at amortised cost</b>							
Financial institutions	1	–	–	–	1	–	1
Other	1,329	333	130	444	2,236	331	2,567
<b>Trading portfolio assets</b>							
Other	–	–	–	33	33	–	33
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	25	–	–	25	–	25
<b>Total</b>	<b>1,403</b>	<b>373</b>	<b>140</b>	<b>518</b>	<b>2,434</b>	<b>340</b>	<b>2,774</b>
CONSOLIDATED 2017							
<b>Other financial assets</b>							
Government	12	4	3	23	42	–	42
Financial institutions	7	2	1	9	19	–	19
Other	48	10	2	9	69	17	86
<b>Loan assets held at amortised cost</b>							
Other	1,323	312	131	558	2,324	478	2,802
<b>Trading portfolio assets</b>							
Other	–	–	–	40	40	–	40
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	7	–	–	7	1	8
<b>Total</b>	<b>1,390</b>	<b>335</b>	<b>137</b>	<b>639</b>	<b>2,501</b>	<b>496</b>	<b>2,997</b>

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**NOTE 36.1****Credit risk continued****Ageing analysis of assets past due but not individually impaired and individually impaired assets continued:**

PAST DUE BUT NOT INDIVIDUALLY IMPAIRED							
Class of financial asset	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m	Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
COMPANY 2018							
<b>Other financial assets</b>							
Financial institutions	5	1	–	7	13	–	13
Other	2	–	–	–	2	3	5
<b>Loan assets held at amortised cost</b>							
Other	640	244	122	416	1,422	273	1,695
<b>Trading portfolio assets</b>							
Other	–	–	–	29	29	–	29
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	25	–	–	25	–	25
<b>Total</b>	<b>647</b>	<b>270</b>	<b>122</b>	<b>452</b>	<b>1,491</b>	<b>276</b>	<b>1,767</b>
COMPANY 2017							
<b>Other financial assets</b>							
Financial institutions	6	1	1	6	14	–	14
Other	13	–	–	1	14	10	24
<b>Loan assets held at amortised cost</b>							
Other	752	243	122	419	1,536	524	2,060
<b>Trading portfolio assets</b>							
Other	–	–	–	29	29	–	29
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	7	–	–	7	1	8
<b>Total</b>	<b>771</b>	<b>251</b>	<b>123</b>	<b>455</b>	<b>1,600</b>	<b>535</b>	<b>2,135</b>



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 36.1

##### Credit risk *continued*

##### *Ageing analysis of assets past due but not individually impaired and individually impaired assets continued:*

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity and the Company when determining whether an asset is impaired are set out in Note 1(xv) – Impairment.

Of the collateral held against past due or impaired balances for loan assets held at amortised cost, \$1,630 million (2017: \$1,704 million) in the Consolidated Entity and in the Company relates to collateral held against past due or impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due or impaired balances for other assets primarily represents equity securities held as security against failed trade settlements.

##### *Reposessed collateral*

In the event of a customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. During the financial year, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of \$66 million (2017: \$50 million).

##### *Collateral and credit enhancements held*

##### *Receivables from financial institutions*

Cash collateral on securities borrowed and reverse repurchase agreements balances are included in receivables from financial institutions. For details, refer to Note 6 – Receivables from financial institutions.

Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

##### *Loan assets held at amortised cost*

##### *Mortgage loans*

Mortgages are secured by fixed charges over a borrower's property. Further, to cover a substantial portion of the mortgage portfolio against a potential shortfall between the value of a repossessed property sold and loan outstanding, including accrued interest, prior to April 2017 the Consolidated Entity obtained LMI from an investment grade counterparty. Since April 2017, the Consolidated Entity has purchased risk protection from a panel of investment grade companies via an excess of loss structure.

The mortgage loan balance includes \$11,560 million (2017: \$16,332 million) which has been securitised by consolidated SPEs.

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the most recent valuation of mortgaged assets in response to variation in the loan request.

	2018			2017		
	Australia \$m	EMEA \$m	Total \$m	Australia \$m	EMEA \$m	Total \$m
<b>Fully collateralised</b>						CONSOLIDATED
Loan to value ratio						
<= 25%	1,255	11	1,266	1,018	13	1,031
>25% to 50%	5,942	125	6,067	4,535	168	4,703
>50% to 70%	11,730	461	12,191	9,054	464	9,518
>70% to 80%	12,190	315	12,505	11,402	225	11,627
>80% to 90%	3,961	75	4,036	4,625	132	4,757
>90% to 100%	804	19	823	985	123	1,108
<b>Partly collateralised</b>	40	6	46	44	–	44
<b>Total mortgages</b>	<b>35,922</b>	<b>1,012</b>	<b>36,934</b>	<b>31,663</b>	<b>1,125</b>	<b>32,788</b>
<b>Fully collateralised</b>						COMPANY
Loan to value ratio						
<= 25%	1,167	10	1,177	947	12	959
>25% to 50%	5,624	123	5,747	4,354	164	4,518
>50% to 70%	11,201	439	11,640	8,748	429	9,177
>70% to 80%	11,786	296	12,082	11,202	196	11,398
>80% to 90%	3,855	32	3,887	4,545	51	4,596
>90% to 100%	798	5	803	972	41	1,013
<b>Partly collateralised</b>	39	3	42	40	–	40
<b>Total mortgages</b>	<b>34,470</b>	<b>908</b>	<b>35,378</b>	<b>30,808</b>	<b>893</b>	<b>31,701</b>

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## NOTE 36.1

### Credit risk *continued*

#### ***Collateral and credit enhancements held*** *continued*

##### Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. For the Consolidated Entity, of the asset finance portfolio of \$19,084 million (2017: \$19,513 million), the credit exposure after considering the depreciated value of collateral is \$8,414 million (2017: \$8,483 million). For the Company, of the asset finance portfolio of \$3,539 million (2017: \$5,474 million), the credit exposure after considering the depreciated value of collateral is \$1,487 million (2017: \$2,513 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

##### Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. For the Consolidated Entity, of the term lending of \$14,361 million (2017: \$14,720 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$3,207 million (2017: \$3,527 million). For the Company, of the term lending of \$10,767 million (2017: \$10,511 million), the credit exposure after the estimated value of collateral and credit enhancements is \$2,464 million (2017: \$2,564 million).

##### Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral, or holds security by way of a registered pledge over the underlying investment. For the Consolidated Entity, of the investment lending portfolio of \$2,001 million (2017: \$1,655 million), \$2,001 million (2017: \$1,655 million) is fully collateralised. For the Company, of the investment lending portfolio of \$139 million (2017: \$377 million), \$139 million (2017: \$195 million) is fully collateralised.

##### Additional collateral

The Consolidated Entity and the Company also holds other types of collateral, such as unsupported guarantees. While such mitigants have value, as a credit risk mitigant, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

##### *Other financial assets at fair value through profit or loss*

Other financial assets at fair value through profit or loss include financing provided to clients for investing. Financing may be unsecured or secured (partially or fully). Collateral is generally comprised of underlying securities investments or cash deposits of the investors.

##### *Derivative financial instruments*

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over The Counter (OTC) derivatives. The Consolidated Entity's and Company's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house. The clearing house is responsible for managing the risk associated with the process on behalf of their members and ensuring it has adequate resources to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values as at 31 March 2018 of \$658 million (2017: \$1,414 million). The Company held exchange traded derivatives with positive replacement values as at 31 March 2018 of \$554 million (2017: \$1,269 million).

For OTC derivative contracts, the Consolidated Entity and Company often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements. In the event of default, they require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Company also often execute a Credit Support Annex in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2018, the Consolidated Entity held OTC contracts with a positive replacement value of \$12,037 million (2017: \$10,653 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$6,589 million (2017: \$6,651 million) and margins held (excluding the impact of over-collateralisation) of \$1,377 million (2017: \$1,340 million).

As at 31 March 2018, the Company held OTC contracts with a positive replacement value of \$10,114 million (2017: \$9,519 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$5,549 million (2017: \$5,972 million) and margins held (excluding the impact of over-collateralisation) of \$1,159 million (2017: \$1,203 million).

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

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### NOTE 36.1

#### Credit risk *continued*

##### *Collateral and credit enhancements held continued*

###### *Debt investments securities available for sale*

This classification mainly includes debt securities held by Group Treasury for liquidity management purposes as well as certain asset-backed securities.

The Consolidated Entity utilises Credit Default Swaps (CDS), Guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to credit risk.

###### *Other assets*

Security settlement of \$3,108 million (2017: \$2,315 million) in the Consolidated Entity and \$2,729 million (2017: \$2,105 million), in the Company are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Security settlements are collateralised with the underlying equity securities or cash held by the Consolidated Entity until date of settlement.

###### *Credit commitments*

Undrawn facilities and lending commitments of \$2,747 million (2017: \$2,636 million) in the Consolidated Entity and \$2,437 million (2017: \$2,350 million) in the Company are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of \$4,712 million (2017: \$4,738 million) in the Consolidated Entity and \$3,766 million (2017: \$3,777 million) in the Company.

### NOTE 36.2

#### Liquidity risk

##### *Governance and oversight*

Macquarie Group's liquidity risk management framework is designed to ensure that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie Group's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

##### *Liquidity policy and risk appetite*

The *MGL and MBL Liquidity Policy* is designed so that each of the Macquarie Group, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due.

Macquarie Group's liquidity risk appetite is set to ensure that Macquarie Group is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie Group's franchise businesses.

MBL is an ADI and is funded mainly with capital, long-term liabilities and deposits.

##### *Liquidity contingency plan*

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

Specifically, the plan details:

- factors that may constitute a crisis
- the officer responsible for enacting the contingency management
- a committee of senior executives responsible for managing a crisis
- the information required to effectively manage a crisis
- a communications strategy
- a high level checklist of possible actions to conserve or raise additional liquidity
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

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

The *Liquidity Contingency Plan* is subject to regular review by both Group Treasury and RMG. It is submitted to the ALCO and MGL and MBL Boards for approval.

Macquarie Group is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the *Liquidity Contingency Plan* contains a supplement providing the specific information required for those branches or subsidiaries.

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## NOTE 36.2

### Liquidity risk *continued*

#### *Funding strategy*

Macquarie Group prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie Group's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by the ALCO and approved by the respective Boards.

#### *Scenario analysis*

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

The scenarios are run over a number of timeframes and a range of conservative assumptions are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie Group name-specific crisis over a twelve month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie Group's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

#### *Liquid asset holdings*

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets (HQLA) or be an asset type that is eligible as collateral in the Reserve Bank of Australia's (RBA) Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie Group's liquidity requirements are broadly matched by currency.

#### *Funds transfer pricing*

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for Macquarie Group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 36.2

##### Liquidity risk *continued*

##### *Contractual undiscounted cash flows*

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivative liabilities (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
CONSOLIDATED 2018						
Trading portfolio liabilities	–	7,938	–	–	–	7,938
Derivative liabilities (trading)	–	11,264	–	–	–	11,264
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	935	1,400	1,519	161	4,015
Contractual amounts receivable	–	(846)	(1,261)	(1,206)	(39)	(3,352)
Deposits	52,140	4,188	2,715	339	48	59,430
Other financial liabilities <sup>(2)</sup>	640	5,326	–	–	–	5,966
Payables to financial institutions <sup>(3)</sup>	5,754	2,202	414	1,715	1,754	11,839
Debt issued at amortised cost <sup>(4)</sup>	–	7,422	9,400	17,657	10,307	44,786
Other debt issued at fair value through profit or loss	13	63	140	233	2,479	2,928
Due to related body corporate entities	4,890	3,722	1,393	4,019	–	14,024
Loan capital <sup>(5)</sup>	–	133	275	2,961	2,301	5,670
<b>Total undiscounted cash flows</b>	<b>63,437</b>	<b>42,347</b>	<b>14,476</b>	<b>27,237</b>	<b>17,011</b>	<b>164,508</b>
Contingent liabilities	–	1,262	–	–	–	1,262
Commitments	329	79	909	1,562	1,840	4,719
<b>Total undiscounted contingent liabilities and commitments<sup>(6)</sup></b>	<b>329</b>	<b>1,341</b>	<b>909</b>	<b>1,562</b>	<b>1,840</b>	<b>5,981</b>

(1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions. This balance includes \$640 million of life investment linked contracts and other unitholder liabilities which are included in Note 20 – Other liabilities.

(3) Subsequent to 31 March 2018, as part of refinancing, contractual maturities for \$820 million primarily in 1 to 5 years maturity category have been extended to more than 5 years. A further \$3,200 million facility for maturity beyond 5 years has been put in place and remains undrawn.

(4) Includes \$12,335 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes and debt is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.

(5) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – Loan capital.

(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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**NOTE 36.2****Liquidity risk continued****Contractual undiscounted cash flows continued**

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
CONSOLIDATED 2017						
Trading portfolio liabilities	–	4,922	–	–	–	4,922
Derivative liabilities (trading)	–	10,437	–	–	–	10,437
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	3,260	1,695	4,609	1,756	11,320
Contractual amounts receivable	–	(3,115)	(1,533)	(3,859)	(1,480)	(9,987)
Deposits	50,403	4,228	2,580	460	66	57,737
Other financial liabilities <sup>(2)</sup>	714	6,077	–	–	–	6,791
Payables to financial institutions	4,999	2,423	1,724	3,863	1,854	14,863
Debt issued at amortised cost <sup>(3)</sup>	–	7,266	8,047	20,671	13,581	49,565
Other debt issued at fair value through profit or loss	–	39	95	171	2,379	2,684
Due to related body corporate entities	1,400	5,967	–	–	–	7,367
Loan capital <sup>(4)</sup>	–	462	250	2,997	2,412	6,121
<b>Total undiscounted cash flows</b>	<b>57,516</b>	<b>41,966</b>	<b>12,858</b>	<b>28,912</b>	<b>20,568</b>	<b>161,820</b>
Contingent liabilities	–	1,081	–	–	–	1,081
Commitments	442	594	543	2,245	1,730	5,554
<b>Total undiscounted contingent liabilities and commitments<sup>(5)</sup></b>	<b>442</b>	<b>1,675</b>	<b>543</b>	<b>2,245</b>	<b>1,730</b>	<b>6,635</b>

- (1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.
- (2) Excludes items that are not financial instruments and non-contractual accruals and provisions. This balance includes \$714 million of life investment linked contracts and other unitholder liabilities which are included in Note 20 – Other liabilities.
- (3) Includes \$18,192 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes and debt is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.
- (4) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – Loan capital.
- (5) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 36.2

##### Liquidity risk *continued*

##### *Contractual undiscounted cash flows continued*

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
COMPANY 2018						
Trading portfolio liabilities	–	8,286	–	–	–	8,286
Derivative liabilities (trading)	–	9,640	–	–	–	9,640
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	210	610	697	153	1,670
Contractual amounts receivable	–	(173)	(548)	(408)	(20)	(1,149)
Deposits	50,754	4,185	2,714	292	26	57,971
Other financial liabilities <sup>(2)</sup>	–	4,135	–	–	–	4,135
Payables to financial institutions	8,385	1,726	184	844	656	11,795
Debt issued at amortised cost	–	6,966	8,036	13,843	3,510	32,355
Other debt issued at fair value through profit or loss	–	18	48	230	2,479	2,775
Due to subsidiaries	716	6,486	–	10	3,340	10,552
Due to related body corporate entities	4,890	3,716	1,378	2,613	–	12,597
Loan capital <sup>(3)</sup>	–	133	275	2,961	2,301	5,670
<b>Total undiscounted cash flows</b>	<b>64,745</b>	<b>45,328</b>	<b>12,697</b>	<b>21,082</b>	<b>12,445</b>	<b>156,297</b>
Contingent liabilities	–	2,402	–	–	–	2,402
Commitments	148	79	287	1,418	1,834	3,766
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>148</b>	<b>2,481</b>	<b>287</b>	<b>1,418</b>	<b>1,834</b>	<b>6,168</b>

(1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(3) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – Loan capital.

(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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**NOTE 36.2****Liquidity risk continued****Contractual undiscounted cash flows continued**

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
COMPANY 2017						
Trading portfolio liabilities	–	5,143	–	–	–	5,143
Derivative liabilities (trading)	–	9,883	–	–	–	9,883
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	1,324	138	1,806	1,734	5,002
Contractual amounts receivable	–	(1,265)	(192)	(1,471)	(1,423)	(4,351)
Deposits	49,096	4,225	2,579	430	22	56,352
Other financial liabilities <sup>(2)</sup>	–	4,856	–	–	–	4,856
Payables to financial institutions	4,999	1,929	1,465	2,739	239	11,371
Debt issued at amortised cost	–	6,599	5,951	14,783	4,040	31,373
Other debt issued at fair value through profit or loss	–	2,021	101	171	2,379	4,672
Due to subsidiaries	–	9,719	5	2,671	5,333	17,728
Due to related body corporate entities	1,400	4,559	–	–	–	5,959
Loan capital <sup>(3)</sup>	–	462	250	2,997	2,412	6,121
<b>Total undiscounted cash flows</b>	<b>55,495</b>	<b>49,455</b>	<b>10,297</b>	<b>24,126</b>	<b>14,736</b>	<b>154,109</b>
Contingent liabilities	–	2,271	–	–	–	2,271
Commitments	290	354	437	1,753	1,662	4,496
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>290</b>	<b>2,625</b>	<b>437</b>	<b>1,753</b>	<b>1,662</b>	<b>6,767</b>

(1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – Loan capital.

(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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#### NOTE 36.3

##### Market risk

##### Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading portfolios from changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion:** changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices
- **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices
- **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products.

The Consolidated Entity is also exposed to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

##### Value-at-Risk figures (1 day, 99% confidence level)

The tables below show the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity and Company operate. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2018			2017		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
	CONSOLIDATED					
Equities	7.18	10.90	2.60	9.65	12.65	5.23
Interest rates	3.86	5.67	2.68	5.55	8.57	3.27
Foreign exchange and bullion	1.73	3.30	0.71	2.12	4.26	0.69
Commodities	7.78	13.73	3.47	6.78	15.70	3.78
Aggregate	10.62	14.58	7.92	11.66	19.22	6.56
	COMPANY					
	2018			2017		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
Equities	6.85	10.21	2.42	9.43	12.34	4.94
Interest rates	3.73	5.55	2.71	5.57	8.65	3.21
Foreign exchange and bullion	2.18	5.18	0.83	2.27	4.97	0.94
Commodities	8.43	15.62	5.76	8.28	11.18	5.89
Aggregate	11.34	16.49	8.61	13.74	19.90	9.23

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#### Market risk *continued*

##### *Value-at-Risk*

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99% level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

##### *Non-traded market risk*

The Consolidated Entity and the Company have exposure to non-traded market risks arising from transactions entered into during its normal course of business and as a result of its investments in foreign operations. These risks include:

- **Interest rate:** changes in the level, shape and volatility of yield curves, and/or client behaviour given these changes
- **Foreign exchange:** changes in the spot exchange rates

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

##### *Foreign currency risk*

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally. Those with the most impact on the sensitivity analysis below are United States dollar, Great British pound, Euro and Canadian dollar as shown below.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

##### *Investments in foreign operations*

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the *Foreign Exchange Hedging Policy* of the Consolidated Entity is to reduce the sensitivity of regulatory capital ratios to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital. This aligns the currency of capital supply with capital requirements.

As a result of this foreign exchange policy, the Consolidated Entity is therefore partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Apart from this there is no material non-trading foreign exchange risk in the income statement.

##### *Accounting considerations arising from hedging activities*

The use of derivative instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting set out in Note 1 (xi) and (xii).

	2018		2017	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
			CONSOLIDATED	
United States dollar	+10	(366)	+10	(368)
Great British pound	+10	(82)	+10	(73)
Euro	+10	(38)	+10	(33)
Canadian dollar	+10	(13)	+10	(13)
<b>Total</b>		<b>(499)</b>		<b>(487)</b>
United States dollar	-10	448	-10	450
Great British pound	-10	100	-10	90
Euro	-10	16	-10	40
Canadian dollar	-10	46	-10	15
<b>Total</b>		<b>610</b>		<b>595</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 36.3

##### Market risk *continued*

##### Equity price risk

The tables below indicate the equity markets to which the Consolidated Entity and the Company had significant exposure at 31 March on their non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement (as a result of a change in the fair value of financial assets designated at fair value) due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic Region	2018			2017		
	Movement in equity price %	Sensitivity of profit after tax \$m	Sensitivity of equity after tax \$m	Movement in equity price %	Sensitivity of profit after tax \$m	Sensitivity of equity after tax \$m
	CONSOLIDATED					
<b>Listed</b>						
Australia	+10	–	1	+10	–	3
Americas	+10	2	–	+10	2	1
Europe, Middle East and Africa	+10	–	–	+10	1	–
<b>Unlisted</b>	+10	–	4	+10	1	41
<b>Total</b>		2	5		4	45
<b>Listed</b>						
Australia	-10	–	(1)	-10	–	(3)
Americas	-10	(2)	–	-10	(2)	(1)
Europe, Middle East and Africa	-10	–	–	-10	(1)	–
<b>Unlisted</b>	-10	–	(4)	-10	(1)	(41)
<b>Total</b>		(2)	(5)		(4)	(45)
	COMPANY					
<b>Listed</b>						
Australia	+10	–	1	+10	1	3
Americas	+10	–	–	+10	–	–
Europe, Middle East and Africa	+10	–	–	+10	1	–
<b>Unlisted</b>	+10	–	2	+10	1	33
<b>Total</b>		–	3		3	36
<b>Listed</b>						
Australia	-10	–	(1)	-10	(1)	(3)
Americas	-10	–	–	-10	–	–
Europe, Middle East and Africa	-10	–	–	-10	(1)	–
<b>Unlisted</b>	-10	–	(2)	-10	(1)	(33)
<b>Total</b>		–	(3)		(3)	(36)

#### NOTE 37

##### Fair value of financial assets and financial liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

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## NOTE 37

### Fair value of financial assets and financial liabilities *continued*

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair value management* requires use of the price within the bid-offer spread that is most representative of fair value. Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements included within receivables from financial institutions and payables to financial institutions, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments, and
- in the financial statements of the Consolidated Entity, the fair value of balances due from/to related body corporate entities is approximated by their carrying amount as the balances are generally receivable/payable on demand.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are measured at fair value:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- investment securities classified as available for sale are measured at fair value by reference to active quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gain and loss, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (for example for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation.

The fair values calculated for financial assets which are carried in the statement of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described below, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.



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#### NOTE 37

##### Fair value of financial assets and financial liabilities continued

The following table summarises the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Company. Fair values are calculated for disclosure purpose only.

	2018		2017	
	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
	CONSOLIDATED			
<b>Assets</b>				
Receivables from financial institutions	36,629	36,629	25,565	25,564
Other financial assets <sup>(1)</sup>	6,839	6,839	5,931	5,931
Loan assets held at amortised cost	80,143	80,414	75,550	75,937
Due from related body corporate entities	1,383	1,383	1,733	1,733
<b>Total assets</b>	<b>124,994</b>	<b>125,265</b>	<b>108,779</b>	<b>109,165</b>
<b>Liabilities</b>				
Deposits	59,379	59,395	57,682	57,696
Other financial liabilities <sup>(2)</sup>	5,326	5,326	6,077	6,077
Payables to financial institutions	11,653	11,687	14,236	14,293
Due to related body corporate entities	13,993	13,993	7,367	7,367
Debt issued at amortised cost	39,685	39,918	43,137	43,302
Loan capital	4,256	4,422	4,615	4,775
<b>Total liabilities</b>	<b>134,292</b>	<b>134,741</b>	<b>133,114</b>	<b>133,510</b>
	COMPANY			
<b>Assets</b>				
Receivables from financial institutions	35,085	35,085	23,907	23,907
Other financial assets <sup>(3)</sup>	4,524	4,524	4,498	4,402
Loan assets held at amortised cost	54,542	54,670	52,680	52,850
Due from related body corporate entities	1,212	1,212	1,535	1,535
Due from subsidiaries	27,841	27,841	31,071	31,071
<b>Total assets</b>	<b>123,204</b>	<b>123,332</b>	<b>113,691</b>	<b>113,765</b>
<b>Liabilities</b>				
Deposits	57,919	57,936	56,298	56,313
Other financial liabilities <sup>(4)</sup>	4,135	4,135	4,856	4,856
Payables to financial institutions	9,011	9,041	11,212	11,259
Due to related body corporate entities	11,830	11,830	5,959	5,959
Due to subsidiaries	10,549	10,549	17,480	17,480
Debt issued at amortised cost	30,674	30,914	29,691	29,882
Loan capital	4,256	4,422	4,615	4,775
<b>Total liabilities</b>	<b>128,374</b>	<b>128,827</b>	<b>130,111</b>	<b>130,524</b>

(1) Excludes other non-financial assets of \$1,800 million (2017: \$1,993 million) and Life investment linked contracts and other unitholder assets of \$648 million (2017: \$722 million) which are included in Note 9 – Other assets.

(2) Excludes other non-financial liabilities of \$2,879 million (2017: \$2,584 million) and Life investment linked contracts and other unitholder liabilities of \$640 million (2017: \$714 million) which are included in Note 20 – Other liabilities.

(3) Excludes other non-financial assets of \$1,059 million (2017: \$681 million) which are included in Note 9 – Other assets.

(4) Excludes other non-financial liabilities of \$1,577 million (2017: \$1,360 million) which are included in Note 20 – Other liabilities.

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**NOTE 37****Fair value of financial assets and financial liabilities continued**

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>CONSOLIDATED 2018</b>				
<b>Assets</b>				
Receivables from financial institutions	7,830	28,799	–	36,629
Other financial assets	–	6,839	–	6,839
Loan assets held at amortised cost	7,973	8,272	64,169	80,414
Due from related body corporate entities	–	1,383	–	1,383
<b>Total assets</b>	<b>15,803</b>	<b>45,293</b>	<b>64,169</b>	<b>125,265</b>
<b>Liabilities</b>				
Deposits	51,624	7,771	–	59,395
Other financial liabilities	–	5,326	–	5,326
Payables to financial institutions	2,024	7,547	2,116	11,687
Due to related body corporate entities	–	13,993	–	13,993
Debt issued at amortised cost	–	35,001	4,917	39,918
Loan capital	1,377	3,045	–	4,422
<b>Total liabilities</b>	<b>55,025</b>	<b>72,683</b>	<b>7,033</b>	<b>134,741</b>
<b>CONSOLIDATED 2017</b>				
<b>Assets</b>				
Receivables from financial institutions	7,637	17,927	–	25,564
Other financial assets	–	5,931	–	5,931
Loan assets held at amortised cost	7,268	7,035	61,634	75,937
Due from related body corporate entities	–	1,733	–	1,733
<b>Total assets</b>	<b>14,905</b>	<b>32,626</b>	<b>61,634</b>	<b>109,165</b>
<b>Liabilities</b>				
Deposits	50,552	7,144	–	57,696
Other financial liabilities	–	6,077	–	6,077
Payables to financial institutions	1,046	10,779	2,468	14,293
Due to related body corporate entities	–	7,367	–	7,367
Debt issued at amortised cost	–	37,339	5,963	43,302
Loan capital	1,743	3,032	–	4,775
<b>Total liabilities</b>	<b>53,341</b>	<b>71,738</b>	<b>8,431</b>	<b>133,510</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 37

##### Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
COMPANY 2018				
<b>Assets</b>				
Receivables from financial institutions	6,626	28,459	–	35,085
Other financial assets	–	4,524	–	4,524
Loan assets held at amortised cost	4,871	3,921	45,878	54,670
Due from related body corporate entities	–	1,212	–	1,212
Due from subsidiaries	–	27,841	–	27,841
<b>Total assets</b>	<b>11,497</b>	<b>65,957</b>	<b>45,878</b>	<b>123,332</b>
<b>Liabilities</b>				
Deposits	50,174	7,762	–	57,936
Other financial liabilities	–	4,135	–	4,135
Payables to financial institutions	2,022	7,019	–	9,041
Due to related body corporate entities	–	11,830	–	11,830
Due to subsidiaries	–	10,549	–	10,549
Debt issued at amortised cost	–	30,914	–	30,914
Loan capital	1,378	3,044	–	4,422
<b>Total liabilities</b>	<b>53,574</b>	<b>75,253</b>	<b>–</b>	<b>128,827</b>
COMPANY 2017				
<b>Assets</b>				
Receivables from financial institutions	6,173	17,734	–	23,907
Other financial assets	–	4,402	–	4,402
Loan assets held at amortised cost	4,877	3,679	44,294	52,850
Due from related body corporate entities	–	1,535	–	1,535
Due from subsidiaries	–	31,071	–	31,071
<b>Total assets</b>	<b>11,050</b>	<b>58,421</b>	<b>44,294</b>	<b>113,765</b>
<b>Liabilities</b>				
Deposits	49,182	7,131	–	56,313
Other financial liabilities	–	4,856	–	4,856
Payables to financial institutions	1,046	10,213	–	11,259
Due to related body corporate entities	–	5,959	–	5,959
Due to subsidiaries	–	17,480	–	17,480
Debt issued at amortised cost	–	29,882	–	29,882
Loan capital	1,743	3,032	–	4,775
<b>Total liabilities</b>	<b>51,971</b>	<b>78,553</b>	<b>–</b>	<b>130,524</b>

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**NOTE 37****Fair value of financial assets and financial liabilities continued**

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
CONSOLIDATED 2018				
<b>Assets</b>				
Trading portfolio assets	10,015	4,709	170	14,894
Derivative assets	451	11,628	616	12,695
Investment securities available for sale	3,923	1,279	120	5,322
Other financial assets at fair value through profit or loss	2	687	18	707
Other financial assets <sup>(1)</sup>	31	616	1	648
<b>Total assets</b>	<b>14,422</b>	<b>18,919</b>	<b>925</b>	<b>34,266</b>
<b>Liabilities</b>				
Trading portfolio liabilities	6,377	1,561	–	7,938
Derivative liabilities	632	10,810	346	11,788
Other debt issued at fair value through profit or loss	–	1,986	6	1,992
Other financial liabilities <sup>(2)</sup>	–	639	1	640
<b>Total liabilities</b>	<b>7,009</b>	<b>14,996</b>	<b>353</b>	<b>22,358</b>
CONSOLIDATED 2017				
<b>Assets</b>				
Trading portfolio assets	17,923	8,386	328	26,637
Derivative assets	770	10,949	348	12,067
Investment securities available for sale	3,176	1,628	378	5,182
Other financial assets at fair value through profit or loss	5	742	13	760
Other financial assets <sup>(1)</sup>	24	691	7	722
<b>Total assets</b>	<b>21,898</b>	<b>22,396</b>	<b>1,074</b>	<b>45,368</b>
<b>Liabilities</b>				
Trading portfolio liabilities	3,105	1,817	–	4,922
Derivative liabilities	686	10,214	201	11,101
Other debt issued at fair value through profit or loss	–	1,877	57	1,934
Other financial liabilities <sup>(2)</sup>	–	707	7	714
<b>Total liabilities</b>	<b>3,791</b>	<b>14,615</b>	<b>265</b>	<b>18,671</b>

(1) This balance represents \$648 million (2017: \$722 million) of life investment linked contracts and other unitholder assets which are included in Note 9 – Other assets.

(2) This balance represents \$640 million (2017: \$714 million) of life investment linked contracts and other unitholder liabilities which are included in Note 20 – Other liabilities.

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#### NOTE 37

#### Fair value of financial assets and financial liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
COMPANY 2018				
<b>Assets</b>				
Trading portfolio assets	9,175	2,518	130	11,823
Derivative assets	445	9,945	278	10,668
Investment securities available for sale	3,920	1,151	87	5,158
Other financial assets at fair value through profit or loss	2	525	15	542
<b>Total assets</b>	<b>13,542</b>	<b>14,139</b>	<b>510</b>	<b>28,191</b>
<b>Liabilities</b>				
Trading portfolio liabilities	6,703	1,583	–	8,286
Derivative liabilities	483	9,429	131	10,043
Other debt issued at fair value through profit or loss	–	1,833	6	1,839
<b>Total liabilities</b>	<b>7,186</b>	<b>12,845</b>	<b>137</b>	<b>20,168</b>
COMPANY 2017				
<b>Assets</b>				
Trading portfolio assets	14,398	5,972	239	20,609
Derivative assets	759	9,796	233	10,788
Investment securities available for sale	3,128	1,418	255	4,801
Other financial assets at fair value through profit or loss	5	579	10	594
<b>Total assets</b>	<b>18,290</b>	<b>17,765</b>	<b>737</b>	<b>36,792</b>
<b>Liabilities</b>				
Trading portfolio liabilities	3,233	1,910	–	5,143
Derivative liabilities	549	9,612	119	10,280
Other debt issued at fair value through profit or loss	–	3,865	56	3,921
<b>Total liabilities</b>	<b>3,782</b>	<b>15,387</b>	<b>175</b>	<b>19,344</b>

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**NOTE 37****Fair value of financial assets and financial liabilities continued****Reconciliation of balances in Level 3 of the fair value hierarchy**

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Company for the financial years ended 31 March 2018 and 31 March 2017:

	Trading portfolio assets \$m	Investment securities available for sale \$m	Other financial assets at fair value through profit or loss \$m	Other financial assets \$m	Other debt issued at fair value through profit or loss \$m	Other financial liabilities \$m	Derivative financial instru- ments (net replace- ment values) <sup>(2)</sup> \$m	Total \$m
CONSOLIDATED 2017								
<b>Balance as at 1st April 2016</b>	759	604	18	79	(54)	(7)	201	1,600
Purchases	217	67	–	–	–	–	91	375
Sales	(488)	(21)	(5)	(72)	–	–	(124)	(710)
Settlements	–	(162)	–	–	–	–	–	(162)
Transfers into Level 3	59	–	–	–	–	–	8	67
Transfers out of Level 3	(217)	(12)	–	–	–	–	(29)	(258)
Fair value losses recognised in the income statement <sup>(1)</sup>	(2)	(11)	–	–	(3)	–	–	(16)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(87)	–	–	–	–	–	(87)
<b>Balance as at 31 March 2017</b>	328	378	13	7	(57)	(7)	147	809
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	2	–	–	–	(5)	–	(2)	(5)
CONSOLIDATED 2018								
<b>Balance as at 1st April 2017</b>	328	378	13	7	(57)	(7)	147	809
Purchases	60	11	13	–	–	–	175	259
Sales	(285)	(221)	(8)	(6)	51	6	(12)	(475)
Settlements	–	(39)	–	–	–	–	–	(39)
Transfers into Level 3	68	31	–	–	–	–	4	103
Transfers out of Level 3	(2)	(15)	–	–	–	–	(5)	(22)
Fair value gains/(losses) recognised in the income statement <sup>(1)</sup>	1	(1)	–	–	–	–	(39)	(39)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(24)	–	–	–	–	–	(24)
<b>Balance as at 31 March 2018</b>	170	120	18	1	(6)	(1)	270	572
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	1	–	10	–	–	–	(39)	(28)

(1) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gain and loss for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gain and loss arising on economic hedging instruments classified in Level 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$616 million (2017: \$348 million) and derivative liabilities are \$346 million (2017: \$201 million).



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#### NOTE 37

#### Fair value of financial assets and financial liabilities continued

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

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and the Company for the financial years ended 31 March 2018 and 31 March 2017:

	Trading portfolio assets \$m	Investment securities available for sale \$m	Other financial assets at fair value through profit or loss \$m	Other financial assets \$m	Other debt issued at fair value through profit or loss \$m	Derivative financial instru- ments (net replace- ment values) <sup>(2)</sup> \$m	Total \$m
COMPANY 2017							
<b>Balance at 1st April 2016</b>	290	296	15	72	(54)	238	857
Purchases	160	67	–	–	–	73	300
Sales	(249)	(21)	(5)	(72)	3	(190)	(534)
Settlements	–	(1)	–	–	–	–	(1)
Transfers into Level 3	59	–	–	–	–	4	63
Transfers out of Level 3	(17)	(11)	–	–	–	(8)	(36)
Fair value losses recognised in the income statement <sup>(1)</sup>	(4)	(23)	–	–	(5)	(3)	(35)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(52)	–	–	–	–	(52)
<b>Balance at 31 March 2017</b>	239	255	10	–	(56)	114	562
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	1	–	–	–	(5)	(3)	(7)
COMPANY 2018							
<b>Balance at 1st April 2017</b>	239	255	10	–	(56)	114	562
Purchases	37	10	11	–	–	101	159
Sales	(207)	(126)	(6)	–	51	(14)	(302)
Settlements	–	(39)	–	–	–	–	(39)
Transfers into Level 3	68	20	–	–	–	–	88
Transfers out of Level 3	(2)	(18)	–	–	(1)	4	(17)
Fair value losses recognised in the income statement <sup>(1)</sup>	(5)	(1)	–	–	–	(58)	(64)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(14)	–	–	–	–	(14)
<b>Balance at 31 March 2018</b>	130	87	15	–	(6)	147	373
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	(5)	–	10	–	–	(58)	(53)

- (1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gain and loss for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gain and loss arising on economic hedging instruments classified in Levels 1 and/or 2.
- (2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$278 million (2017: \$233 million) and derivative liabilities are \$131 million (2017: \$119 million).

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**NOTE 37****Fair value of financial assets and financial liabilities continued****Significant transfers between levels of the fair value hierarchy**

During the financial year the Consolidated Entity and the Company did not have significant transfers between Level 1 and Level 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year. Transfers between levels are deemed to have occurred as of the beginning of the reporting period in which the instruments have transferred.

**Unrecognised gains**

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity and the Company recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Balance at the beginning of the financial year</b>	<b>185</b>	153	<b>143</b>	124
Deferral on new transactions	<b>34</b>	88	<b>24</b>	63
Amounts recognised in the income statement during the financial year	<b>(41)</b>	(56)	<b>(23)</b>	(44)
<b>Balance at the end of the financial year</b>	<b>178</b>	185	<b>144</b>	143

**Sensitivity analysis of valuations using unobservable inputs**

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
CONSOLIDATED 2018				
<b>Product type</b>				
Equity and equity linked products	<b>1</b>	<b>7</b>	<b>(1)</b>	<b>(4)</b>
Commodities and other products	<b>64</b>	–	<b>(68)</b>	–
<b>Total</b>	<b>65</b>	<b>7</b>	<b>(69)</b>	<b>(4)</b>
CONSOLIDATED 2017				
<b>Product type</b>				
Equity and equity linked products	3	16	(3)	(9)
Commodities and other products	77	–	(100)	–
<b>Total</b>	<b>80</b>	<b>16</b>	<b>(103)</b>	<b>(9)</b>
COMPANY 2018				
<b>Product type</b>				
Equity and equity linked products	–	<b>6</b>	–	<b>(2)</b>
Commodities and other products	<b>41</b>	–	<b>(47)</b>	–
<b>Total</b>	<b>41</b>	<b>6</b>	<b>(47)</b>	<b>(2)</b>
COMPANY 2017				
<b>Product type</b>				
Equity and equity linked products	2	9	(2)	(2)
Commodities and other products	41	–	(63)	–
<b>Total</b>	<b>43</b>	<b>9</b>	<b>(65)</b>	<b>(2)</b>

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#### NOTE 37

#### Fair value of financial assets and financial liabilities continued

##### Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

					RANGE OF INPUTS	
					Minimum value	Maximum value
	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs		
					CONSOLIDATED 2018	
Equity and equity linked products	101	29	Market comparability	Price in %(1)		
Commodities and other products	824	324	Pricing model	Volatility	5.00%	106.0%
				Correlation	(40.0%)	100%
			Market comparability	Price in %(1)		
Total	925	353				
CONSOLIDATED 2017						
Equity and equity linked products	281	20	Market comparability	Price in %(1)		
Commodities and other products	793	245	Pricing model	Volatility	6.0%	108.0%
				Correlation	(40.0%)	100.0%
			Market comparability	Price in %(1)		
Total	1,074	265				

(1) The range of inputs relating to market comparability is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

##### Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

##### Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

##### Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple, discount rate and forecast earnings of the investee companies.

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## NOTE 38

### Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis in the statement of financial position when they meet the criteria described in Note 1(xxvi) – Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's and Company's financial position in that circumstance is to settle as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended represent the credit risk exposure of the entity, refer to Note 36.1 – Credit risk for information on credit risk management.

#### AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS

	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(7)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforce- able netting arrange- ments \$m	Statement of financial position total \$m
CONSOLIDATED 2018								
Receivables from financial institutions <sup>(1)</sup>	28,999	(1,099)	27,900	(1,664)	(25,772)	464	8,729	36,629
Derivative assets	17,811	(6,046)	11,765	(6,588)	(2,036)	3,141	930	12,695
Other assets <sup>(2)</sup>	3,780	(2,538)	1,242	(17)	–	1,225	6,245	7,487
Other financial assets at fair value through profit or loss	373	(244)	129	–	–	129	578	707
Due from related body corporate entities	11,582	(10,368)	1,214	–	–	1,214	169	1,383
<b>Total assets</b>	<b>62,545</b>	<b>(20,295)</b>	<b>42,250</b>	<b>(8,269)</b>	<b>(27,808)</b>	<b>6,173</b>	<b>16,651</b>	<b>58,901</b>
Derivative liabilities	(17,069)	6,046	(11,023)	6,588	2,156	(2,279)	(765)	(11,788)
Deposits	(273)	244	(29)	–	–	(29)	(59,350)	(59,379)
Other liabilities <sup>(3)</sup>	(3,315)	2,538	(777)	17	–	(760)	(5,189)	(5,966)
Payables to financial institutions <sup>(4)</sup>	(6,461)	1,099	(5,362)	1,664	3,382	(316)	(6,291)	(11,653)
Due to related body corporate entities	(24,274)	10,368	(13,906)	–	–	(13,906)	(87)	(13,993)
<b>Total liabilities</b>	<b>(51,392)</b>	<b>20,295</b>	<b>(31,097)</b>	<b>8,269</b>	<b>5,538</b>	<b>(17,290)</b>	<b>(71,682)</b>	<b>(102,799)</b>

(1) Includes reverse repurchase arrangements and other similar secured lending.

(2) Excludes other non-financial assets of \$1,800 million which is included in Note 9 – Other assets.

(3) Excludes other non-financial liabilities of \$2,879 million which is included in Note 20 – Other liabilities.

(4) Includes repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 38

#### Offsetting financial assets and financial liabilities continued

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(7)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
CONSOLIDATED 2017								
Receivables from financial institutions <sup>(1)</sup>	17,464	–	17,464	(1,069)	(16,131)	264	8,101	25,565
Derivative assets	16,859	(5,339)	11,520	(6,651)	(2,754)	2,115	547	12,067
Other assets <sup>(2)</sup>	4,187	(2,328)	1,859	(29)	–	1,830	4,794	6,653
Other financial assets at fair value through profit or loss	442	(314)	128	–	–	128	632	760
Due from related body corporate entities	10,748	(9,206)	1,542	–	–	1,542	191	1,733
<b>Total assets</b>	<b>49,700</b>	<b>(17,187)</b>	<b>32,513</b>	<b>(7,749)</b>	<b>(18,885)</b>	<b>5,879</b>	<b>14,265</b>	<b>46,778</b>
Derivative liabilities	(15,334)	5,339	(9,995)	6,651	2,343	(1,001)	(1,106)	(11,101)
Deposits	(246)	219	(27)	–	–	(27)	(57,655)	(57,682)
Other liabilities <sup>(3)</sup>	(4,017)	2,328	(1,689)	29	–	(1,660)	(5,102)	(6,791)
Payables to financial institutions <sup>(4)</sup>	(6,884)	–	(6,884)	1,069	5,565	(250)	(7,352)	(14,236)
Other debt issued at fair value through profit or loss	(97)	95	(2)	–	–	(2)	(1,932)	(1,934)
Due to related body corporate entities	(16,509)	9,206	(7,303)	–	–	(7,303)	(64)	(7,367)
<b>Total liabilities</b>	<b>(43,087)</b>	<b>17,187</b>	<b>(25,900)</b>	<b>7,749</b>	<b>7,908</b>	<b>(10,243)</b>	<b>(73,211)</b>	<b>(99,111)</b>

(1) Includes reverse repurchase arrangements and other similar secured lending.

(2) Excludes other non-financial assets of \$1,993 million which is included in Note 9 – Other assets.

(3) Excludes other non-financial liabilities of \$2,584 million which is included in Note 20 – Other liabilities.

(4) Includes repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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**NOTE 38****Offsetting financial assets and financial liabilities continued****AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS**

	<b>SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION</b>			<b>RELATED AMOUNTS NOT OFFSET<sup>(7)</sup></b>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforce- able netting arrange- ments \$m	Statement of financial position total \$m
	COMPANY 2018							
Receivables from financial institutions <sup>(1)</sup>	28,650	(1,099)	27,551	(1,632)	(25,455)	464	7,534	35,085
Derivative assets	15,009	(5,090)	9,919	(5,549)	(1,714)	2,656	749	10,668
Other assets <sup>(2)</sup>	3,179	(2,154)	1,025	–	–	1,025	3,499	4,524
Other financial assets at fair value through profit or loss	372	(244)	128	–	–	128	414	542
Due from related body corporate entities	10,602	(9,535)	1,067	–	–	1,067	145	1,212
Due from subsidiaries	46,475	(21,502)	24,973	–	–	24,973	2,868	27,841
<b>Total assets</b>	<b>104,287</b>	<b>(39,624)</b>	<b>64,663</b>	<b>(7,181)</b>	<b>(27,169)</b>	<b>30,313</b>	<b>15,209</b>	<b>79,872</b>
Derivative liabilities	(14,385)	5,090	(9,295)	5,549	1,815	(1,931)	(748)	(10,043)
Deposits	(273)	244	(29)	–	–	(29)	(57,890)	(57,919)
Other liabilities <sup>(3)</sup>	(2,812)	2,154	(658)	–	–	(658)	(3,477)	(4,135)
Payables to financial institutions <sup>(4)</sup>	(6,403)	1,099	(5,304)	1,632	3,356	(316)	(3,707)	(9,011)
Due to related body corporate entities	(21,294)	9,535	(11,759)	–	–	(11,759)	(71)	(11,830)
Due to subsidiaries	(27,656)	21,502	(6,154)	–	–	(6,154)	(4,395)	(10,549)
<b>Total liabilities</b>	<b>(72,823)</b>	<b>39,624</b>	<b>(33,199)</b>	<b>7,181</b>	<b>5,171</b>	<b>(20,847)</b>	<b>(70,288)</b>	<b>(103,487)</b>

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.

(2) This balance excludes other non-financial assets of \$1,059 million which is included in Note 9 – Other assets.

(3) This balance excludes other non-financial liabilities of \$1,577 million which is included in Note 20 – Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.



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#### NOTE 38

#### Offsetting financial assets and financial liabilities continued

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(7)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
COMPANY 2017								
Receivables from financial institutions <sup>(1)</sup>	17,249	–	17,249	(1,057)	(15,928)	264	6,658	23,907
Derivative assets	15,138	(4,792)	10,346	(5,972)	(2,472)	1,902	442	10,788
Other assets <sup>(2)</sup>	3,756	(2,116)	1,640	–	–	1,640	2,858	4,498
Other financial assets at fair value through profit or loss	346	(219)	127	–	–	127	467	594
Due from related body corporate entities	9,709	(8,354)	1,355	–	–	1,355	180	1,535
Due from subsidiaries	45,233	(17,222)	28,011	–	–	28,011	3,060	31,071
<b>Total assets</b>	<b>91,431</b>	<b>(32,703)</b>	<b>58,728</b>	<b>(7,029)</b>	<b>(18,400)</b>	<b>33,299</b>	<b>13,665</b>	<b>72,393</b>
Derivative liabilities	(13,721)	4,792	(8,929)	5,972	2,103	(854)	(1,351)	(10,280)
Deposits	(246)	219	(27)	–	–	(27)	(56,271)	(56,298)
Other liabilities <sup>(3)</sup>	(3,565)	2,116	(1,449)	–	–	(1,449)	(3,407)	(4,856)
Payables to financial institutions <sup>(4)</sup>	(6,831)	–	(6,831)	1,057	5,526	(248)	(4,381)	(11,212)
Due to related body corporate entities	(14,263)	8,354	(5,909)	–	–	(5,909)	(50)	(5,959)
Due to subsidiaries	(28,240)	17,222	(11,018)	–	–	(11,018)	(6,462)	(17,480)
<b>Total liabilities</b>	<b>(66,866)</b>	<b>32,703</b>	<b>(34,163)</b>	<b>7,029</b>	<b>7,629</b>	<b>(19,505)</b>	<b>(71,922)</b>	<b>(106,085)</b>

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.

(2) This balance excludes other non-financial assets of \$681 million which is included in Note 9 – Other assets.

(3) This balance excludes other non-financial liabilities of \$1,360 million which is included in Note 20 – Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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## NOTE 39

### Transfers of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets recognised in the statement of financial position to other entities. Depending on the criteria discussed in Note 1 (ix) – Recognition and derecognition of financial assets and financial liabilities the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of continuing involvement.

#### *Transferred financial assets that are derecognised*

When financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. For the financial years ending 31 March 2018 and 31 March 2017, there were no material transfers of financial assets where the Consolidated Entity or Company retained continuing involvement in the transferred asset.

#### *Transferred financial assets that are not derecognised*

The Consolidated Entity and the Company did not recognise financial assets only to the extent of continuing involvement in the years ending 31 March 2018 and 31 March 2017. The following transactions typically result in the transferred assets continuing to be recognised in full.

### *Repurchase and securities lending agreements*

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised in the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the collateral is maintained.

### *Asset swaps*

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity and Company do not have legal rights to these assets but have full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

### *Interests in securitisations*

Financial assets (principally mortgage loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Company is entitled to any residual income of a securitisation vehicle, the Company continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

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#### NOTE 39

#### Transfers of financial assets *continued*

	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS				
	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	Fair Value of transferred assets \$m	Fair Value of associated liabilities \$m	Net Fair value \$m
CONSOLIDATED 2018					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	2,690	(2,654)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	517	(485)	–	–	–
<b>Other financial assets not derecognised:</b>					
Loan assets held at amortised cost	591	(610)	595	(613)	(18)
<b>Total financial assets not derecognised</b>	<b>3,798</b>	<b>(3,749)</b>	<b>595</b>	<b>(613)</b>	<b>(18)</b>
CONSOLIDATED 2017					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	4,812	(4,930)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	509	(475)	–	–	–
<b>Other financial assets not derecognised:</b>					
Loan assets held at amortised cost	457	(457)	467	(457)	10
<b>Total financial assets not derecognised</b>	<b>5,778</b>	<b>(5,862)</b>	<b>467</b>	<b>(457)</b>	<b>10</b>

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**NOTE 39****Transfers of financial assets continued**

The following table presents information about transfers of financial assets recognised by the Company as at 31 March 2018 and 31 March 2017:

	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS				
	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	Fair Value of transferred assets \$m	Fair Value of associated liabilities \$m	Net Fair value \$m
COMPANY 2018					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	2,690	(2,654)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	517	(485)	–	–	–
<b>Financial assets not derecognised due to securitisation:</b>					
Loan assets held at amortised cost	4,593	(4,593)	4,593	(4,600)	(7)
<b>Total financial assets not derecognised</b>	<b>7,800</b>	<b>(7,732)</b>	<b>4,593</b>	<b>(4,600)</b>	<b>(7)</b>
COMPANY 2017					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	4,812	(4,930)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	509	(475)	–	–	–
<b>Financial assets not derecognised due to other:</b>					
Loan assets held at amortised cost	241	(241)	241	(241)	–
<b>Financial assets not derecognised due to securitisation:</b>					
Loan assets held at amortised cost <sup>(1)</sup>	7,136	(7,136)	7,136	(7,112)	24
<b>Total financial assets not derecognised</b>	<b>12,698</b>	<b>(12,782)</b>	<b>7,377</b>	<b>(7,353)</b>	<b>24</b>

(1) Excludes \$15,899 million (2017: \$16,950 million) of securitised assets where the Company holds all of the notes issued from trusts.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 40

##### Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity and the Company, PwC, and its network firms earned the following remuneration:

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>PwC – Australia</b>				
Audit of the Group and controlled entities	<b>8,781</b>	7,659	<b>7,597</b>	6,627
Other assurance services <sup>(1)</sup>	<b>3,658</b>	2,729	<b>713</b>	1,060
Advisory services	<b>214</b>	32	–	–
Taxation	<b>11</b>	168	–	–
<b>Total non-audit services</b>	<b>3,883</b>	2,929	<b>713</b>	1,060
<b>Total remuneration paid to PwC Australia</b>	<b>12,664</b>	10,588	<b>8,310</b>	7,687
<b>Network firms of PwC Australia</b>				
Audit of the Group and controlled entities	<b>8,180</b>	9,342	<b>2,070</b>	2,364
Other assurance services <sup>(1)</sup>	<b>299</b>	161	–	–
Advisory services	<b>604</b>	268	–	–
Taxation	<b>682</b>	1,293	–	–
<b>Total non-audit services</b>	<b>1,585</b>	1,722	–	–
<b>Total remuneration paid to network firms of PwC Australia</b>	<b>9,765</b>	11,064	<b>2,070</b>	2,364
<b>Total Audit Services remuneration paid to PwC</b>	<b>16,961</b>	17,001	<b>9,667</b>	8,991
<b>Total Non-Audit Services remuneration paid to PwC</b>	<b>5,468</b>	4,651	<b>713</b>	1,060
<b>Total remuneration paid to PwC (Note 2)</b>	<b>22,429</b>	21,652	<b>10,380</b>	10,051

(1) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include regulatory compliance, accounting advice, comfort letters on debt issuance programs, certifications, due diligence and reviews of controls and other agreed upon procedures.

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects.

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## NOTE 41

### Acquisitions and disposals of subsidiaries and businesses

#### **Significant entities or businesses acquired or consolidated due to acquisition of control:**

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the financial year.

#### **Other entities or businesses acquired or consolidated due to acquisition of control:**

Cargill, Inc.'s North American natural gas and electricity business (Cargill North American Power and Gas), PropertyIQ Pty. Ltd, PropertyIQ Strata Pty. Ltd., ADL Software Pty Ltd.

There were no significant or other entities or businesses consolidated due to acquisition of control in the 31 March 2017 comparatives.

Aggregate details of the entities and businesses acquired or consolidated due to acquisition of control are as follows:

	2018 \$m	2017 \$m
<b>Fair value of net assets acquired</b>		
Other intangible assets	62	–
Other financial assets	85	–
Payables, provisions, borrowings and other liabilities	(2)	–
Non-controlling interests	(1)	–
<b>Total fair value of net assets acquired</b>	<b>144</b>	<b>–</b>
<b>Goodwill recognised on acquisition</b>	<b>18</b>	<b>–</b>
<b>Consideration</b>		
Cash consideration	162	–
<b>Total consideration</b>	<b>162</b>	<b>–</b>
<b>Net cash flow</b>		
Cash consideration	(162)	–
<b>Net cash outflow</b>	<b>(162)</b>	<b>–</b>



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 41

##### Acquisitions and disposals of subsidiaries and businesses *continued*

##### *Significant entities or businesses disposed of or deconsolidated due to loss of control:*

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

##### *Other entities or businesses disposed of or deconsolidated due to loss of control:*

Advantage Funding Management Co. Inc., Levantera Development Limited and Macquarie Financial Ltd.

During the financial year ended 31 March 2017, other entities or businesses disposed of or deconsolidated due to loss of control were:

Macquarie Life's risk insurance business, International Life Solutions Proprietary Limited and US Mortgages

Aggregate details of the entities or businesses disposed of or deconsolidated are as follows:

	2018 \$m	2017 \$m
<b>Carrying value of assets and liabilities disposed of or deconsolidated</b>		
Receivables from financial institutions	48	36
Property, plant and equipment	66	–
Other assets	31	131
Other financial assets	1,003	504
Payables, provisions, borrowings and other liabilities	(751)	(126)
<b>Total carrying value of net assets disposed of or deconsolidated</b>	<b>397</b>	<b>545</b>
<b>Consideration</b>		
Cash consideration (net of cost of disposal)	116	768
Consideration receivable	351	1
<b>Total consideration</b>	<b>467</b>	<b>769</b>
Direct costs relating to disposal	(2)	(21)
<b>Net cash flow</b>		
Cash consideration	116	768
Less: Cash and cash equivalents disposed of or deconsolidated	(48)	(36)
Cash outflow on direct costs related to disposal	–	(10)
<b>Net cash inflow</b>	<b>68</b>	<b>722</b>

#### NOTE 42

##### Events after the reporting date

There were no material events subsequent to 31 March 2018 that have not been reflected in the financial statements.

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## **MACQUARIE BANK LIMITED**

### **DIRECTORS' DECLARATION**


In the Directors' opinion:

- a) the financial statements and notes set out on pages 42 to 140 are in accordance with the *Corporations Act 2001* (Cth), including:
  - (i) complying with the Australian accounting standards, and
  - (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2018 and their performance for the financial year ended on that date, and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(i) includes a statement that the financial report complies with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth).

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



**Peter Warne**  
*Independent Director and Chairman*



**Mary Reemst**  
*Managing Director and Chief Executive Officer*

Sydney

4 May 2018



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACQUARIE BANK LIMITED

### REPORT ON THE AUDIT OF THE FINANCIAL REPORT

#### Our opinion

In our opinion:

The accompanying financial report of Macquarie Bank Limited (the Bank) and its controlled entities (together the Consolidated Entity) is in accordance with the *Corporations Act 2001* (Cth), including:

- (a) giving a true and fair view of the Bank's and the Consolidated Entity's financial position as at 31 March 2018 and of their financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

#### What we have audited

Macquarie Bank Limited financial report comprises:

- the Bank and the Consolidated Entity statements of financial position as at 31 March 2018
- the Bank and the Consolidated Entity income statements for the year then ended
- the Bank and the Consolidated Entity statements of comprehensive income for the year then ended
- the Bank and the Consolidated Entity statements of changes in equity for the year then ended
- the Bank and the Consolidated Entity statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies, and
- the directors' declaration.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### Independence

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

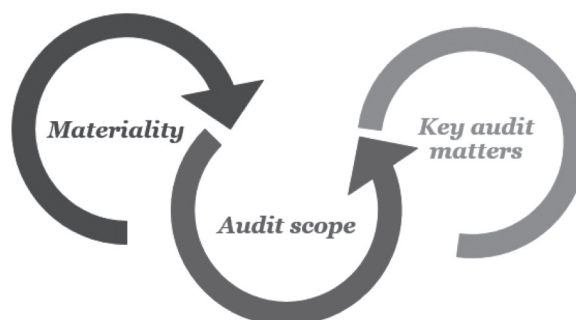
#### Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

The Consolidated Entity is structured into four global operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram, Jacksonville and Manila which undertake operational activities that are important to the financial reporting processes. The Consolidated Entity's financial report is a consolidation of the four global operating groups and the corporate segment.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management

structure of the Consolidated Entity, its accounting processes and controls and the industry in which it operates.



#### Consolidated Entity materiality

For the purpose of our Consolidated Entity audit we used overall materiality of \$105 million, which represents approximately 1% of the Consolidated Entity's net assets. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose net assets as the benchmark and, in our view, as the Consolidated Entity is a wholly owned subsidiary with listed debt, net assets represents an important benchmark against which the performance of the Consolidated Entity is measured by relevant stakeholders. We selected 1% based on our professional judgement, noting it is within the range of commonly accepted thresholds.

#### Consolidated Entity audit scope

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial report, including areas where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of key controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the four global operating groups and the corporate segment. These component audit teams established an audit strategy tailored for each operating group and the corporate segment, in consultation with the group audit team.

Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other PwC firms in overseas locations to perform audit procedures ranging from an audit of financial information to specified risk focussed audit procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn, instructed. As part of the overall

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supervision of our audit and to develop our understanding of the Consolidated Entity's global operations, the group audit team or the component audit teams also visited overseas locations, including Geneva, Gurugram, Hong Kong, Houston, Jacksonville, London, Manila, New York, San Francisco, Singapore and Tokyo.

The work performed by the component audit teams and the overseas audit teams, together with additional audit procedures performed by the group audit team such as procedures over the Consolidated Entity's consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity's financial report as a whole.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We have communicated the key audit matters to the Board Audit Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. The key audit matters identified below relate to both the Bank and the Consolidated Entity audits conducted.

Key audit matter	How our audit addressed the key audit matter
<b>Provisions for loan losses</b> <b>Refer to Note 10</b>	
<p>The Consolidated Entity holds both specific and collective impairment provisions over loan assets. Specific impairment provisions are created when the impairment of an individual loan is recognised. The collective impairment provision is intended to cover losses in the existing overall loan portfolio which have not yet been individually identified.</p> <p>The identification of loans that are deteriorating and the assessment of the present value of expected future cash flows from the loans in determining specific impairment provisions are inherently uncertain, involving various assumptions and judgments.</p> <p>In estimating the collective impairment provisions, judgement is required in the design of the models used and the selection of assumptions adopted, such as the estimate of the likelihood of default and the potential loss given default. A management overlay is also included in the overall collective provision to reflect emerging trends or particular situations which are not captured by these models.</p> <p>Given the extent of judgment involved, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and operating effectiveness of certain controls relating to the timely recognition and measurement of impairments for loan losses.</p> <p>For specific loan loss provisions, we examined a sample of individual loan exposures. We applied judgment in selecting this sample, including consideration of sectors that may pose an increased risk of uncertainty and certain geographic regions of the Australian property market. We also evaluated a sample of loan assets written off or disposed of to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately estimate specific loan loss provisions.</p> <p>For the collective provisions, assisted by our experts, we tested on a sample basis:</p> <ul style="list-style-type: none"> <li>– the appropriateness of the design and use of the models used by the Consolidated Entity, and</li> <li>– the appropriateness of the assumptions adopted and data used in the models, by using our knowledge of industry developments and the actual loss experience of the Consolidated Entity.</li> </ul> <p>We also examined and assessed the analysis performed by the Consolidated Entity in determining the management overlay.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>
<b>Valuation of financial assets and liabilities held at fair value</b> <b>Refer to Note 37</b>	
<p>The Consolidated Entity exercises judgement in valuing certain assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments.</p> <p>For the Consolidated Entity, these Level 3 financial instruments predominantly consist of derivatives and unlisted equity and debt investments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs.</p> <p>Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over:</p> <ul style="list-style-type: none"> <li>– approval and validation of the models adopted</li> <li>– accuracy of data feeds and inputs to models</li> <li>– the Consolidated Entity's process for testing valuations, and</li> <li>– governance and review.</li> </ul> <p>For derivatives, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations.</p> <p>For a sample of unlisted equity and debt investments, we assessed the appropriateness of the valuation methodologies applied, and assessed the sensitivity of the Consolidated Entity's valuations to alternative methodologies and assumptions where appropriate. We also evaluated a sample of disposals to assess, with the benefit of hindsight, the Consolidated Entity's ability to estimate fair values.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>



**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF MACQUARIE BANK LIMITED**  
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Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of assets</b>  <b>Refer to Note 2 and 13</b></p> <p>The Consolidated Entity holds certain assets where the recoverable amount is required to be considered under AASB 136. At year end, the Consolidated Entity considered whether there were any indicators that these assets might be impaired. Where indicators existed, the Consolidated Entity then compared carrying amounts of the relevant assets to the higher of their estimated value-in-use and fair value less costs of disposal in accordance with AASB 136.</p> <p>Value-in-use is the calculation of the net present value of the cash flows expected from the Consolidated Entity's use of an asset. This calculation requires an estimation of the expected future cash flows associated with the use of an asset and the determination of certain assumptions such as discount rates and growth rates.</p> <p>In respect of its portfolio of aircraft assets, the Consolidated Entity also obtained independent valuation reports for certain aircraft from external appraisers to assist in developing their estimates of the recoverable amounts of these assets.</p> <p>Given the extent of judgement required in respect of impairment of assets we considered this to be a key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>– updating our understanding of prevailing market conditions and factors that could materially affect the fair value and usage of the relevant assets, and considering whether these may represent indicators of impairment.</li> <li>– evaluating the appropriateness of the impairment assessment methodology and the assumptions applied in the value-in-use calculations, and</li> <li>– engaging PwC valuation experts where relevant.</li> </ul> <p>In respect of the aircraft assets, our procedures also included:</p> <ul style="list-style-type: none"> <li>– assessing the competency, capability and objectivity of external appraisers, as well as the appropriateness of methodologies and assumptions used by the appraisers, and</li> <li>– comparing the realised value of certain aircraft sold during the year against the carrying value to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately make estimates.</li> </ul> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>
<p><b>IT systems and controls over financial reporting</b></p> <p>The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include:</p> <ul style="list-style-type: none"> <li>– the framework of governance over IT systems</li> <li>– controls over program development and changes</li> <li>– access to programs, data and IT operations, and</li> <li>– governance over generic and privileged user accounts.</li> </ul> <p>Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.</p> <p>We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.</p> <p>When considered appropriate we performed alternative audit procedures on the financial information that was key to our audit testing produced by the IT systems.</p>
<p><b>Provisions for tax payable and deferred tax liabilities</b>  <b>Refer to Note 17 and 20</b></p> <p>The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid.</p> <p>Given the extent of judgement involved, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities.</p> <p>Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provisions for tax. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>

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Key audit matter	How our audit addressed the key audit matter
<p><b>Disclosure of the impact of AASB 9</b>  <b>Refer to Note 1</b></p> <p>On 1 April 2018 the Consolidated Entity transitioned to financial instruments accounting standard AASB 9 which replaced AASB 139. AASB 9 relates to impairment, classification and measurement of financial instruments and hedge accounting. Disclosure has been included in these 31 March 2018 financial statements which is intended to provide users with an understanding of the estimated transition impact of the new standard. As required, further disclosure will be included in the 2019 financial statements.</p> <p>Under the new AASB 9 impairment model, losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic environments. The complexity involved required the Consolidated Entity to develop new models involving the use of significant judgements, post model adjustments and a large increase in the data inputs required by these models.</p> <p>Separately, the standard introduces new requirements around the classification and measurement of financial instruments, and the qualifying criteria for hedge accounting.</p> <p>Given this is a new and complex accounting standard which requires considerable judgement, we considered the transition disclosure to be a key audit matter.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the impairment transition adjustment focusing on:</p> <ul style="list-style-type: none"> <li>– model development, validation and approval to support compliance with AASB 9 requirements</li> <li>– review and approval of key assumptions, judgements and forward looking information prior to use in the models</li> <li>– the integrity of data used as input into the models including the transfer of data between source systems and the models</li> <li>– review and approval of post model adjustments, and</li> <li>– review and approval of the output of the models and related transition impacts.</li> </ul> <p>We examined and assessed the ECL models developed by the Consolidated Entity, including using PwC credit modelling experts in our assessment of judgements and assumptions supporting the ECL requirements of AASB 9. We assessed the reasonableness of forward looking information incorporated into the impairment calculations by using PwC experts to challenge the multiple economic scenarios chosen by the Consolidated Entity and the weighting applied to capture non-linear losses. We assessed the post model adjustments in the context of key model and data limitations identified by the Consolidated Entity, considered their rationale and recalculated where necessary.</p> <p>We examined and assessed the controls and judgements relating to the classification and measurement of financial instruments.</p> <p>We also examined the controls and judgements relating to the designation and documentation of the eligible hedging relationships and their prospective hedging effectiveness. We assessed the appropriateness of the Consolidated Entity's transition disclosure in the financial statements.</p>





## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACQUARIE BANK LIMITED

CONTINUED

### Other information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 31 March 2018, including the Operating and Financial Review, Directors' Report, Additional Investor Information and Glossary, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

### Responsibilities of the directors for the financial report

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* (Cth) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

**PricewaterhouseCoopers**

**K.G. Smith**  
**Partner**

Sydney  
4 May 2018

### Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our audit report.

### REPORT ON THE REMUNERATION REPORT

#### Our opinion on the remuneration report

We have audited the remuneration report included in pages 24 to 40 of the Directors' Report for the year ended 31 March 2018.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2018 complies with section 300A of the *Corporations Act 2001* (Cth).

#### Responsibilities

The directors of the Bank are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Liability limited by a scheme approved under Professional Standards Legislation.

**PricewaterhouseCoopers, ABN 52 780 433 757**

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T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Additional investor information  
Glossary

A black and white photograph of a city skyline, likely New York City, viewed from an elevated position. In the foreground, a train is traveling along a track that runs parallel to a multi-lane highway. The highway has several cars, and the train has multiple cars visible. In the background, a dense urban skyline is visible under a cloudy sky. The Empire State Building is prominent on the left side of the skyline. The overall scene is in black and white, giving it a classic, urban feel.

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## FURTHER INFORMATION

## ADDITIONAL INVESTOR INFORMATION

### SHAREHOLDER CALENDAR 2018

Date	Event
16 July	Payment date for MIS distribution
26 July	AGM
24 September	Payment date for BCN distribution
30 September	Financial half-year end
15 October	Payment date for MIS distribution
2 November <sup>(1)</sup>	Half-year result announcement

(1) These dates are subject to change.

### 2019

Date	Event
15 January	Payment date for MIS distribution
25 March	Payment date for BCN distribution
31 March	Financial year end
15 April	Payment date for MIS distribution

### 2018 ANNUAL GENERAL MEETING

Macquarie Bank Limited's 2018 Annual General Meeting (AGM) will be held in the Auditorium of Macquarie's Sydney Office, Level 10, 50 Martin Place, Sydney NSW 2000, after the MGL AGM but not before 2:00pm on Thursday 26 July 2018. Details of the business of the meeting will be forwarded to shareholders separately.

### DISTRIBUTION DETAILS

#### Macquarie Bank Limited

MBL makes distribution payments twice annually in arrears in respect of the BCN on or about 24 March and September each year.

#### Macquarie Finance Limited

MFL makes interest payments quarterly in arrears in respect of MIS on or about 15 January, April, July and October each year.



Dates and payment rates are listed at [macquarie.com/investors](http://macquarie.com/investors)

### STOCK EXCHANGE LISTING

Equity or hybrid security	Stock exchange listing	Trading code
Macquarie Income Securities (MIS)	ASX	MBLHB
Macquarie Bank Capital Notes (BCN)	ASX	MBLPA
Macquarie Additional Capital Securities (MACS)	SGX	6F6B

Macquarie Bank also has debt securities quoted on the London Stock Exchange, Luxembourg Stock Exchange (LuxSE), SIX Swiss Exchange (Switzerland), SGX, Tokyo Stock Exchange and the Taipei Exchange (GreTai Securities Market). Macquarie Bank also has warrants quoted on the LuxSE, SGX, Hong Kong Stock Exchange and the ASX.

### SECURITIES ON ISSUE

The following information is correct as at 31 March 2018.

#### Fully paid ordinary shares

##### Voting Rights

At meetings of members or classes of members, each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands, every person present who is a member or a proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

- one vote for each fully paid share held by the member, and
- that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

#### Macquarie Income Securities

##### Voting Rights

Holders of MIS, as holders of a stapled security that includes a preference share, have the right to vote at any general meeting of members of MBL only in one or more of the following circumstances and in no others:

- during a period when two consecutive Semi-Annual Dividends (as defined in the preference share terms) due and payable on the preference shares have not been paid in full, and no optional Dividend (as defined in the preference share terms) has been paid
- on any proposal to reduce MBL's share capital
- on any resolution to approve the terms of a buy-back agreement
- on any proposal that affects the rights attaching to the preference shares
- on a proposal to wind up MBL
- on any proposal for the disposal of the whole of MBL's property, business and undertaking
- during the winding up of MBL.

In these circumstances, holders of MIS have the same rights as to attendance and voting (in respect of each preference share) as those conferred on holders of ordinary shares of MBL.

**20 largest holders**

Registered holder	Number of MIS held	% of MIS
HSBC Custody Nominees (Australia) Limited	506,798	12.67
National Nominees Limited	94,538	2.36
JP Morgan Nominees Australia Limited	90,162	2.25
Navigator Australia Ltd <MLC Investment Sett A/C>	70,965	1.77
Aust Executor Trustees Ltd <DDH Preferred Income Fund>	66,337	1.66
BNP Paribas Noms Pty Ltd <DRP>	65,620	1.64
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	62,071	1.55
IOOF Investment Management Limited <IPS Super A/C>	53,029	1.33
Citicorp Nominees Pty Limited	48,220	1.21
Jiliby Pty Ltd	37,500	0.94
Twenty Second Natro Pty Ltd <Cap Superannuation Fund A/C>	22,500	0.56
Bond Street Custodians Limited <CAJ – D09461 A/C>	20,000	0.50
Australian Executor Trustees Limited <No 1 Account>	15,081	0.38
Netwealth Investments Limited <Super Services A/C>	15,042	0.38
Catholic Church Endowment Society Inc	15,000	0.38
Pullington Investments Pty Ltd	15,000	0.38
Aaron (Qld) Pty Ltd <Aaron Qld A/C>	14,924	0.37
HSBC Custody Nominees (Australia) Limited – A/C 2	12,991	0.32
Beth Maclaren Smallwood Foundation P/L	12,250	0.31
Easn Pty Ltd <Penance A/C>	11,920	0.30
	<b>1,249,948</b>	<b>31.25</b>

**Spread of shareholdings**

Range	Number of MIS holders	Number of MIS
1 – 1,000	5,070	1,489,195
1,001 – 5,000	494	960,568
5,001 – 10,000	32	236,213
10,001 – 100,000	25	807,226
100,001 securities and over	1	506,798
<b>Total</b>	<b>5,622</b>	<b>4,000,000</b>

There were 7 securityholders (representing 16 MIS) who held less than a marketable parcel.



## ADDITIONAL INVESTOR INFORMATION

### CONTINUED

#### MACQUARIE BANK CAPITAL NOTES (BCN)

##### Voting Rights

BCN are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible. BCN holders have no voting rights in respect of MBL or MGL.

##### 20 largest holders

Registered holder	Number of BCN held	% of BCN
HSBC Custody Nominees (Australia) Limited	203,090	4.73
Navigator Australia Ltd <MLC Investment Sett A/C>	118,387	2.76
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	102,197	2.38
IOOF Investment Management Limited <IPS Super A/C>	83,034	1.93
Netwealth Investments Limited <Wrap Services A/C>	78,322	1.82
Citicorp Nominees Pty Limited	72,376	1.69
JP Morgan Nominees Australia Limited	72,265	1.68
Mutual Trust Pty Ltd	51,935	1.21
Citicorp Nominees Pty Limited <DPSL A/C>	51,157	1.19
National Nominees Limited	43,356	1.01
BNP Paribas Noms Pty Ltd <DRP>	30,626	0.71
Netwealth Investments Limited <Super Services A/C>	29,665	0.69
Federation University Australia	25,826	0.60
Pacific Development Corporation Pty Ltd	22,600	0.53
Pelatron Pty Ltd	22,500	0.52
IOOF Investment Management Limited <IPS IDPS A/C>	21,482	0.50
HSBC Custody Nominees (Australia) Limited – A/C 2	20,177	0.47
VIP Finance Pty Ltd	18,000	0.42
Australian Executor Trustees Limited <No 1 Account>	16,549	0.39
Cremorne Co Pty Ltd <Cremorne Co A/C>	15,000	0.35
<b>Total</b>	<b>1,098,544</b>	<b>25.58</b>

##### Spread of noteholdings

Range	Number of BCN holders	Number of BCN
1 – 1,000	6,387	1,959,488
1,001 – 5,000	449	930,910
5,001 – 10,000	32	257,360
10,001 – 100,000	21	722,673
100,001 notes and over	3	423,674
<b>Total</b>	<b>6,892</b>	<b>4,294,105</b>

There were 4 noteholders (representing 8 BCN) who held less than a marketable parcel.

**Macquarie Income Preferred Securities (MIPS)*****Voting Rights***

Unpaid preference shares were issued by MBL as part of the MIPS issue. MIPS have now been fully redeemed, although the unpaid preference shares remain on issue and are held by Macquarie B.H. Pty Limited, the immediate parent of MBL. While these preference shares remain unpaid, they have no voting rights in respect of meetings of members of MBL. If paid up, these preference shares will have the same voting rights as holders of MIS, except that instead of having a right to vote in situation i) above, they have a right to vote at any general meeting of members of MBL during a period in which a dividend has been declared on the preference shares but the dividend has not been paid in full by the relevant dividend payment date.

***Register of holders***

MBL issued convertible debentures and 350,000 unpaid preference shares as part of the MIPS. The convertible debentures were fully redeemed on 22 June 2015. The unpaid preference shares are held by Macquarie B.H. Pty Limited. The register in respect of the preference shares is kept at MBL's principal administrative office at 50 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

**Macquarie Additional Capital Securities (MACS)*****Voting Rights***

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

***Single Shareholder***

As at 31 March 2018, the \$US250 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

**ENQUIRIES****Share Registry**

Investors who wish to enquire about any administrative matter relating to their MIS or BCN securityholding are invited to contact the Share Registry at:

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000 Australia

Telephone: +61 1300 554 096  
Email: [macquarie@linkmarketservices.com.au](mailto:macquarie@linkmarketservices.com.au)  
Website: [linkmarketservices.com.au](http://linkmarketservices.com.au)

All other enquiries related to a MIS or BCN holding can be directed to:

**Investor Relations:**

Macquarie Group  
Level 6, 50 Martin Place  
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333  
Email: [macquarie.shareholders@macquarie.com](mailto:macquarie.shareholders@macquarie.com)  
Website: [macquarie.com/investors](http://macquarie.com/investors)

Macquarie Bank's Company Secretary, Dennis Leong, can be contacted on the above number and email address.

**Website**

To view the Annual Reports, presentations, distribution information and other investor information is available at [macquarie.com/investors](http://macquarie.com/investors)



## GLOSSARY

Defined term	Definition
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**A**

AASB	Australian Accounting Standards Board
the Act	Corporations Act 2001 (Cth)
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AICD	Australian Institute of Company Directors
AMA	Advanced Measurement Approach
Annual Report	MBL's 2018 Annual Report
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited

**B**

BAC	Board Audit Committee
Bank Group	MBL and its subsidiaries
BBSW	Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc
BCN	Macquarie Bank Capital Notes
BFS	Banking and Financial Services Group
the Board, Macquarie Bank Board	The Board of Voting Directors of Macquarie Bank Limited
BRC	MGL's Board Remuneration Committee
BRiC	MGL's Board Risk Committee
Businesses	the areas within the Operating Groups carrying out various operations

**C**

CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
Central Service Groups	the Central Service Groups consist of RMG, LGL, FMG and COG
CEO	Managing Director and Chief Executive Officer
CGM	Commodities and Global Markets Group
CFO	Chief Financial Officer
COG	Corporate Operations Group
the Company, MBL	Macquarie Bank Limited ABN 46 008 583 542

Defined term	Definition
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Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full year in both FY2017 and FY2016
the Consolidated Entity, Macquarie Bank	MBL and its subsidiaries
Corporate	head office and central support functions including Group Treasury
CVA	credit valuation adjustments

**D**

Deed	Deed of Access, Indemnity, Insurance and Disclosure
Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
Directors	the Voting Directors of MBL (unless the context indicates otherwise)
Divisions	named divisions within the Macquarie Group
DPS Plan	Directors' Profit Share Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments

**E**

ECAM	Economic Capital Adequacy Model
ECS, Macquarie ECS	Macquarie Exchangeable Capital Securities
EMEA	Europe, Middle East and Africa
EPS	earnings per share
ESP	Macquarie Group Employee Share Plan
Executive Director	Macquarie Group's most senior employees including Group Heads, Division Heads and senior business unit managers
Executive Key Management Personnel (Executive KMP)	Members of the Executive Committee of MBL
Executive Voting Director	an executive Board member

**F-H**

FIRB	Foundation Internal Ratings Based Approach
FMG	Financial Management Group
FVA	funding value adjustment

Defined term	Definition
<b>I-J</b>	
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Standards Board
IFRS	International Financial Reporting Standards
<b>K</b>	
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of MBL
<b>L</b>	
LMI	lender's mortgage insurance
LuxSE	Luxembourg Stock Exchange
LVRs	loan to value ratios
<b>M</b>	
Macquarie Bank, the Consolidated Entity	MBL and its subsidiaries
MBL, the Company	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board	the Board of Voting Directors of MGL
Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
MGL ordinary shares, MQG	MGL fully paid ordinary shares
Macquarie Group	MGL and its subsidiaries
MACS	Macquarie Additional Capital Securities
Malus	The discretion of the MGL Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused the Macquarie Group significant reputational harm, caused a significant or unexpected financial loss or caused the Macquarie Group to make a material financial restatement
MAM	Macquarie Asset Management Group
Management	Division Directors and Executive Directors who have management or risk responsibility for a Division or business area
MCN	Macquarie Group Capital Notes
MCN2	Macquarie Group Capital Notes 2
MEREP	Macquarie Group Employee Retained Equity Plan

Defined term	Definition
MFL	Macquarie Finance Limited
MFL Note	An unsecured debt obligation of MFL, issued to a trustee on behalf of the holders of the MIS
MGL	Macquarie Group Limited, ABN 94 122 169 279
MGSA	Macquarie Group Services Australia Pty Limited
MIM	Macquarie Investment Management
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
<b>N</b>	
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
Non-Bank Group	MGL, MFHPL and its subsidiaries
NPAT	net profit after tax
<b>O</b>	
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
Operating Groups	The Operating Groups consist of MAM, CAF, BFS, CGM and Macquarie Capital
OTC	over-the-counter
<b>P-Q</b>	
Post-2009 DPS	retained directors' profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
<b>R</b>	
RAS	Risk Appetite Statement
RMG	Risk Management Group
ROE	return on ordinary equity
RSU	Restricted Share Unit issued under the MEREP

## GLOSSARY

### CONTINUED

Defined term	Definition
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#### S

Senior Executive	Macquarie Group's combined Division Director and Executive Director population
Senior Management	Members of Macquarie Group's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation
SEs	structured entities
SFE	Sydney Futures Exchange
SGX	Singapore Stock Exchange
Statutory Remuneration	statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and as disclosed throughout the Remuneration Report

#### T-U

TSR	total shareholder return
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#### V-Z

VaR	Value-at-Risk
Voting Directors	the Voting Directors of MBL as defined in the MBL Constitution

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#### Contact details

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Principal Administrative Office**

50 Martin Place  
Sydney NSW 2000  
Australia

Tel: +61 2 8232 3333

**Registered Office  
Macquarie Bank Limited**

Level 6, 50 Martin Place  
Sydney NSW 2000  
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