



ANNUAL REPORT

Macquarie Group

Year ended 31 March 2019

50TH
ANNIVERSARY

50 years of financial service

Macquarie's predecessor organisation, Hill Samuel Australia, opened in Sydney in December 1969 with three staff, capital of \$A250,000 and an ambition to provide advisory and investment banking services of an international standard to the Australian market.

Today Macquarie is a global financial services group operating in 30 markets providing asset management, leasing and asset financing, retail banking and wealth management, market access, commodity trading, investment banking and principal investment.

2019 Annual General Meeting

Macquarie Group Limited's 2019 Annual General Meeting will be held at 10:30 am on Thursday, 25 July 2019 at the Sheraton Grand Sydney Hyde Park, Grand Ballroom, 161 Elizabeth St, Sydney NSW 2000.

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

Cover image

Macquarie's global headquarters at 50 Martin Place, Sydney is a connected, flexible and sustainable workplace and the largest heritage redevelopment of its size to be awarded a Six Star Green Star Rating from the Green Building Council of Australia. Crowning the building with a new steel-frame glass dome, daylight harvesting reduces energy consumption by 40%.

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About

Cheonan-Nonsan Expressway, South Korea

Macquarie's MKIF fund is the majority owner of the Cheonan-Nonsan Expressway, an 81.0 km, dual two-lane toll expressway that connects the northwestern and southwestern provinces of South Korea. It has two major tunnels, 44 bridges and seven interchanges. Macquarie is the largest foreign asset manager in South Korea with 36 assets across the infrastructure, renewables and waste management sectors.

About Macquarie

Macquarie (MGL and its subsidiaries, the Consolidated Entity) is a global diversified financial group with offices in 30 markets.

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

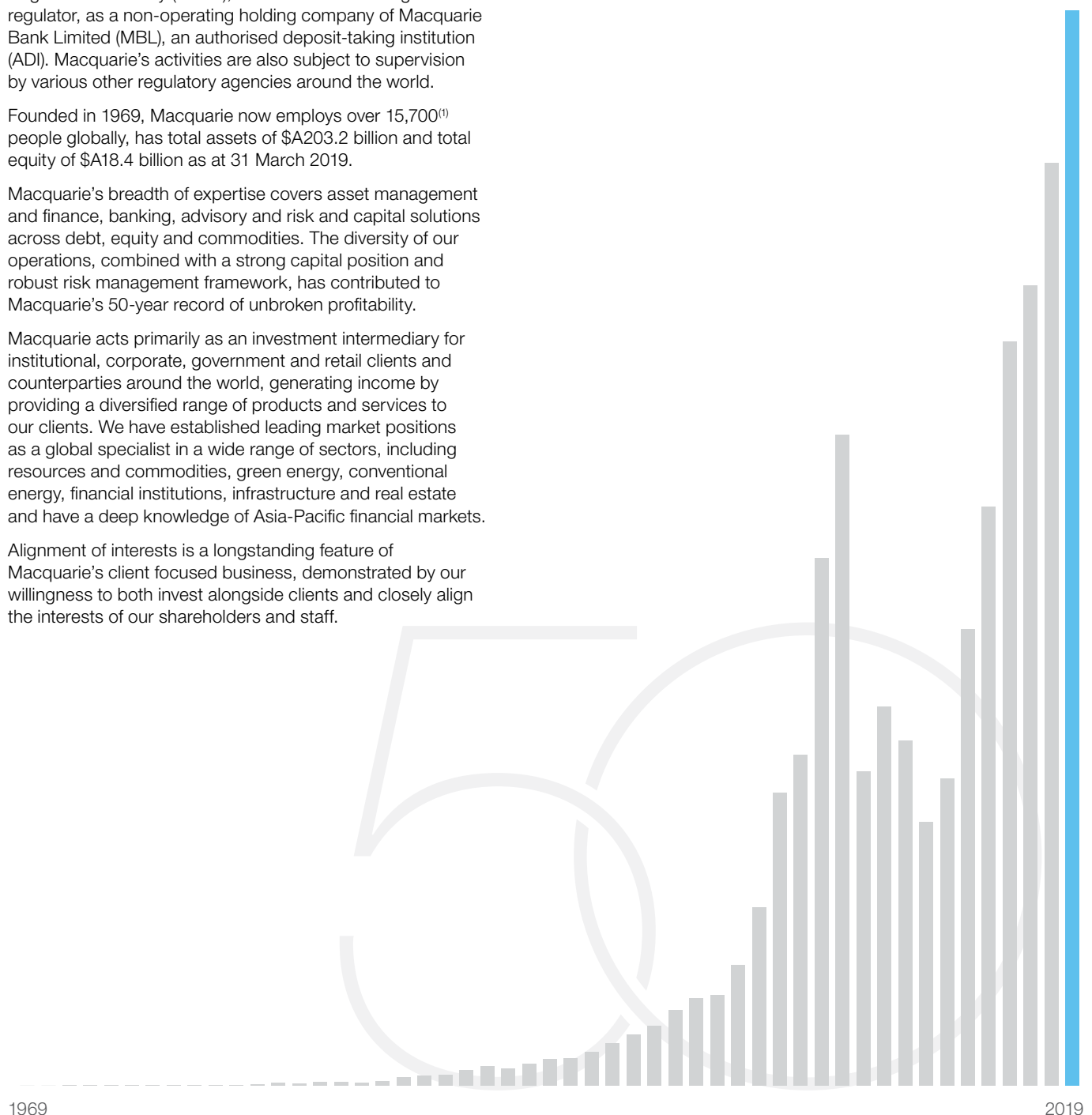
Founded in 1969, Macquarie now employs over 15,700⁽¹⁾ people globally, has total assets of \$A203.2 billion and total equity of \$A18.4 billion as at 31 March 2019.

Macquarie's breadth of expertise covers asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. The diversity of our operations, combined with a strong capital position and robust risk management framework, has contributed to Macquarie's 50-year record of unbroken profitability.

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

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

\$A2,982m
FY2019 profit



(1) This figure includes staff employed in certain operationally segregated subsidiaries (OSS). Unless otherwise stated, further references to staff data and policies do not include those in OSS.



50

years of financial service

Macquarie's predecessor organisation, Hill Samuel Australia, opened in Sydney in December 1969 with three staff, capital of \$A250,000 and an ambition to provide advisory and investment banking services of an international standard to the Australian market.

Today Macquarie is a global financial services group with over 15,700⁽¹⁾ staff in 30 markets providing asset management, leasing and asset financing, retail banking and wealth management, market access, commodity trading, corporate advisory and principal investment.

(1) This figure includes staff employed in certain operationally segregated subsidiaries (OSS). Unless otherwise stated, further references to staff data and policies do not include those in OSS.

1970s

The 1970s saw Hill Samuel Australia extend its initial offer beyond advisory and lending to Australian and international corporates to establish a strong foothold in the emerging international markets of gold bullion and foreign exchange hedging and eventually futures and commodities trading. These businesses laid the foundations for the global growth that was to follow.

The early management team established some of the operating principles which continue to underpin Macquarie today. These included a commitment to recruiting people of talent and integrity; a remuneration structure that aligns the interests of employees with sound long-term outcomes for clients, shareholders and communities; a flat management structure founded on individual accountability and an environment in which people are encouraged to seek out adjacent opportunities within a robust and enduring risk framework. **Opportunity, Accountability and Integrity** remain the touchstones of Macquarie's culture in 2019.

1980s

A commitment to innovation in Australian retail financial services built in the 1980s as Hill Samuel's Cash Management Trust allowed individuals and small businesses to access attractive short-term money market rates for the first time and was a forerunner to Macquarie's expansion into funds management.

Deregulation of the Australian financial services sector opened the path to a banking licence in 1985 and the creation of Macquarie Bank Limited. The new bank took the name of one of the early governors of New South Wales, Lachlan Macquarie, and adapted as its logo Australia's first currency, the Holey Dollar, which Governor Macquarie used to solve a currency shortage in the colony, an early example of creating intrinsic value through financial innovation.

The Macquarie Group Foundation was established in 1985 to support not-for-profit organisations in the communities in which Macquarie operates. Since 1985, Macquarie staff and the Foundation have donated over \$A360 million to charities working to improve the communities in which they operate, while staff have volunteered well in excess of one million hours of their time to the causes that matter to them.

“The country has been good to us; and in our own way we have made a contribution to the rapid development of Australian industry and business. After ten years of growth we cannot afford to relax... Our major resource is our team of professionals who know how and when to act. In creating this team, we look for individuality, intelligence and common sense, imagination and dedication. It is a young, disciplined team, responsive to change and alert to its consequences.”

Stan Owens, Chairman, 1979 Annual Report

“Our ability to develop new ideas, new products and services; to come up with fresh approaches; and to look outside traditional boundaries and barriers is a fundamental aspect of our business.”

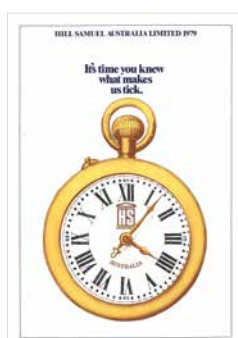
Stan Owens, Chairman, 1983 Annual Report

“Just as Lachlan Macquarie was one of our leading pioneers, introducing many reforms which spurred Australia's social and commercial development, so we aspire to be a bank known for our pioneering spirit, our innovative ideas and our willingness to explore and capitalise on new opportunities... Whilst providing the full range of general banking services we intend to concentrate on those niches of the financial system where we have a leadership position. Or can reasonably be expected to develop one... Change for the sake of change holds little value for the successful organisation. However, a carefully planned reaction to the ever-changing environment is essential for success.”

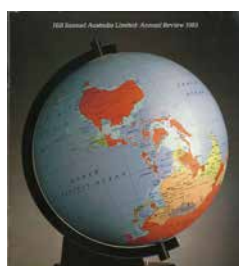
David Clarke, Executive Chairman, 1985 Annual Report

“As a company is a member of the society in which it operates, it follows that one of its important duties is to work in a multitude of ways for the betterment of society. In the long run this is consistent with a company's duty to its shareholders.”

David Clarke, Executive Chairman, 1985 Annual Report



1979 Annual Report



1983 Annual Report



1985 Annual Report



1986 Annual Report

50 years of financial service

Continued

1990s

The 1990s saw Macquarie accelerate the international expansion that began in the previous decade, establishing teams and offices alongside client and market opportunities across the four global regions that now represent Macquarie.

Macquarie's pioneering approach to financing essential infrastructure had its origins in the 1990s, alongside agriculture and power trading and innovation in Australian mortgage securitisation and car leasing. Macquarie listed its shares on the Australian Stock Exchange in 1996, with an initial value of \$A1.3 billion.

2000s

Macquarie's infrastructure business accelerated its growth in the 2000s, diversifying into airports, energy infrastructure and utilities and successfully raising funds of broad and varied sector and geographic focus. The decade also saw Macquarie complete a series of acquisitions to build its gas and power trading capabilities, notably to create the leading position in North America which continues to grow today.

Macquarie Group Limited was also established as a non-operating holding company in November 2007, to provide greater flexibility to adapt to future business, market and regulatory changes.

2010s

After emerging intact from the global financial crisis, Macquarie's fifth decade began in 2010 with the acquisition of US-based diversified asset manager Delaware Investments to enhance the product development and distribution capabilities of the funds management platform.

Acquisitions to extend the aircraft and motor vehicle leasing businesses followed, as did the launch of a highly personalised and intuitive digital banking offering with features that were firsts of their kind in Australian banking.

Macquarie's global expertise in renewables built throughout the decade, culminating in the 2017 acquisition of the Green Investment Group from the UK Government.

“Our ongoing commitment to success demands a continuation of our policy of resourcing the best personnel; young graduates from both Australia and overseas, as well as appointing experienced senior personnel.”

Tony Berg, CEO, 1993 Annual Report

“The process of evolution is evident in all of the Bank's businesses. There is a shared commitment to building on existing strengths and successes, while maintaining uncompromised prudential standards.”

Allan Moss, CEO, 1994 Annual Report

“Macquarie's approach to global markets has been developing since the early 1990s. We remain committed to competing in markets where we believe we can add special value. We achieve this through organic growth supplemented by joint ventures with local market partners and, more recently, acquisitions in niche markets.”

Allan Moss, CEO, 2001 Annual Report

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

Nicholas Moore, CEO, What We Stand For, 2018 Annual Report



1991 Annual Report



1994 Annual Report



2001 Annual Report



2018 Annual Report

50 years in numbers

The success of Macquarie's global operations over five decades reflects our philosophy to expand selectively, focusing on specialist areas where we can bring deep expertise to deliver real benefit to clients.

Macquarie's strength lies in enabling businesses to exercise significant operating freedom balanced by limits on risk and the adherence to professional standards, fostering an entrepreneurial culture among staff.

Alignment of interests is a longstanding feature, demonstrated by willingness to both invest alongside clients and closely align the interests of shareholders and staff.



50 years

of unbroken profitability



6 CEOs

in 5 decades



~75,000

employees since 1969



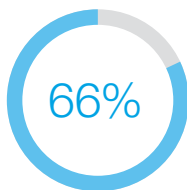
\$A14.3b

Total dividends paid



65

Locations globally



International income
FY2019



~100 million people
use Macquarie-managed
essential services daily

~130,000

people employed
by Macquarie-managed
assets



90+ green energy
development projects



4.7
million hectares
of farmland



~13 billion cubic feet
of natural gas
volume traded across
North America daily



Australia's first open
banking platform



~1.2 million

smartphones leased to
customers worldwide

~\$A360m

contributed by
Macquarie employees
and the Macquarie Group
Foundation

~200,000

children in remote
communities have
participated in a
Macquarie Sports clinic



~800 works
by emerging Australian
artists in the Macquarie
Group Collection

Letter from the Chairman

2019 is a landmark year for Macquarie as we celebrate our 50th anniversary and a 50th consecutive year of profitability, driven by strong performance across all of our businesses and regions. Amid that consistency, it has also been a year of change as we appointed Shemara Wikramanayake as our new Managing Director and CEO and thanked her predecessor Nicholas Moore for his outstanding service to the organisation over 33 years.

Nicholas was central to Macquarie's growth and evolution over many years, building a diversified business with global leadership positions and delivering total shareholder return of 280% during his decade as CEO. In considering the transition from Nicholas' immensely successful tenure, the Board was delighted to have a candidate of Shemara's calibre to take Macquarie forward. Shemara takes over management of the business with the international track record, vision and strong sense of our unique culture to make for a very successful transition.

Macquarie has a 50-year history of adapting to changing markets and at times driving change in markets such as infrastructure and renewables. Like the evolving set of companies we compete with, our business has continually reshaped through different economic cycles and shifts in client demand. As we look ahead, Macquarie's teams are active in seeking opportunities arising from areas such as energy transition, urbanisation and technological disruption while continually assessing how these changes impact our existing activities.

In celebrating our history, our successes and the hard work of our staff, we also consider the broader environment in which we operate and the expectations of the diverse group of stakeholders we serve. We are mindful of our responsibility to deliver solutions of value to our communities, and over 50 years we have sought to create a sustainable legacy through projects which improve on essential services or innovate to create new solutions.

The last year has seen considerable focus on regulatory engagement around the world, both as part of our usual day-to-day activity and specifically through the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission) in Australia and as a result of geo-political events such as the Brexit process in the UK. We remain confident in the strength of our risk management framework and the ability of our people to adapt to changing markets and deliver sound client and community outcomes within the framework of our long-held principles of opportunity, accountability and integrity.

Professional conduct

The Board and Management are committed to achieving the highest standards of professional conduct across all Macquarie operations. Compliance with all regulatory requirements and our Company-specific policies and procedures are core to our business and have been since inception.

Our *Code of Conduct* and the principles of *What We Stand For: Opportunity, Accountability and Integrity* guide the way that Management and staff are expected to manage their responsibilities and conduct themselves on a day-to-day basis. There are consequences for anyone who fails to meet these high standards. It is a fundamental responsibility for all Management and staff to deal honestly and fairly in their relationships with our clients and counterparties.

To assist the Board, Management and staff to meet their responsibilities, we regularly review and enhance our reporting, training, monitoring and surveillance activity. We have an established Conduct Risk Management Framework. It details our approach to managing conduct risk which is defined as the risk of behaviour or action taken by individuals employed by, or on behalf of, Macquarie or taken collectively in representing Macquarie that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff, or Macquarie. Supervisors are accountable for outcomes in the businesses they supervise. We take a dynamic approach to enhancing our risk culture and Conduct Risk Management Framework in response to changes in our business operations, outcomes of our oversight activities and the expectations of regulators and the communities in which we do business.

We regularly reinforce our Company-wide expectations of behaviour through multiple mechanisms, including policies, procedures, training and direct communications to staff.

Environmental, Social and Governance

The Board and Management recognises the importance of sound Environmental, Social and Governance (ESG) practices as part of our responsibility to clients, shareholders, communities and the environment in which we operate. In the year ended 31 March 2019, we continued to embed ESG risk management across the organisation and support the transition to a low carbon and climate-resilient economy. Our ESG Report provides further details on our approach to ESG matters.

Board changes

Effective 26 July 2018, Patricia Cross retired as an independent director of Macquarie Group and Macquarie Bank after five years. The Board thanks Mrs Cross for her dedicated service and wishes her well for the future.

Three directors were appointed to the Macquarie Group Limited and Macquarie Bank Limited Boards during FY2019. Please refer to the Directors' Report for further detail of their experience.

Effective 28 August 2018, Philip Coffey was appointed to both Boards as an independent director and became a Member of the Board Nominating Committee and the Board Risk Committee.

Effective the same date, Macquarie Group's Chief Executive Officer-designate, Shemara Wikramanayake, joined both Boards as an Executive Voting Director. The appointment was in anticipation of Ms Wikramanayake becoming Macquarie Group's Chief Executive Officer and Managing Director on 1 December 2018. Accordingly, Nicholas Moore stepped down from both Boards on 30 November 2018.

Effective 5 November 2018, Jillian Broadbent AC joined the Boards as an independent director.



Dividends

Following a 17% increase in net profit to a record \$A2,982 million, the Board has resolved to pay a final ordinary dividend of \$A3.60 per share (45% franked), up from \$A2.15 per share (45% franked) in the first half and up from \$A3.20 per share (45% franked) in the second half of last year. This results in a total ordinary dividend payment for the year ended 31 March 2019 of \$A5.75 per share, up from \$A5.25 in the prior year.

On behalf of the Board, I would like to thank our staff for their efforts and commitment during the year and our shareholders for their continued support.

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

Peter Warne

Chairman

Sydney
3 May 2019

Letter from the Managing Director and CEO

I was honoured to be asked by the Board to succeed Nicholas Moore as CEO of Macquarie. I had the privilege of working with Nicholas for over 30 years, throughout my Macquarie career. He left Macquarie in an outstanding position, having led the business to a record level of earnings, a robust funding and capital position and created an excellent team.

My tenure as CEO coincides with Macquarie's 50th anniversary, which provides an opportunity to reflect on the consistent characteristics that drove Macquarie's transformation from a small, domestic investment bank to a global financial services group. Macquarie's long-term success has always been based on the integrity and expertise of our people, working in-market to identify untapped opportunities and be accountable for delivering on those opportunities for our clients and the local community.

These enduring principles of opportunity, accountability and integrity remain central to Macquarie's culture as we look beyond our first 50 years. The markets we operate in and the needs of our clients continually evolve, but Macquarie's reliance on the local insight of our teams and their ability to realise adjacent opportunities within a strong risk management framework remains largely the same in 2019 as it did in 1969.

Performance

For the year ended 31 March 2019, Macquarie delivered a record net profit of \$A2,982 million, up 17% on the prior year.

Our annuity-style businesses (Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services) had a solid year, with a combined net profit contribution of \$A3,287 million, a decrease of 4% on the prior year.

Among the highlights of the annuity-style businesses:

Macquarie Asset Management experienced increased base fees offset by higher operating expenses and lower combined performance fees and investment-related income.

Corporate and Asset Finance benefited from higher Asset Finance portfolio income offset by one-off investment-related income in the prior year and legacy lending transaction-related expenses; higher investment-related income in Principal Finance, offset by lower interest income from the loan portfolio. There were also reduced provisions and impairments in the prior year.

Banking and Financial Services experienced growth in its Australian loan portfolio, BFS deposits and funds on platform, partially offset by a decline in the Australian vehicle finance portfolio and increased costs associated with investment in technology.

The net profit contribution from our markets-facing businesses (Commodities and Global Markets and Macquarie Capital) was \$A2,858 million, an increase of 76% on the prior year.

Among the highlights of the markets-facing businesses:

Commodities and Global Markets benefited from strong performance in commodities and improved results in foreign exchange, interest rates and credit, partially offset by challenging market conditions in Cash Equities, increased impairments and operating expenses.

Macquarie Capital benefited from higher investment-related income due to asset realisations and increased fee and commission income, partially offset by higher net credit and other impairment charges and increased expenditure on green energy and other projects in the development phase.

While our Australian franchise maintained its strong position, the offshore businesses continued to perform well, with international income accounting for 66% of Macquarie's total income for the year ended 31 March 2019. Total international income was \$A8,317 million for the year ended 31 March 2019, an increase of 17% from \$A7,127 million in the prior year.

Macquarie has a longstanding policy of holding a level of capital that supports its business and has consistently grown its capital base ahead of business requirements. Macquarie's APRA Basel III capital was \$A21.8 billion and Macquarie's surplus above regulatory minimum requirements was \$A6.1 billion at 31 March 2019.

Management changes

Effective 1 December 2018, Martin Stanley replaced me as Group Head, Macquarie Asset Management (MAM) and joined the Executive Committee. Martin continues to lead MIRA globally within MAM.

Effective 1 December 2018, Florian Herold was appointed Group Head, CAF Principal Finance and joined the Executive Committee. This follows Ben Brazil's appointment as Chairman, CAF Principal Finance. Florian was previously Co-Head of CAF Principal Finance in EMEA.

Effective 31 March 2019, Andrew Downe stepped down as Group Head of Commodities and Global Markets (CGM) and from the Executive Committee. Andrew, who has been with Macquarie for 37 years and on the Executive Committee for 22 years, will continue to lead the Cash Equities business globally and retain regional leadership for CGM in Asia.

Effective 1 April 2019, Nicholas O'Kane was appointed Group Head of CGM, following two years of transition in anticipation of this change. Nicholas has been with Macquarie for 24 years and on the Executive Committee since June 2017.

Effective 31 May 2019, Tim Bishop will step down as Group Head of Macquarie Capital and from the Executive Committee. He will become Chairman of Macquarie Capital to assist with transition. Mr Bishop has been with Macquarie for 20 years, on the Executive Committee for nine years and Head of Macquarie Capital for seven years.

Effective 1 June 2019, Daniel Wong, currently Global Co-Head of the Infrastructure and Energy Group based in London, and Michael Silverton, currently Head of the Americas, Europe and Asia Group based in New York, will become Group Co-Heads of Macquarie Capital and join the Executive Committee. Both have been with Macquarie for 20 years, the majority of which has been spent building the Macquarie Capital business in international markets.

Macquarie Group Foundation

The Macquarie Group Foundation and our staff dedicated time, skills and financial contributions, having donated more than \$A360 million to thousands of community organisations around the world since 1985. This year the Foundation and our staff contributed a record \$A31.7 million to over 1,600 not-for-profits globally, as well as recording approximately 53,000 hours of voluntary community service.

To mark Macquarie's 50th anniversary, we extended this longstanding tradition with an additional \$A50 million commitment to be awarded to five not-for-profit organisations over a five-year period to fund impactful projects that will have a lasting community benefit.

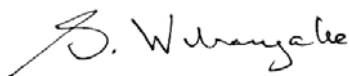
Outlook

Macquarie's result for the financial year ending 31 March 2020 is currently expected to be slightly down on the financial year ended 31 March 2019.

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

Macquarie 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 program to identify cost-saving initiatives and efficiency, a strong and conservative balance sheet and a proven risk management framework and culture.

On behalf of senior management, I would like to thank our staff for their hard work during the year and both our clients and our shareholders for their ongoing support.



Shemara Wikramanayake

Managing Director and CEO

Sydney
3 May 2019

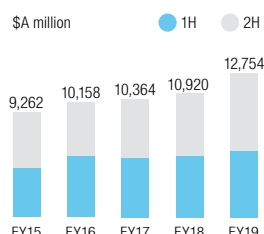


Financial Highlights

FY2019 NET OPERATING INCOME

\$A12,754m

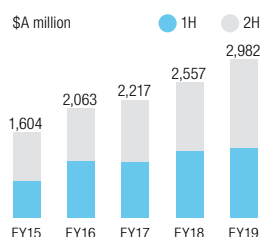
↑ 17% on prior year



FY2019 NET PROFIT

\$A2,982m

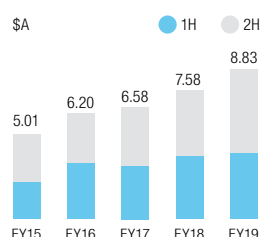
↑ 17% on prior year



FY2019 EARNINGS PER SHARE

\$A8.83

↑ 17% on prior year

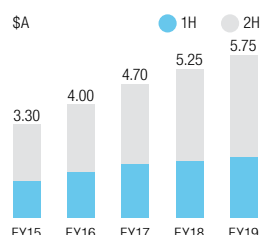


FY2019 DIVIDENDS PER SHARE

\$A5.75

(45% franked)

↑ 10% on prior year



FY2019 RETURN ON EQUITY

18.0%
↑ from 16.8%
in prior year

FY2019 OPERATING EXPENSES

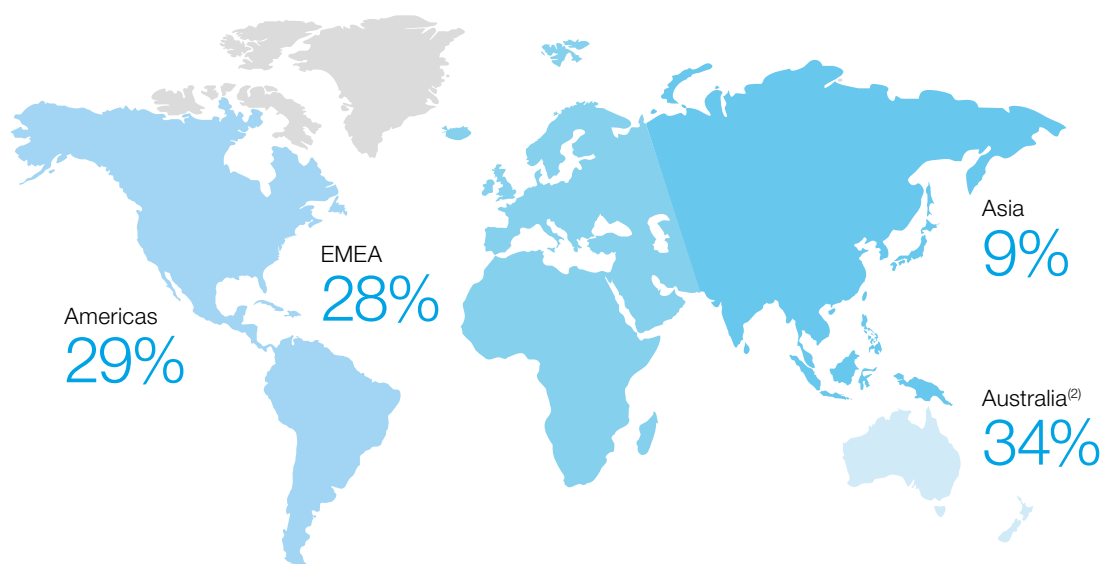
\$A8,887m
↑ 19%
on prior year

FY2019 EFFECTIVE TAX RATE

22.8%
↓ from 25.7%
as at 31 March 2018

ASSETS UNDER MANAGEMENT AS AT 31 MARCH 2019

\$A551b
↑ from \$A497b
as at 31 March 2018

FY2019 international income⁽¹⁾FY2019 net profit contribution⁽³⁾ by operating group

ANNUITY-STYLE BUSINESSES

53%
\$A3,287m

↓ 4% on prior year

MARKETS-FACING BUSINESSES

47%
\$A2,858m

↑ 76% on prior year

Macquarie Asset Management

24%

Corporate and Asset Finance

17%

Banking and Financial Services

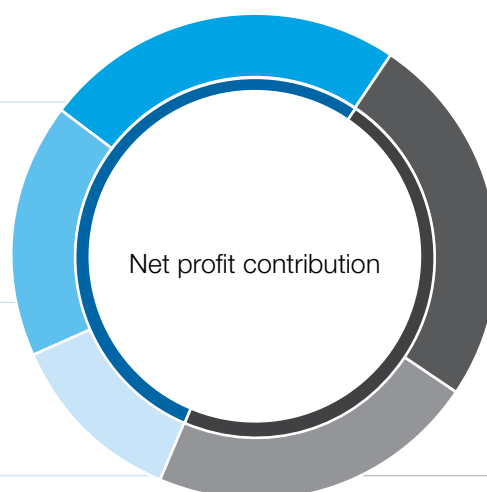
12%

Commodities and Global Markets

25%

Macquarie Capital

22%



(1) International income is net operating income excluding earnings on capital and other corporate items.

(2) Includes New Zealand.

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

Operating and Financial Review

Our businesses

Macquarie is a diversified financial group providing clients with asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities.

For internal reporting and risk management purposes, Macquarie is divided into five Operating Groups, which are supported by four Central Service Groups. The Operating Groups are split between annuity-style businesses and markets-facing businesses.

ANNUITY-STYLE BUSINESSES

Macquarie Asset Management

\$A1,503m

↓ 4% on prior year

MAM is Macquarie's asset management business, offering a diverse range of products through two divisions:

Macquarie Infrastructure and Real Assets (MIRA): a leader in alternative asset management worldwide, specialising in infrastructure, real estate, agriculture and energy via public and private funds, co-investments, partnerships and separately managed accounts.

Macquarie Investment Management (MIM): offering securities investment management capabilities across a number of asset classes including fixed income, currencies, equities, hedge funds and multi-asset solutions.

FY2019 highlights

MAM AUM increased 11% to \$A542.7 billion as at 31 March 2019.

MIRA EUM increased 36% to \$A116.9 billion primarily due to new equity raised, the acquisition of GLL Real Estate Partners and the merger of Macquarie Capital's global real estate business into MIRA. MIRA's real estate AUM was \$A26.8 billion as at 31 March 2019. In Australia, MIRA was appointed as investment manager of The Infrastructure Fund, a \$A2.5 billion unlisted infrastructure fund.

MIM AUM increased 8% to \$A361.0 billion largely due to foreign exchange movements, market movements and the acquisition of ValueInvest. MIM received the 2019 Investment Manager of the Year in Australia by the Financial Standard Investment Leadership Awards. It also received two Lipper awards and one Euro Funds award.

Medium-term

MAM is a leading platform which is well placed to grow assets under management through its diversified product offering, track record and experienced local investment teams. MAM remains well positioned for organic growth.

Corporate and Asset Finance

\$A1,028m

↓ 10% on prior year

CAF services clients located in over 50 countries and manages an asset and loan portfolio of \$A21.3 billion as at 31 March 2019 through the following businesses:

Asset Finance: Provides tailored finance solutions globally across a variety of industries and asset classes.

Principal Finance: Provides flexible primary financing solutions and engages in secondary market investing across the capital structure. It operates globally in the corporate, transportation and real estate sectors.

FY2019 highlights

The Asset Finance portfolio increased 2% to \$A8.0 billion as at 31 March 2019 due to growth in Technology, Energy and Ship Finance. Notable deals included working with the UK's largest energy supplier to enhance the existing smart meter facility to better match their rollout program and extend the tenor of our existing financing.

Principal Finance includes a portfolio of \$A4.1 billion, down 12% on 31 March 2018 due to net repayments and realisations and a Transportation Finance portfolio of \$A9.2 billion, up 5% on 31 March 2018 due to the acquisition of a portfolio of 120 rotorcraft from Waypoint Leasing (Ireland) Ltd offset by asset depreciation. Notable deals included the sale of a majority stake in Energetics, a leading UK multi-utility network provider.

Medium-term

CAF's medium-term focus is to leverage deep industry expertise to maximise growth potential in asset and loan portfolios. CAF is positioned for further asset acquisitions and realisations, subject to market conditions. CAF is targeting tailored finance solutions globally across a variety of industries and asset classes.

Banking and Financial Services

\$A756m

↑ 3% on prior year

BFS serves the Australian market, and is organised into the following three business divisions:

Personal Banking: Provides a diverse range of retail banking products to clients with mortgages, credit cards, transaction and savings accounts and vehicle finance.

Wealth Management: Provides clients with a wide range of wrap platform and cash management services, investment and superannuation products, financial advice, private banking and stockbroking.

Business Banking: Provides a full range of deposit, lending and payment solutions, as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms.

FY2019 highlights

During the 12 months to 31 March 2019, total BFS deposits increased 17% to \$A53.4 billion, the Australian loan and lease portfolio increased 10% to \$A62.5 billion and funds on platform increased 4% to \$A86.0 billion.

The Australian mortgage portfolio increased 18% to \$A38.5 billion while the Business Banking loan portfolio increased 12% to \$A8.2 billion. The Australian vehicle finance portfolio decreased 5% to \$A15.2 billion. Awards won in the period include: Mozo Experts Choice Awards for Exceptional Everyday Account and Internet Banking; Wealth Management awarded Outstanding Private Bank in Australia in the \$A10m+ category at the 2018 Australian Business Banking Awards for the second year in a row; and Business Banking awarded Best Non Major Business Bank and Best Industry Specialisation awards at the 2018 Australian Business Banking Awards.

Medium-term

BFS remains focused on strong growth opportunities through intermediary and direct retail client distribution, platforms and client service; opportunities to increase financial services engagement with existing business banking clients and extend into adjacent segments; and modernising technology to improve client experience and support growth.



Further information is also available at macquarie.com/about/company

For more details on the operational performance of the Operating Groups, see slides 16 to 20 of the presentation to investors and analysts available at macq.co/FY19investorpresentation

MARKETS-FACING BUSINESSES

Commodities and Global Markets

\$A1,505m

↑ 65% on prior year

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

The platform covers more than 25 market segments with more than 160 products and has evolved over more than three decades to provide clients with access to markets, financing, financial hedging, research and market analysis and physical execution.

CGM comprises seven divisions: Cash Equities, Commodity Markets and Finance, Credit Markets, Equity Derivatives and Trading, Fixed Income and Currencies, Futures, and Central (CGM-wide services).

FY2019 highlights

Commodity Markets and Finance recorded strong results across the commodities platform, particularly from North American Gas and Power, Global Oil and EMEA Gas and Power, with increased client hedging activity and improved trading opportunities. It was ranked by Energy Risk as No.1 North America Power Dealer of the Year 2019 and by Platts as No.2 Physical Gas Marketer in North America.

Fixed Income and Currencies, Futures and Credit Markets all recorded strong results across their platforms while Cash Equities and Equity Derivatives and Trading were impacted by challenging market conditions and reduced opportunities.

Medium-term

CGM remains focused on: opportunities to grow the commodities business, both organically and through acquisition; the development of institutional coverage for specialised credit, rates and foreign exchange products; increasing financing activities; growing the client base across all regions; leveraging a strong market position in Asia-Pacific through investment in the equities platform and further integration of the business across CGM.

Macquarie Capital

\$A1,353m

↑ 89% on prior year

Macquarie Capital has global capability in advisory and capital raising services, providing clients with specialist expertise, innovative advice and flexible capital solutions across a range of sectors and products including investing alongside partners and clients.

It also has global capability in infrastructure, green and conventional energy, focusing on utilising balance sheet to construct assets, build businesses and create platforms across development, construction and operational phases.

FY2019 highlights

Macquarie Capital maintained the leading market position globally for infrastructure financial advisory and a leading market position in ANZ for capital markets and Mergers and Acquisitions. Notable deals included advising Wesfarmers Limited in relation to the \$A19 billion demerger of Coles Group Limited. Balance sheet investment activity included the realisation of Macquarie's 21.8% interest in Quadrant Energy through the sale of 100% of the business to Santos Limited for \$US2.2 billion.

In Infrastructure and Energy investments, Macquarie Capital continued to focus on green energy with over 90 projects under development or construction as at 31 March 2019. Total balance sheet positions in green energy totalled \$A1.1 billion as at 31 March 2019 with investments of \$A0.7 billion and realisations of \$A0.9 billion in FY19. Notable deals included being co-developer, financial adviser and equity investor for the \$A698 million Kwinana Waste to Energy Project, the first of its kind in Australia.

Medium-term

Macquarie Capital is positioned to benefit from any improvement in M&A and capital markets activity. It also continues to tailor the business offering to current opportunities, market conditions and strengths in each sector and region.

CENTRAL SERVICE GROUPS

The Central Service Groups provide a range of functions supporting Macquarie's Operating Groups, ensuring they have the appropriate workplace support and systems to operate effectively and the necessary resources to meet their regulatory, compliance, financial reporting, legal and risk management requirements.

Risk Management Group (RMG)

Independent and centralised function responsible for assessing, accepting and managing risks across Macquarie. The Head of Internal Audit, which is part of RMG, has a management reporting line to the Board Audit Committee and an operational reporting line to the Head of RMG for day-to-day management.

Legal and Governance (LGL)

Provides a full range of legal and corporate governance services, including strategic legal and governance advice and risk assessment on corporate transactions, treasury and funding, insurance, regulatory enquiries and litigation.

Financial Management Group (FMG)

Provides financial, tax, treasury, corporate affairs and advisory services to all areas of Macquarie.

Corporate Operations Group (COG)

Provides specialist support services through technology, market operations, human resources, workplace, strategy, operational risk management, data and transformation, resilience, global security and the Macquarie Group Foundation.

Operating Groups update

In the second half, certain businesses were reorganised between Operating Groups to better align businesses with a shared focus on particular customer segments and geographies:

- Macquarie's Australian vehicle finance business moved from CAF into BFS
- MAM's Macquarie Specialised Investment Solutions (MSIS) business moved into CAF
- Macquarie Capital's global real estate business moved into MAM and merged with MIRA Real Estate

Comparatives have been restated to reflect this reorganisation between Operating Groups.

Operating and Financial Review

Our strategy

Our purpose

Macquarie's purpose is to realise opportunity for the benefit of our clients, shareholders and people. 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.

What We Stand For

Opportunity, Accountability and Integrity. These long-held principles form the basis of Macquarie'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'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](https://www.macquarie.com/what-we-stand-for)

Our business strategy

Consistent with our *What We Stand For* principles, Macquarie's business strategy is focused on the medium-term with the following key aspects:

Risk management approach

Adopting a conservative approach to risk management underpinned by a sound risk culture. Macquarie's robust risk management framework and risk culture is embedded across all Operating and Central Service Groups.

Strong balance sheet

Maintaining a strong and conservative balance sheet.

This is consistent with Macquarie's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie 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 markets-facing businesses that deliver solid returns in a range of market conditions.

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

Diversification

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

Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie.

Proven expertise

Utilising proven deep expertise has allowed Macquarie to establish leading market positions as a global specialist in sectors including renewables, infrastructure, resources and commodities, energy, financial institutions and real estate.

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

The long-held foundations of Macquarie'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's businesses. Strong independent prudential management has been a key to Macquarie'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 section 2 for details on Macquarie's risk management framework, risk culture and conduct risk management.

Macroeconomic factors

The key macroeconomic risks to Macquarie's short and medium-term financial outlook noted on page 23 are:

Market conditions

The general condition of markets, driven by both macroeconomic factors and geopolitical factors, as well as global regulatory trends may have a bearing on a range of Macquarie's businesses. Changing market conditions which may be impacted by these factors may influence the volume of transactions across businesses (for example increasing volatility can influence the volume of client-driven hedging activity), and the value of various equity, credit and market risk exposures held by Macquarie on its balance sheet. In the event of a deterioration in global equity markets, performance fees in the asset management business may be adversely impacted.

The value of the Australian dollar

A significant proportion of Macquarie's net income is denominated in foreign currency. Therefore, net income will be lower in Australian dollar terms if the Australian dollar appreciates against other foreign currencies, and net income will be higher in Australia dollar terms if the Australian dollar depreciates against other foreign currencies.

Potential regulatory changes

Macquarie is affected by changes in regulation. Regulatory change continues to increase at both the global and Australian levels and has the potential to affect the regulatory capital and funding requirements and profitability of Macquarie's businesses.

Funding and liquidity

Macquarie uses deposits and debt markets, among other funding sources, to fund its assets. Macquarie is therefore exposed to the risk of an increase in the cost of funding, or of reduced access to funding sources.

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



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

Operating and Financial Review

Review of group performance and financial position

Group performance

Overview

Profit attributable to ordinary equity holders of \$A2,982 million for the year ended 31 March 2019 increased 17% from \$A2,557 million in the prior year.

	Full-year to 31 Mar 2019 \$A million	Full-year to 31 Mar 2018 \$A million	Movement %
Net operating income	12,754	10,920	17
Operating expenses	(8,887)	(7,456)	19
Income tax expense	(879)	(883)	(<1)
Profit attributable to non-controlling interests	(6)	(24)	(75)
Profit attributable to ordinary equity holders	2,982	2,557	17

ANNUITY-STYLE BUSINESSES

Macquarie's annuity-style businesses generated a combined net profit contribution of \$A3,287 million for the year ended 31 March 2019, down 4% on the prior year.

Macquarie Asset Management

↓ 4% on prior year

- decreased investment-related income largely due to gains on reclassification of certain investments in the prior year
- higher operating expenses mainly driven by acquisitions, foreign exchange movements and investment in MIM's operating platform.

Partially offset by:

- increased base fees primarily driven by investments made by MIRA-managed funds, favourable foreign exchange movements, and contributions from businesses acquired during the year
- increased performance fee income from MIRA-managed funds and co-investors
- lower impairment charges.

Corporate and Asset Finance

↓ 10% on prior year

- reduced provisions and impairments in the prior year
- higher Asset Finance portfolio income more than offset by one-off investment-related income in the prior year and legacy lending transaction-related expenses
- higher investment-related income in Principal Finance, offset by lower interest income from the Principal Finance loan portfolio.

Banking and Financial Services

↑ 3% on prior year

- growth in Australian mortgage, business banking loan, deposit and funds on platform average volumes.

Partially offset by:

- lower wealth management fee income associated with realigning the wealth advice business to focus on the high net worth segment
- increased costs associated with investment in technology to support business growth
- full year impact of the Australian Government Major Bank Levy relative to the prior year.

MARKETS-FACING BUSINESSES

Macquarie's markets-facing businesses delivered a combined net profit contribution of \$A2,858 million for the year ended 31 March 2019, up 76% on the prior year.

Commodities and Global Markets

↑ 65% on prior year

- strong results across the commodities platform driven by client hedging activity
- significant opportunities in North American Gas and Power due to supply-demand imbalances across regional US centres
- increased contribution from client structured foreign exchange deals across all regions.

Partially offset by:

- increased operating expenses reflecting increased client activity, the impact of acquisitions completed in the prior year, and an increased investment in technology platforms
- challenging conditions impacting equity trading activities, particularly in specific Asian retail markets
- higher impairment charges due to write-downs recognised on underperforming financing facilities and a small number of specific commodity equity positions.

Macquarie Capital

↑ 89% on prior year

- higher net income on equity and debt investments due to asset realisations in ANZ, Europe and the US, particularly in the technology, green energy and conventional energy sectors
- increased Fee and commission income across ANZ, Europe and the US.

Partially offset by:

- higher Credit and Other impairment charges due to a small number of underperforming investments
- higher Share of losses of associates and joint ventures reflecting a change in the composition and performance of investments in the portfolio including increased expenditure on green energy and other projects in the development phase
- higher operating expenses reflecting additional headcount, increased investing activity and foreign exchange movements.



For more details on the financial performance of the Operating Groups, see section 3 Segment Analysis of the Management Discussion and Analysis available at macq.co/FY19MDA

Net operating income

Net operating income of \$A12,754 million for the year ended 31 March 2019 increased 17% from \$A10,920 million in the prior year. Increases across Fee and commission income, Other operating income and charges, and Net interest and trading income were partially offset by higher Credit and Other impairment charges, and lower Share of net profits of associates and joint ventures.

Net interest and trading income

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
4,551	3,943

↑ 15%
on prior year

- increased contributions across the commodities platform driven by client hedging activity and significant opportunities in North American Gas and Power due to supply-demand imbalances across regional US centres in CGM
- growth in average Australian loan and lease portfolio and deposit volumes in BFS.

Partially offset by:

- lower interest income largely from the Principal Finance loan portfolio in CAF
- challenging conditions impacting equity trading activities in CGM, particularly in specific Asian retail markets.

Fee and commission income

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
5,526	4,670

↑ 18%
on prior year

- increased performance fees from MIRA-managed funds, managed accounts and co-investment mandates
- increased base fees primarily driven by investments made by MIRA-managed funds, favourable foreign exchange movements, and contributions from businesses acquired during the year in MAM
- following the adoption of AASB 15, \$A262 million of fee expenses relating to stock borrowing activities and certain recoverable costs, previously presented net of associated revenues, have been reclassified to operating expenses.

Share of net (losses)/profits of associates and joint ventures

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
(56)	241

↓ significantly
on prior year

- losses from associates and joint ventures reflecting a change in the composition and performance of investments in the portfolio including increased expenditure on green energy and other projects in the development phase in Macquarie Capital
- a decrease in share of net profits from the sale of a number of underlying assets within equity accounted investments in MAM.

Net operating lease income

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
950	935

↑ 2%
on prior year

- improved income from the Energy and Technology portfolios and favourable foreign exchange movements, partially offset by a reduction in underlying Aviation income in CAF.

Credit and Other impairment charges

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
(552)	(366)

↑ 51%
on prior year

- higher impairment charges recognised across most operating segments.

Partially offset by:

- the write-down of MAM's investment in Macquarie Infrastructure Corporation (MIC) in the prior year.

Other operating income and charges

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
2,335	1,497

↑ 56%
on prior year

- higher income from asset realisations in Macquarie Capital
- gain on sale of Energetics by the Principal Finance business in CAF.

Operating and Financial Review

Review of group performance and financial position continued

Operating expenses

Total operating expenses of \$A8,887 million for the year ended 31 March 2019 increased 19% from \$A7,456 million in the prior year with increases across all expense categories.

Employment expenses		Brokerage, commission and trading-related expenses	
FULL YEAR TO		FULL YEAR TO	
31 Mar 19 \$Am	31 Mar 18 \$Am	31 Mar 19 \$Am	31 Mar 18 \$Am
5,217	4,493	1,140	830
↑ 16% on prior year		↑ 37% on prior year	
– higher performance-related profit share and share-based payments expense, driven by the improved overall performance of the Operating Groups – higher average headcount across the Consolidated Entity – unfavourable foreign exchange movements.		– following the adoption of AASB 15, \$A262 million of fee expenses relating to stock borrowing activities and certain recoverable costs, previously presented net of associated revenues, have been reclassified to Brokerage, commission and trading-related expenses.	

Non-salary technology expenses		Occupancy and Other operating expenses	
FULL YEAR TO		FULL YEAR TO	
31 Mar 19 \$Am	31 Mar 18 \$Am	31 Mar 19 \$Am	31 Mar 18 \$Am
684	604	1,846	1,529
↑ 13% on prior year		↑ 21% on prior year	
– higher technology expenses to support business growth across the Consolidated Entity – unfavourable foreign exchange movements.		– increased business activity across most of the Operating Groups – the recognition of certain legacy-related expenses – increase in Occupancy expenses mainly due to costs associated with the additional premises taken in the current year – unfavourable foreign exchange movements.	

Income tax expense

Income tax expense for the year ended 31 March 2019 was \$A879 million, compared to \$A883 million in the prior year. The effective tax rate for the year ended 31 March 2019 was 22.8%, down from 25.7% in the prior year.

The change in tax expense was driven by increased benefit from permanent tax differences, mainly offset by higher profit before tax. The reduced effective tax rate was mainly driven by a reduction in the US tax rates and the geographic composition and nature of earnings.

Note on adoption of new Australian Accounting Standards

The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) and AASB 15 *Revenue from contracts with customers* (AASB 15) on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods.



Refer to Note 1 *Summary of significant accounting policies* in the Financial Report for details regarding the Consolidated Entity's transition to AASB 9 and AASB 15. No material transition adjustments arose following the adoption of AASB 15.

Financial position

Balance sheet

The Consolidated Entity's statement of financial position has mainly been impacted by changes in business activities and Treasury management initiatives during the year ended 31 March 2019.

Total assets

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
203,182	191,325

↑ 6%
on prior year

- Held for sale assets of \$A9.0 billion as at 31 March 2019 increased significantly from \$A3.3 billion as at 31 March 2018 primarily due to the reclassification of assets for CAF's Aviation business as held for sale from Property, plant and equipment. This was partially offset by a reduction in held for sale investments in MAM due to the sale of an investment in a UK gas distribution network
- Loan assets of \$A78.5 billion as at 31 March 2019 increased 7% from \$A73.5 billion as at 31 March 2018 mainly due to net new loans written in BFS for Australian mortgages and business banking loans. This was partially offset by net repayments in Principal Finance in CAF and vehicle finance products in BFS
- Trading assets of \$A18.7 billion as at 31 March 2019 increased 22% from \$A15.3 billion as at 31 March 2018 mainly due to an increase in long equity positions, partially offset by the sale of government bonds in CGM
- Derivative assets of \$A14.5 billion as at 31 March 2019 increased 12% from \$A12.9 billion as at 31 March 2018 mainly due to mark to market movements and an increase in client trade volumes in energy products in CGM
- Intangible assets of \$A2.0 billion as at 31 March 2019 increased significantly from \$A1.0 billion as at 31 March 2018 mainly due to acquisitions in Macquarie Capital and MAM
- Margin money and settlement assets of \$A19.1 billion as at 31 March 2019 increased 5% from \$A18.2 billion as at 31 March 2018 mainly due to an increase in margins placed with financial institutions and settlement balances in CGM
- Property, plant and equipment of \$A4.7 billion as at 31 March 2019 decreased 59% from \$A11.4 billion as at 31 March 2018 mainly due to the reclassification of assets for CAF's Aviation business as Held for sale assets.

Total liabilities

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
184,818	173,145

↑ 7%
on prior year

- Deposits of \$A56.2 billion as at 31 March 2019 increased 16% from \$A48.4 billion as at 31 March 2018 mainly due to an increase in business and retail deposits
- Held for sale liabilities of \$A6.8 billion as at 31 March 2019 increased significantly from \$A0.5 billion as at 31 March 2018 primarily due to the reclassification of liabilities for CAF's Aviation business as held for sale mainly from Bank borrowings
- Margin money and settlement liabilities of \$A22.6 billion as at 31 March 2019 increased 8% from \$A20.9 billion as at 31 March 2018 mainly due to an increase in call margin placed by financial institutions and outstanding commodity trade settlements in CGM
- Loan capital of \$A7.0 billion increased 29% from \$A5.4 billion mainly due to the net issuance of Macquarie Capital Notes during the year
- Derivative liabilities of \$A12.7 billion as at 31 March 2019 increased 6% from \$A11.9 billion as at 31 March 2018 mainly due to mark to market movements and an increase in client trade volumes in energy products in CGM
- Bank borrowings of \$A9.3 billion as at 31 March 2019 increased 3% from \$A9.0 billion as at 31 March 2018 mainly due to Treasury's funding and liquidity management activities, mainly offset by the reclassification of liabilities for CAF's Aviation business as Held for sale liabilities
- Debt issued of \$A50.2 billion as at 31 March 2019 decreased 10% from \$A55.9 billion as at 31 March 2018, mainly driven by Treasury's funding and liquidity management activities (including repayment of long term and short term debt), as well as repayments in BFS' securitisations.

Total equity

FULL YEAR TO

31 Mar 19 \$Am	31 Mar 18 \$Am
18,364	18,180

↑ 1%
on prior year

- the increase is due to Retained earnings generated for the year ended 31 March 2019 (net of dividends paid) and an increase in the Foreign currency translation reserve primarily driven by the depreciation of the Australian Dollar against the US Dollar since 31 March 2018. This has been partially offset by the de-recognition of a Non-controlling interest in a UK gas distribution network following sale of this investment in the current year.

Operating and Financial Review

Review of group performance and financial position *continued*

Funding

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

Macquarie has a funding base that is stable with minimal reliance on short term wholesale funding markets. As at 31 March 2019, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits and equity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding, and securitisations) was 5.6 years as at 31 March 2019⁽¹⁾.

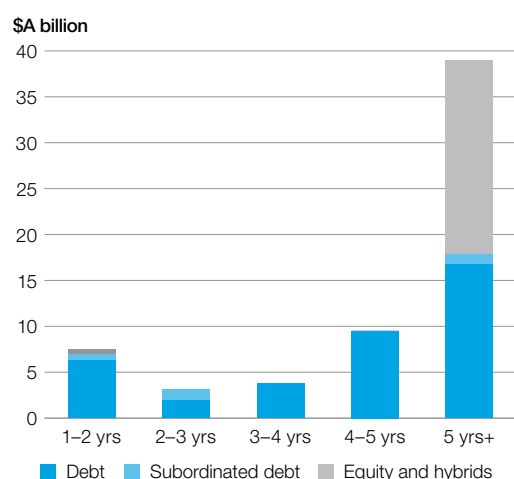
Term funding profile

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2018, Macquarie has continued to raise term wholesale funding across various products and currencies.

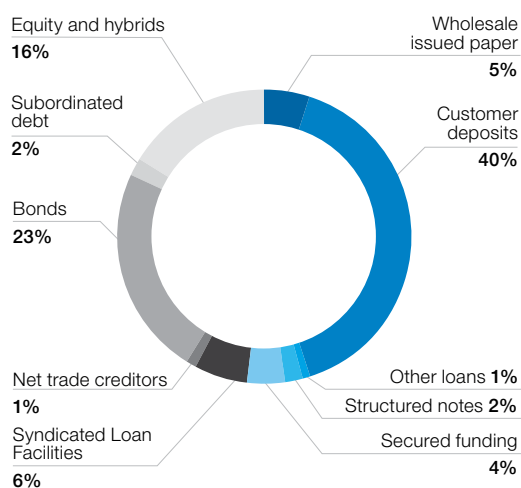
5.6
years

The weighted average term to maturity of term funding maturing beyond one year as at 31 March 2019

Detail of drawn funding maturing beyond one year



Diversity of funding sources



Details of term funding raised between 1 April 2018 and 31 March 2019:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Secured funding	Term securitisation and other secured finance	1.2	0.7	1.9
Issued paper	Senior and subordinated	0.5	2.5	3.0
Loan facilities	Syndicated loan facilities	–	6.5	6.5
Hybrids	Hybrid instruments	–	1.9	1.9
Total		1.7	11.6	13.3

Macquarie has continued to develop its major funding markets and products during the year ended 31 March 2019.

(1) Macquarie Income Securities of \$A0.4 billion are excluded as they do not have a maturity date.

**\$A6.1
billion**
Group
capital
surplus

Capital

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company (NOHC), Macquarie's Capital adequacy framework requires it to maintain minimum regulatory capital requirements calculated as the sum of:

- the Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA authorised deposit-taking institution (ADI) Prudential Standards; and
- the Non-Bank Group's capital requirement, calculated using Macquarie's Board approved Economic Capital Adequacy Model (ECAM). Transactions internal to Macquarie are eliminated.

Macquarie remains well capitalised with APRA Basel III Group capital of \$A21.8 billion as at 31 March 2019, with a Group surplus of \$A6.1 billion (\$A8.0 billion on a Harmonised⁽¹⁾ Basel III basis).

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 (CCB), with at least 7% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110⁽²⁾.

In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum Basel Committee on Banking Supervision (BCBS) Basel III leverage ratio requirement of 3% was effective from 1 January 2018⁽³⁾.

As at 31 March 2019, the Bank Group had the following capital adequacy ratios:

Bank Group Basel III ratios as at 31 March 2019	Harmonised Basel III	APRA Basel III
Common Equity Tier 1 Capital Ratio	14.3%	11.4%
Tier 1 Capital Ratio	16.5%	13.5%
Leverage Ratio	6.0%	5.3%



For further information relating to the capital adequacy of Macquarie, refer to section 6 Capital of the Management Discussion and Analysis at macq.co/FY19MDA.



Macquarie's capital management strategy is outlined in Note 23 *Capital Management strategy* to the financial statements contained in the Financial Report.



Outlook

Macquarie's result for the financial year ending 31 March 2020 is currently expected to be slightly down on the financial year ended 31 March 2019.

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

Macquarie 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 program to identify cost-saving initiatives and efficiency, a strong and conservative balance sheet and a proven risk management framework and culture.

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

(2) Based on materiality, the countercyclical capital buffer (CCyB) of ~10bps has not been included.

(3) In November 2018, APRA released draft prudential standards on their implementation of a minimum requirement for the leverage ratio of 3.5% which is expected to be effective from January 2022.

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Governance

Reducing e-waste

Macquarie is working with mobile operators globally to develop programs that encourage refurbishing and reusing mobile devices. Over 400,000 devices have been given a second life through our programs.

Corporate Governance Summary

Corporate governance

Macquarie's approach to corporate governance is to:

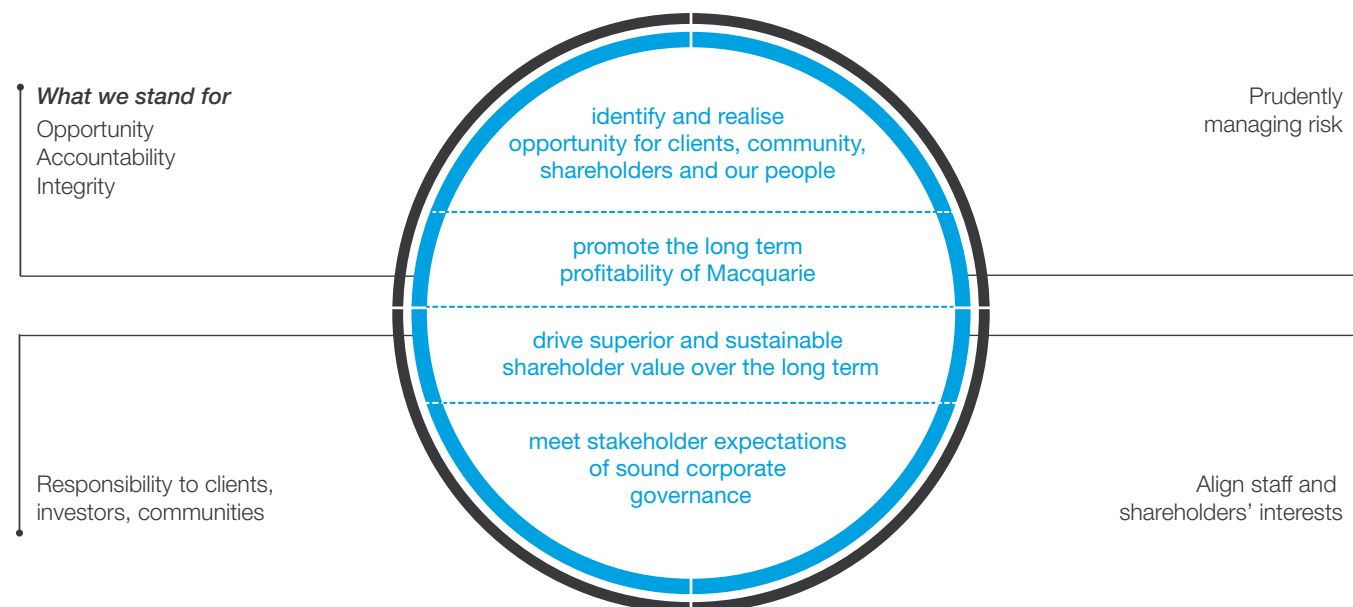
- identify opportunity and realise it for our clients, community, shareholders and our people
- promote the long-term profitability of Macquarie while prudently managing risk
- drive superior and sustainable shareholder value over the long-term through the alignment of the interests of shareholders and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

The Board is conscious of the importance of setting the 'tone at the top' and does so in a highly visible manner. There is a culture of open discussion at the Board. The messaging and practical actions taken by the Board seek to promote long-term sustainability and prudent management of risk consistent with *What We Stand For: Opportunity, Accountability and Integrity*.

Board members have extensive contact with staff at all levels within the organisation, across regions and operating/support groups. Board members believe informal conversations with staff are important in assessing the culture within Macquarie. Board members are not constrained from raising issues directly with staff or management. These measures also allow the Board to address the risk of there being a 'bias to good news'.

To assist the Board, management and staff to meet their responsibilities, Macquarie regularly reviews and enhances our reporting, training, monitoring and surveillance activity. Macquarie has an established Conduct Risk Management Framework. It details our approach to managing conduct risk, which is defined as the risk of behaviour or action taken by individuals employed by, or on behalf of, Macquarie or taken collectively in representing Macquarie that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff or Macquarie. Supervisors are accountable for outcomes in the businesses they supervise. Macquarie takes a dynamic and proactive approach to enhancing risk culture and effectively managing conduct risk. The Group-wide Conduct Risk Management Framework accommodates and, where necessary, is updated in response to changes in Macquarie's business operations, outcomes of Macquarie's oversight activities and the expectations of regulators and the communities in which it does business.

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



FY2019 Board Governance activities

Macquarie's governance frameworks and practices have evolved over time, driven by the Board's regular reviews to identify opportunities for improvement, changes within the organisation and external developments. During the year, there has been considerable focus on regulatory engagement around the world. In Australia, there was a specific focus on the conduct of financial services providers through the Banking Royal Commission.

The Board and management are committed to achieving the highest standards of professional conduct across all Macquarie operations. There is regular review and enhancement of mechanisms to achieve these standards.

In addition to identifying and considering relevant Banking Royal Commission themes and outcomes, other activities were undertaken by the Board during the year. Some of the activities included:

- Continued Board succession planning, including the appointment of two new Non-Executive Directors (NEDs), Philip Coffey and Jillian Broadbent AC
- Regularly scheduled private meetings with external auditors, Head of Internal Audit, Chief Risk Officer, Head of Compliance, Customer Advocate and the Group Integrity Officer
- Overseeing the succession of the CEO. Shemara Wikramanayake was appointed as Managing Director and Chief Executive Officer of Macquarie Group Limited, replacing Nicholas Moore, who retired effective 30 November 2018
- Overseeing a self-assessment of Macquarie's risk governance practices and endorsing the findings and actions of the assessment
- Engaging with key regulators
- Meeting with shareholders and proxy advisors as part of Macquarie's ongoing engagement to discuss matters relating to Macquarie's business performance and governance
- Visiting Macquarie's overseas operations in the United States of America, EMEA and Asia, and attending events with senior management and staff
- Undertaking an externally facilitated Board Performance Review and implementing recommendations including more succinct and focused Board reporting
- Reviewing key Corporate Governance policies and processes, including a review of the Board and Board Committee Charters
- Participation in client events.

To complement Macquarie's long-established governance framework for managing risk, Board Committees have sought enhanced reporting on certain non-financial risks. Further enhancements to Macquarie's corporate governance frameworks and practices have been made and will continue to be made to improve the effectiveness of the Board's oversight role, to adapt to changing markets and to continue to deliver sound client and community outcomes.

During FY2020, work will continue to implement the Banking Executive Accountability Regime (BEAR) for Macquarie Bank Limited, a subsidiary of Macquarie Group Limited.

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

The Corporate Governance Statement is current as at 2 May 2019 and has been approved by the Board.

The Corporate Governance Statement and a Key to Disclosures – Corporate Governance Council Principles and Recommendations (Appendix 4G) have been lodged with the ASX.



Our Corporate Governance Statement and Appendix 4G are available on the Macquarie website at macquarie.com/leadership-corporate-governance

Board Committees

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

All Board members are sent Board Committee meeting agendas and may attend any Board Committee meeting. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and presented to the Board by the respective Committee Chairs. The Chairs of the BAC, BGCC and BRiC meet to review and consider any areas of overlap in reporting and responsibilities.

The Directors' Report includes the membership of each Board Committee.

Responsibilities of management

The CEO has been granted authority for matters not reserved for the Board or a Board Committee. Macquarie's Management Committees assist in the exercise of the CEO's delegated authority.

The CEO, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) report to the Board at each meeting. In addition to regular reporting from management, the Board has unlimited access to senior management and external advisers.

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

- Macquarie Constitution
- Macquarie Board and Board Committee Charters
- Director Independence Criteria
- *What We Stand For* and the *Code of Conduct*
- Risk, Remuneration and Diversity Reports in Macquarie's Annual Report



Additional information on Environmental, Social and Governance is available on Macquarie's website at macquarie.com/ESG and macquarie.com/risk-management

Diversity Report

Macquarie's ongoing commitment to workforce diversity and inclusion ensures that our business remains innovative, sustainable and continues to meet the evolving needs of our clients, community, shareholders and our people.

Macquarie is committed to:

- attracting a broad range of employment candidates
- applying fair and robust selection processes
- providing a workplace that is inclusive of all individuals
- providing the relevant structures and work environment to best support our people to reach their full potential in the workplace
- allocating pay and advancement opportunities in a fair and equitable way, considering merit and the markets and business environments in which Macquarie operates
- building a diverse workforce that will achieve the best outcomes for our clients, community, shareholders and each other.

Management Committees globally, and in each Operating and Central Service Group and region, are accountable for implementing Macquarie's diversity and inclusion objectives. They are supported by staff representatives and committees, who together respond to business or location-specific priorities and circumstances. Macquarie's staff feel a high degree of responsibility for promoting workforce diversity and inclusion.

Macquarie continues to embed the principles of diversity and inclusion into everything it does, and this is combined with an ongoing focus on accountability and measurement. We will continue to focus on creating opportunities for all staff to demonstrate merit and their promotion readiness, and to ensure we are retaining staff through the critical mid-career levels and into senior roles.

Global diversity policy

Macquarie's *Workforce Diversity Policy* defines Macquarie's workforce diversity commitment and the structures in place to ensure its realisation.

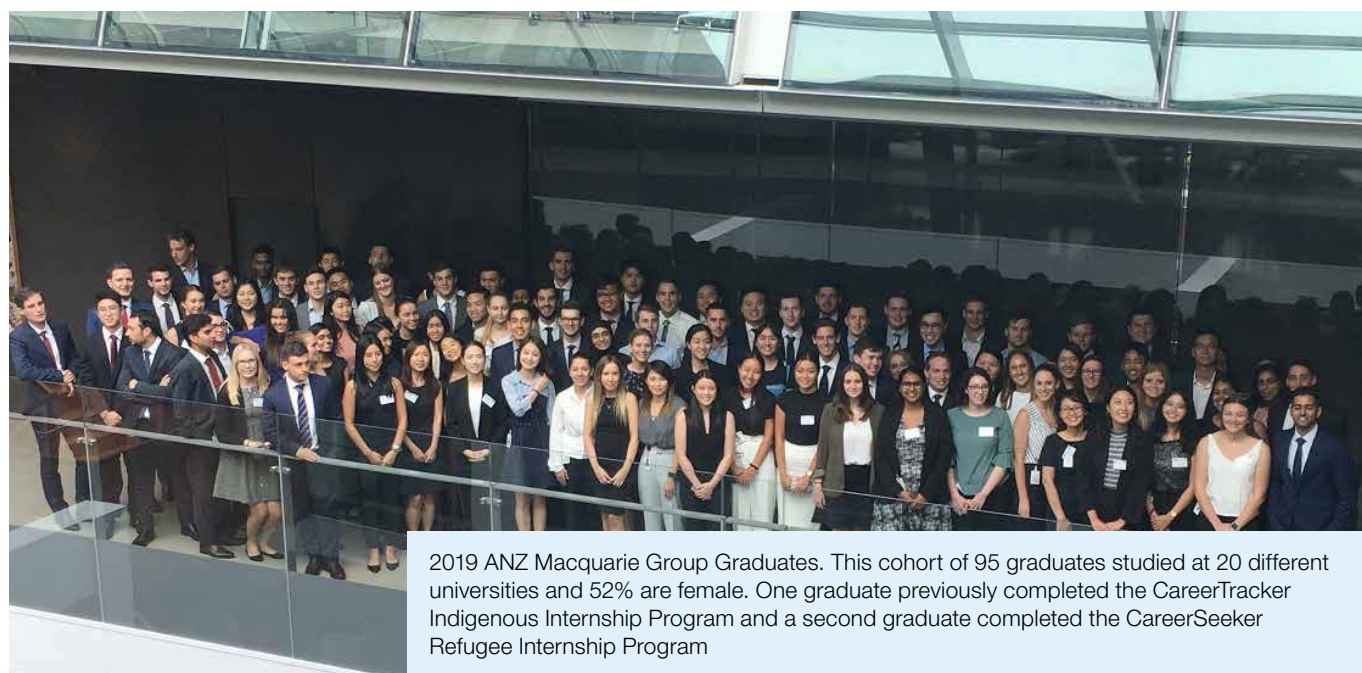


The principles contained in Macquarie's *Workforce Diversity Policy* are incorporated in Our Commitment to diversity and inclusion statement available at [macquarie.com/diversity](https://www.macquarie.com/diversity)

Composition of workforce and female representation

The table below outlines the proportion of women employed globally at Macquarie over the last five years.

As at 31 March	2015 %	2016 %	2017 %	2018 %	2019 %
Board of Directors	30.0	30.0	33.3	30.0	36.4
Executive Committee	23.1	23.1	25.0	25.0	25.0
Division Head ⁽¹⁾	16.8	18.5	21.6	23.5	23.9
Senior Executive ⁽²⁾	13.9	14.3	15.2	16.7	18.5
Macquarie Workforce	37.5	37.8	38.2	38.8	39.1



2019 ANZ Macquarie Group Graduates. This cohort of 95 graduates studied at 20 different universities and 52% are female. One graduate previously completed the CareerTracker Indigenous Internship Program and a second graduate completed the CareerSeeker Refugee Internship Program

(1) Division Head refers to critical roles across Macquarie. It typically includes executives two layers down from the CEO.

(2) Senior Executive refers to Macquarie's combined Division Director and Executive Director population.

Diversity objectives

The *Workforce Diversity Policy* provides that each year the Board will set measurable objectives for achieving gender diversity. The Board has endorsed the diversity objectives as set out below, on which Macquarie has reported since March 2014.

Diverse workforce

Outcome sought

Increased representation of women and other traditionally under-represented groups at all levels in the Macquarie workforce.

Objective

Macquarie's objectives are to:

- increase female representation at senior leadership levels:
 - Board of Directors
 - Executive Committee
 - Division Head
 - Senior Executive
- have female representation on all recruitment shortlists and ask 'if not, why not?'
- recruit female lateral hires at least in proportion to the underlying female candidate pool as a minimum requirement
- improve gender balance on Intern and Graduate programs
- increase the number of women in the finance industry by promoting finance careers to female secondary school and university students
- continue to participate in and sponsor networking and development programs that focus on women and other traditionally under-represented groups in areas such as race/ethnicity, disability and the Lesbian Gay Bisexual Transgender and Intersex (LGBTI+) community.

Progress FY2019

Macquarie's ongoing commitment to achieving gender balance at all levels of the organisation is demonstrated by the year on year increase in female representation across Macquarie's total workforce. In FY2019, Macquarie's Board, Division Heads and Senior Executive comprise a greater proportion of females than in preceding years. Female representation on Macquarie's Executive Committee remains stable.

The majority of all roles filled globally during FY2019 had at least one female candidate on the shortlist and one or more female Macquarie staff on the interview panel. Women continue to be hired in greater proportion than the underlying female application rate. Macquarie's Intern and Graduate programs had equal representation of males and females in FY2019.

Macquarie continues to partner with development programs around the world to attract diverse talent. In Australia Macquarie continued its participation in the CareerTrackers and CareerSeekers internship programs, placing 28 students during FY2019. In the UK Macquarie participated in the Junior Associates Program, to drive social mobility. Macquarie also partnered with Out For Undergrad to host LGBTI+ student events in the US.

Macquarie's Returner Programs continue to support candidates in key global locations to reintegrate into the workforce following extended professional career breaks.

Inclusive workplace

Outcome sought

An inclusive workplace in which individuals can reach their full potential.

Objective

Macquarie's objectives are to:

- provide staff with the flexibility to manage their work and time
- maintain high return to work rates for staff on parental leave
- maintain high retention of staff returning from parental leave
- promote LGBTI+ workplace inclusion through training, sponsorships, community partnerships and participation in benchmarking indexes.

Progress FY2019

Macquarie recognises that working flexibly means different things to different people and therefore exists across Macquarie in many forms, such as different hours, locations and patterns of work. Flexibility is flexible at Macquarie. It may be utilised by staff to balance their family or carer responsibilities, further studies, sporting commitments, community work, or phased retirement. Staff may also have access to leave without pay, study and exam leave, and purchased leave.

Ultimately, Macquarie empowers its staff to manage their work and time to suit their own personal situation, and achieve their career and personal goals.

Macquarie continues to equip its people managers to lead a flexible workforce through the ongoing roll out of manager capability training and flexible working campaigns that share practical tips and information on how managers and teams can support the varied arrangements of their colleagues.

Macquarie continues to provide support to working parents and those with carer's responsibilities through initiatives such as childcare centres, backup child/adult/eldercare, nursing mothers' facilities and return-to-work coaching for parents. The vast majority of part-time and full-time employees are able to access some form of company paid parental leave provisions, which have been enhanced in key locations in FY2019.

Macquarie's global return-to-work rate was 93% in FY2019 and high retention rates continue to be achieved for staff who have taken parental leave.

Macquarie has achieved notable recognition as an employer that provides a supportive and inclusive workplace for LGBTI+ staff. Banking and Financial Services (BFS) attained Silver Employer status in the 2018 Australian Workplace Equality Index, a national benchmark on LGBTI+ workplace inclusion. Macquarie also received a score of 100% on the US based Human Rights Campaign Foundation 2019 *Corporate Equality Index* for LGBTI+ inclusion.

Diversity Report

Continued

Robust meritocracy

Outcome sought

Equity and transparency embedded in remuneration, promotion and development practices.

Objective

Macquarie's objectives are to:

- maintain pay equity for like roles and performance
- maintain equality for men and women in promotion decisions
- require that participation in development and leadership programs is representative of the underlying workforce demographics
- retain women in at least the same proportion as men.

Progress FY2019

Macquarie continues to embed equity and transparency in all people-related practices and processes. Throughout FY2019:

- remuneration outcomes were reviewed to ensure pay equity for like roles and performance across all Operating and Central Service Groups and regions. No significant differences in remuneration outcomes were found to exist between males and females for like roles and performance
- promotion decisions and outcomes were reviewed and analysed to identify any gender discrepancies. There continues to be no significant difference between rates of female and male promotion to director levels
- the female participation rate in the Macquarie Director Program, Macquarie's core leadership and development program, was higher than the underlying female population at director-level
- there was no noticeable difference between female and male turnover.

Integration and awareness

Outcome sought

Workforce diversity and inclusion is an integral part of the way Macquarie does business.

Objective

Macquarie's objectives are to:

- embed the principles of diversity and inclusion into all Human Resources-related policies, processes and programs to ensure the highest and fairest standards in how Macquarie hires, develops, pays and promotes staff
- measure and assess diversity statistics in relation to these activities and decisions, holding managers accountable for inclusive practices.

Progress FY2019

Macquarie conducted its second global Diversity and Inclusion (D&I) survey to obtain data on staff perceptions of flexibility, inclusion, advocacy and leadership behaviours. The survey has provided comprehensive data to measure progress and identify opportunities for new initiatives.

Macquarie expanded delivery of training and events providing staff with practical skills to recognise and respond to situations where non-inclusive language and behaviour are observed, and to seek out and value diverse views. These principles are also embedded in core talent programs, recruitment processes and remuneration and promotion criteria. Leadership training in building a respectful and inclusive culture has also been a strong focus.

In several regions and groups, Macquarie launched initiatives to further develop a culture of sponsorship to support female and diverse talent into leadership roles.

Macquarie's employee network groups span gender, race and ethnicity, culture and heritage, First Australians, veterans, families, wellness and LGBTI+, and provide staff with opportunities to exchange ideas, build relationships and support Macquarie's diversity and inclusion strategy. Macquarie implemented global operating principles to support employee network groups as they expand their reach and contribution to an inclusive workplace.



Further information on Diversity and Inclusion is available at [macquarie.com/diversity](https://www.macquarie.com/diversity)



Diversity and Inclusion awards and partnerships



PinkNews



women
banking
and
finance



Environmental, Social and Governance

Macquarie's Board and Management recognise the importance of sound Environmental, Social and Governance (ESG) practices as part of their responsibility to our clients, shareholders, communities, people and the environment in which Macquarie operates.

Macquarie's ESG approach is structured around focus areas considered to be material to our business. Building on our principles of opportunity, accountability and integrity, these focus areas reflect the risks and opportunities identified by the business and the issues of interest to our stakeholders.

Clear dialogue with stakeholders is important to building strong relationships, understanding external dynamics, earning and maintaining trust, enhancing business performance and evolving our ESG approach. We regularly engage with a broad range of stakeholders including clients, shareholders, investors, analysts, governments, regulators, staff, suppliers and the wider community.

Our focus areas include:

- business conduct and ethics⁽¹⁾
- ESG risk management
- investments, markets and products
- sustainability in direct operations
- people and workplace.

To gain a complete view of Macquarie's ESG approach, this ESG report should be read in conjunction with other sections of this Annual Report.



More detailed information is also available at macquarie.com/ESG

FY2019 ESG highlights

\$A7.9b

invested or arranged in renewable energy and energy efficiency projects in FY2019



13,530 MW

of renewable energy assets in operation or under management as at 31 March 2019⁽²⁾



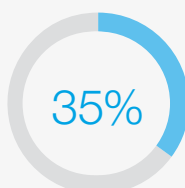
top-three rating

for Australian ESG research by Australian Institutional Investors

273

transactions

assessed under our *Environmental and Social Risk (ESR) Policy*



Scope 2 direct emissions reduced by 35% from FY2009 baseline



over **4,000 classroom events** and **300,000 online courses** and knowledge tests delivered to our staff



9m

energy meters (installed and awaiting installation) in the UK⁽³⁾



\$A60m

provided over the life of our electric vehicle finance program⁽³⁾

~500
stakeholders

attended Macquarie Green Investment Group (GIG) Green Conference held in London

(1) Business conduct and ethics are discussed further in the Corporate Governance Summary in this Annual Report and in the Corporate Governance Statement on the Macquarie website at macquarie.com/leadership-corporate-governance

(2) MW of renewable energy assets in operation or under management reflect 100% generating capacity of each asset, not the proportion owned/managed by Macquarie.

(3) Since the beginning of the program.

ESG governance

The Board is responsible for approving Macquarie's ESG framework including major ESG policies. In accordance with its Charter, the Board Governance and Compliance Committee (BGCC) assists the Board in adopting appropriate governance standards and reviewing the operation of environmental and social risk management policies. Responsibility for implementation of the ESG framework and related board-approved policies resides with Management.

Macquarie's Environmental and Social Risk (ESR) team coordinates a diverse range of ESG activities across business groups and regions, including developing and implementing Macquarie-wide and business-specific policies, conducting transaction reviews, providing advice on ESG risks and opportunities and facilitating training. The ESR team sits within the Risk Management Group and regularly reports to the Chief Risk Officer (CRO) and to the BGCC on ESG-related matters.

ESG risk management

Macquarie recognises that failure to manage ESG risks could expose the group to commercial, reputational and regulatory impacts and affect communities, the environment and other external parties. Assessing and managing Macquarie-wide ESG risks is a key business priority and an important component of our broader risk management framework, detailed in the Risk Management Report.

Under the *Code of Conduct* all staff share responsibility for identifying and managing environmental and social issues as part of normal business practice. Staff are supported by the ESR team, as well as through access to ESG research and specialist training.



More detailed information is available at macquarie.com/ESG

ESR in transactions

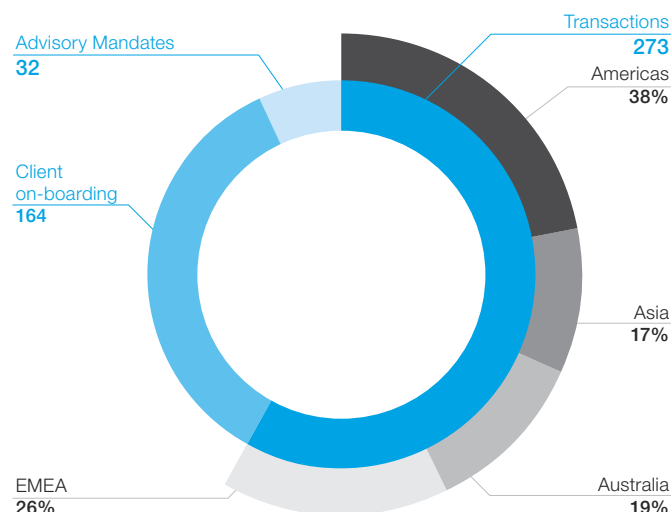
Environmental and social risks are managed through the implementation of the *ESR* and *Work Health and Safety (WHS)* Policies.

Macquarie's *ESR Policy* describes our approach to ESR management in client on-boarding and across a broad range of transactions including equity investments, financing, leasing and advisory mandates. The *ESR Policy* provides a robust process to assess, manage, mitigate, monitor and report environmental and social risks and takes a precautionary approach to ESR issues including labour and employment practices, climate change, human rights, resource efficiency, pollution prevention, biodiversity and cultural heritage. Based on international guidelines, including the International Finance Corporation Performance Standards, the *ESR Policy* provides escalated decision-making and approval processes, alongside the credit approval process, for material environmental and social risks. Transactions with material environmental and social risks are referred to the CRO and may be escalated to the Executive Committee or Macquarie Board.

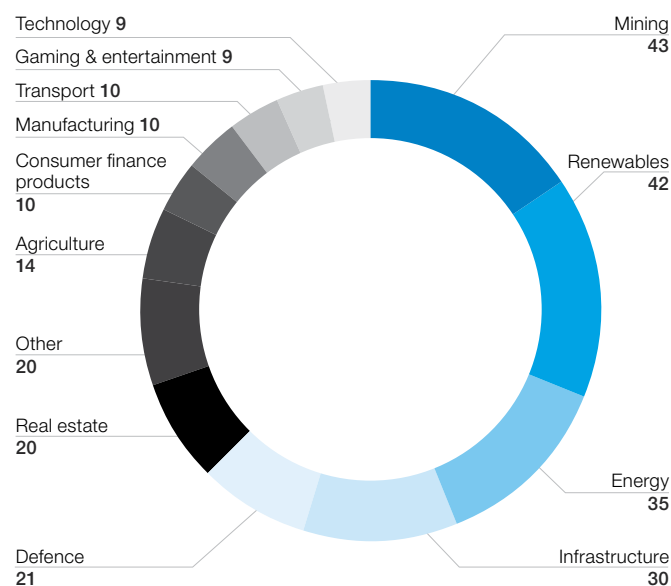
The ESR team oversees the operation of the *ESR Policy*, reviewing transactions and providing specialist advice and training. In FY2019, in-person training was delivered to over 580 risk managers and those in specific business groups with greatest potential exposure to environmental and social risks (250 in FY2018).

In FY2019, 273 transactions were assessed under the *ESR Policy* (264 in FY2018), and 32 advisory mandates (50 in FY2018) and 164 client on-boarding cases (64 in FY2018) were referred to the ESR team for review.

ESR Policy referrals



Transactions assessed under the ESR Policy by sector



For operating assets in which Macquarie has an equity interest, Macquarie continued to facilitate work health, safety and environmental management improvements through the implementation of the *WHS* and *ESR Policies* and associated frameworks, which are based on international standards.⁽⁴⁾

The Policies are updated periodically to respond to identified opportunities for improvement and emerging issues.

(4) 'Occupational health and safety management systems – Requirements with guidance for use' ISO 45001:2018 and 'Environmental management systems – Requirements with guidance for use' ISO 14001:2016.

Environmental, Social and Governance

Continued

Climate-related risk disclosures

Climate change and the associated legislative and regulatory responses present significant challenges for society and the global economy. They generate both risks and opportunities for Macquarie's business and stakeholders.

Macquarie supports the important work of the Task Force on Climate-related Financial Disclosures (TCFD) and is actively implementing the TCFD recommendations.

Climate change governance

Climate change risks are overseen at the highest level of the organisation through our ESG governance framework. Macquarie's CRO is responsible for embedding climate change risks into the risk management framework.

Macquarie's internal Green Committee, reporting to Senior Management, promotes and coordinates business development opportunities related to the low carbon economy. Senior Management and the BGCC receive regular reports on climate-change related risks and opportunities.

Strategy

The financial sector has a critical role to play, alongside government, business, investors and the community in the transition to a low-carbon and climate resilient economy.

Our climate change approach seeks to support this transition by:

- identifying and leveraging opportunities for low carbon and climate resilient investment and trading for Macquarie and our clients
- assessing and managing the risks arising from climate change and future carbon constraints
- collaborating with industry, government and other stakeholders to share knowledge and build capacity
- managing our own carbon footprint.

Private capital is critical to delivering the scale of response necessary to meet the Paris Agreement. Macquarie uses its expertise to support the mobilisation of capital to meet this demand by:

- developing assets, investing and providing asset financing solutions in the renewable energy, clean technology and energy efficiency sectors
- making principal investments that will support the increase in volume and value of low carbon and clean assets in both established and emerging markets
- providing clients and staff with research on the economic, policy and business impacts of climate change and emerging technologies
- assisting industry participants to prepare for compliance with carbon regulation and providing carbon risk management products.

Further information on our investment activity to support the transition to a low-carbon economy is provided in the Investments, markets and products section of this report.

Scenario analysis

In FY2019, we sought to use scenario analysis to assess potential risks and impacts to our business from climate-related risks. We built on the portfolio heat-mapping conducted in the prior year for our lending and equity portfolio, focusing on the oil, gas, coal and power generation sectors.

We selected two divergent scenarios representing plausible transition pathways that were based on the International Energy Agency (IEA) Sustainable Development Scenario and IEA New Policies Scenario.

Scenario	Key assumptions
Decarbonise Scenario (based on IEA Sustainable Development Scenario)	– reflects a pathway to reduce emissions in line with the Paris Agreement to limit warming to <2°C by 2100 – by 2040 renewables make up 63% of global electricity generation – emissions peak in 2020 and decline thereafter – carbon price is implemented that varies across regions, reaching \$US140 per tCO₂ in Europe and North America by 2040.
Business as Usual (BAU) Scenario (based on IEA New Policies Scenario)	– reflects a pathway where emissions continue to rise, resulting in warming reaching 3–4°C by 2100 – by 2040 renewables make up 40% of global electricity generation – carbon price is implemented that varies across regions, reaching \$US48 per tCO₂ in Europe by 2040.

The methodology developed to assess transition risk used a combination of qualitative and quantitative analysis. We mapped the climate scenarios to risk impact pathways to assess potential financial implications for the coal, oil and gas, and power generation sectors. The sector level modelling indicated potential for increased default rates for coal sector counterparties under both scenarios in the short, medium and long term. However, the impact on Macquarie is not considered material given the limited exposure of our lending portfolio to this sector.

The oil and gas sector modelling indicated potential for marginally increased default rates under both scenarios. Potential impacts were assessed to be slightly higher for the Decarbonise Scenario across the short, medium and long term. However, the impact across both scenarios is limited and would not be considered material to Macquarie. Across coal, oil and gas any potential impacts would be further mitigated by the relatively short tenor of the exposures in these sectors.

Risk management

Consistent with our strong risk management focus, Macquarie considers climate change and future carbon constraints within the existing risk framework. Climate-related risks, including physical risks and transition risks such as changes to laws and regulations, technology developments and disruptions, are factored into the credit and ESR analysis for transactions and counterparties in exposed sectors.

Climate-related metrics

Macquarie acknowledges that conventional energy sources will continue to deliver capacity to the global energy system for some time, but anticipates that our businesses will adapt, adjust and continue to seek new opportunities to drive the decarbonisation of the global economy.

The table below provides Macquarie's equity and loan portfolio exposures to the coal, oil and gas and renewables sectors as at 31 March 2019. Our exposure to the coal and oil and gas sectors account for 1% of our total funded loan assets and 4% of our total funded equity investments.

Sector	Loan assets ⁽⁵⁾ \$Ab	Equity investments ⁽⁶⁾ \$Ab
Oil and gas	0.7	0.2
Coal	0.2	–
Renewables	–	0.9

Macquarie's operational emissions are presented within the Sustainability in direct operations section of this report.



More detailed information on our TCFD approach is available at [macquarie.com/ESG/climate-change-approach](https://www.macquarie.com/ESG/climate-change-approach)

(5) Total funded loan assets include loan assets held at amortised cost adjusted to exclude certain items such as assets that are funded by third parties with no recourse to Macquarie. In addition, loan assets at amortised cost per the statutory balance sheet are adjusted to include fundable assets not classified as loans on a statutory basis (e.g. assets subject to operating leases). Total funded loan assets amount to \$A83.0 billion as at 31 March 2019 (\$A75.3 billion as at 31 March 2018). Coal related loan assets reported in FY2018, were \$A0.1 billion, this reflects a restatement due to previous inclusion of collateralised prepayments and leases that are not assessed to be resource exposed.

(6) Equity investments are reported on a funded balance sheet basis and therefore exclude equity hedge positions and non-controlling interests. Total funded equity investments amount to \$A5.9 billion as at 31 March 2019 (\$A6.8 billion as at 31 March 2018).

Investments, markets and products

Macquarie continues to pursue opportunities for innovative investments, markets and products that support clients seeking to manage and respond to sustainability challenges and capitalise on emerging opportunities.

Drawing on our global network, sector expertise and strong record, Macquarie provides a diverse range of products and services with an ESG focus to corporate, government and institutional clients. Our activities span the investment cycle from research on alternative energy to tailored capital solutions for the development and construction of renewable assets.



Principal investment

- investment in development projects, platforms and businesses
- debt and equity investment
- asset financing, including demand side management, energy efficient assets, distributed generation and battery storage and electric vehicles



Asset management

- real asset management, including green infrastructure
- securities investment management and structured access to funds
- equity-based products and alternative assets



Advisory

- financial advisory
- debt and equity arrangement
- green financial institution advisory
- green impact assessment, reporting and ratings



Trading

- emission allowances and renewable energy certificates
- inventory financing for environmental markets
- derivative financing for renewable energy projects
- environmental risk management solutions



Research

- specialist ESG and alternative energy research
- corporate and investor ESG engagement programs

Environmental, Social and Governance

Continued

Renewable energy

Macquarie has a substantial and longstanding commitment to the renewable energy sector, supporting the transition to a lower carbon economy by servicing clients across various renewable energy technologies including solar, wind, waste to energy, bioenergy and energy efficiency.

Macquarie offers a full range of financial services and products across the group that target investments in green infrastructure projects across all stages of the project lifecycle: development, construction and operations.

Onshore wind



As the cost of renewable energy continues to fall, governments around the world look to maintain investment and capacity growth while reducing reliance on traditional subsidies. In this challenging environment, Macquarie's GIG was able to bring two Swedish onshore wind developments to financial close, utilising innovative corporate power purchase agreements (PPAs).

Markbygden Ett is Europe's largest single-site wind farm under construction, with a capacity of 650 MW. GIG secured a 19-year fixed volume PPA with a subsidiary of Norsk Hydro, one of the largest aluminium producers in the world, to provide commercial underpinning for the project. The PPA is understood to

currently be one of the largest corporate wind energy PPAs in the world.

The Överturingen wind farm (under construction), also in Sweden, is underpinned by another GIG secured PPA with Norsk Hydro. A 29-year fixed volume agreement, this PPA is believed to be one of the longest corporate wind PPAs globally.

The structuring applied to these projects allows renewable energy generated from intermittent sources to not only compete with fossil fuel generation on cost, but also on reliability. It is one way in which commercial PPAs can improve the attractiveness of renewable generation, helping to support efficient investment in new infrastructure as subsidy revenues diminish.

Solar



The falling cost of solar is making the technology increasingly competitive and attractive to utilities, independent power producers and corporates. Innovations, such as co-location with storage, are also increasing the flexibility of our energy system, enabling an ever-higher integration of solar power.

Macquarie Principal Finance, in collaboration with various installation partners, is in the process of delivering more than 45 MWp of solar installations for two major corporate clients in the UK.

In June 2018, GIG announced a joint venture with solar company Candela to create Candela Renewables. Candela Renewables will target the creation of more than 1 GW of new solar capacity by developing greenfield solar projects across the US.

In August, GIG acquired a significant solar development portfolio and expert team from Conergy Asia and Middle East. The portfolio includes solar development assets in the Asia Pacific region, commercial, technical and energy storage capabilities and an asset monitoring facility. Following the acquisition, GIG's first in Asia, Conergy has established a technical centre of excellence to assist Macquarie's global solar business.

Macquarie Infrastructure Debt Investment Solutions (MIDIS) made two Spanish solar allocations during the year. It participated in a €140 million bond issuance for a portfolio of 12 operational solar plants owned by Sonnedix and also provided €67 million of long-term debt to a portfolio of 10 operational solar plants owned by Eliantus Energy.

Waste to energy



Providing investment capital and finance, Macquarie has supported more than 30 waste and bioenergy projects globally. In the UK, GIG has been central to the expansion of the waste and bioenergy sectors over the past five years.

Macquarie Capital advised, co-developed and invested in Australia's first large-scale waste to energy (WtE) facility which is scheduled to open in Kwinana, Western Australia, by the end of 2021. When the facility is operating at capacity it is estimated to be able to process 400,000 tonnes of waste per year and prevent more than 400,000 tonnes of carbon dioxide emissions each year.

In December 2018, GIG and partner Covanta also announced financial close on the acquisition of a 50% stake in the

Earls Gate Energy Centre, a 21.5 MWe WtE facility in Scotland. This combined heat and power project will divert 216,000 tonnes of waste from landfill per year. Construction commenced in 2019 and the project is anticipated to become operational in late 2021, creating up to 500 jobs during construction.

In February 2019, Macquarie Infrastructure Partners (MIP) acquired Wheelabrator Technologies Inc., which currently has a platform of 25 strategically located assets in the US and the UK, including 19 WtE facilities (three under construction), two waste fuel facilities and four ash monofills. Wheelabrator also recovers metals for recycling at two advanced metals recovery systems and is in the process of developing a central upgrade facility.

Social infrastructure

Macquarie advises, sponsors and invests in social infrastructure, assisting public and private entities to deliver essential services including hospitals, schools, community housing, justice facilities and water treatment.

Social and affordable housing



Social infrastructure offers investors long-term opportunities in regulated not-for-profit sectors, and provides added societal benefits.

With the introduction of the National Disability Insurance Scheme (NDIS), the Australian Federal Government has reformed the disability sector. Part of the reform is to stimulate construction and supply of Specialist Disability Accommodation (SDA) properties. In response, Macquarie Specialised Investment Solutions has partnered with Summer Housing to fund disability accommodation. Ten dwellings in Fairfield, Victoria, were completed in December 2018, enabling people with disability to live in high-quality, accessible housing integrated in the community.

In the UK, the shortage of affordable homes, coupled with high property prices relative to wages, continues to drive the need for social housing. Housing associations increasingly look to raise private sector finance to address the housing crisis. MIDIS is supporting Alliance Homes Group's ambition to improve the situation by providing debt facilities of £150 million to support development of over 1,000 new homes while they continue to provide support services to their communities, own care facilities, and undertake programs to support tenants back into employment. MIDIS has completed two transactions in the UK not-for-profit social housing sector this year, with debt commitments of £140 million and uncommitted facilities of £160 million.

Environmental, Social and Governance

Continued

Asset management

Macquarie's asset management businesses are committed to evaluating ESG factors in investment decision-making and engaging with investors on ESG issues. Macquarie Asset Management (MAM) is a signatory to the UN Principles for Responsible Investment (PRI). Divisions within MAM have established specific ESG policies and approaches that reflect the particular ESG considerations associated with their business.

Macquarie's experienced teams offer clients specialised investment products tailored to their particular ESG requirements. Examples include:

- **Macquarie Investment Management (MIM) Socially Responsible Investing (SRI) products:** MIM has longstanding experience in investing in companies that incorporate positive ESG behaviour into their business operations. MIM offers specialised products to investors that, in addition to focusing on positive ESG behaviour, also exclude companies whose business participates in specifically identified negative ESG practices. Total assets managed under these SRI strategies was \$US750 million as at 31 March 2019 (\$US703 million as at 31 March 2018).
- **MIM** offers wholesale clients customised investment solutions aligned to their specific ESG goals or screening preferences. Wholesale clients investing in these strategies have access to a research process that includes embedded ESG-focused factors. The combined funds under management covered by these strategies were \$A500 million as at 31 March 2019 (\$A600 million as at 31 March 2018).
- **MIM Austria** provides ESG fixed income investing, offering products managed according to a disciplined ESG selection process with total assets managed of €506 million as at 31 March 2019 (€201 million as at 31 March 2018).
- **Macquarie Infrastructure and Real Assets (MIRA)**, in conjunction with the Clean Energy Finance Corporate (CEFC) and CSIRO, has formed a committee to promote actions which reduce energy use and emissions in agriculture in a manner that is consistent with the Paris Agreement. This first-of-its-kind initiative was catalysed by the CEFC's investment of \$A100 million in an agricultural portfolio managed by MIRA, which is targeting improved on-farm energy efficiency and reduced carbon emissions. The initiative aims to directly influence the sector through its on-farm work and demonstrate that low emissions and climate-adapted farming can be conducted without compromising objectives and returns.



Further information is available at macquarie.com/ESG

Sustainability in direct operations

Macquarie's direct environmental and social impacts predominantly relate to the operation of our tenanted offices and data centres, air travel and the resources consumed by these activities.

Macquarie strives to integrate resource efficiency and sustainability into the day-to-day operations of our offices and corporate operations through the implementation of our Environmental Management Plan (EMP). The EMP reflects the initiatives to be implemented to reduce resource usage, maintain carbon neutrality, occupy and invest in sustainable buildings and improve the sustainability of Macquarie's supply chain.

Emissions from energy use

Whilst Macquarie's absolute emissions increased by 15% in FY2019, attributed to an increase in Scope 3 emissions, our total Scope 2 emissions decreased by 10% from FY2018. Scope 1 emissions are not considered to be material, comprising 0.6% of Macquarie's total emissions.⁽⁷⁾

The reduction in Scope 2 emissions is the result of a continued focus on energy use in all Macquarie premises globally, including retrofit and fit-out projects that have delivered more energy efficient premises and our IT cloud transformation strategy that enables rationalisation of servers. Macquarie's corporate offices are fitted with water and energy efficient fittings and fixtures and are continually monitored for energy performance, environmental quality and staff comfort. In FY2019, Macquarie's New York City headquarters began sourcing 100% renewable energy.

Macquarie's Scope 3 emissions increased by 38% compared with FY2018 due to an increase in flight miles with 56% of our staff based offshore. We continue to encourage the use of virtual conferencing that facilitates collaboration and helps reduce the need for business travel.

(7) PwC has provided limited assurance over selected information for the FY2019 reporting period as detailed in its independent assurance report available on Macquarie's website. The assurance report includes a table outlining Macquarie's carbon and energy data for FY2010 to FY2019 as well as a definition of the different scopes.

Carbon neutrality

Since 2010, Macquarie has maintained our carbon neutral commitment by working to reduce and offset emissions. In FY2019, to meet this commitment, Macquarie purchased and retired a portfolio of voluntary carbon offsets focusing on project quality and verifiable emissions reductions. Carbon credits that met Verified Carbon Standards and Climate, Community and Biodiversity Standards were purchased from projects in Peru and Zimbabwe. These projects, supported by the sale of carbon credits on international markets, provide solutions to reduce carbon emissions in the countries and communities in which they operate.

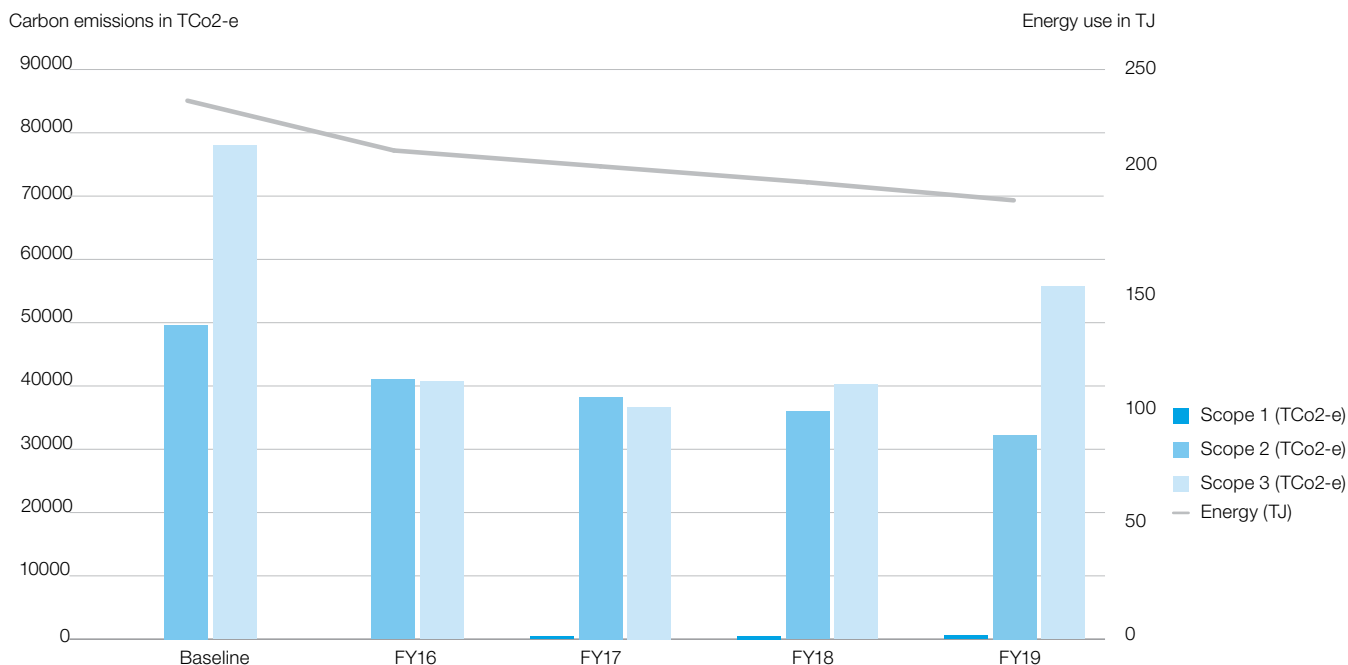
Resource efficiency

We continue to implement initiatives to raise staff awareness and improve recycling rates across our regional headquarters, including the successful completion of a program to eliminate single use cups at 1 Martin Place, Sydney. In all major Sydney offices and our London headquarters, we reached an average recycling rate of 47%.

In FY2019, paper use decreased by 15% compared to FY2018. Paper use data is collected across the majority of Macquarie's offices, representing approximately 90% of Macquarie staff. The environmental impacts of paper use are also being addressed through an ongoing commitment to use certified sustainable or recycled paper stock.

Carbon and energy data for FY2019

Carbon emissions in TCo2-e



Sustainable procurement

As part of our procurement strategy, Macquarie includes sustainability requirements within tender documents, including consideration of human rights, safe, fair and ethical working conditions, environmental performance and supplier diversity.

In FY2019, all critical and strategic suppliers responded to Macquarie's ESG questionnaire developed to assess their ESG credentials. We continued to communicate our *Principles for Suppliers* and implemented an ongoing risk-based assurance programme which involved an in-depth assessment and onsite meetings with suppliers exposed to high human rights risks based on country of operation and service category. We engaged indigenous and minority suppliers in Australia and the Americas and updated processes to track the amounts spent with these suppliers.



The Principles for Suppliers are available at macquarie.com/suppliers

Macquarie responded to the transparency requirements of the UK's *Modern Slavery Act 2015*, producing our third slavery and human trafficking statement that sets out the steps taken to identify and mitigate the risk of modern slavery within the supply chain and business operations.



The statement is available at macq.co/MSA18

Environmental, Social and Governance

Continued

People and workplace

Macquarie recognises that our most important assets are our people. We recruit talented individuals and encourage them to realise their potential in an environment that values excellence, innovation and creativity. We provide a broad range of programs that reflect our *What We Stand For* principles and support the development and wellbeing of our staff. This ensures the business continues to meet the highest standards and serves the evolving needs of our stakeholders.

Diversity and inclusion

Macquarie's ongoing commitment to workforce diversity and inclusion ensures that our business remains innovative and sustainable, and continues to meet the evolving needs of our clients.

Macquarie's broad range of experiences, skills and views are key strengths and critical to the wide range of services we deliver across a global operating environment.



More detailed information on our approach to diversity and inclusion is provided in the **Diversity Report**.

Learning and development

Macquarie strives to create an environment where continuous learning is part of an employee's development and progression. This focus on learning and development drives leadership capability and is an important channel through which Macquarie's culture is embedded and reinforced across the organisation. This includes a focus on equipping our leaders with the required mindsets, skills and behaviours needed to successfully lead their people and businesses now and into the future.

Macquarie has a key focus on ensuring our people reach their full potential. Learning opportunities are provided to staff, to meet the needs of Macquarie's diverse talent base and to provide the workforce with the skills to realise future opportunities in a rapidly changing environment. A holistic approach to learning is taken, blending a mix of formal classroom courses, on-the-job learning, informal coaching, feedback and mentoring, and an array of online resources and training modules.

Commencing with the employee onboarding and orientation process, Macquarie recognises the importance of early employee engagement. This is reflected in a series of learning and development activities (including events hosted by the CEO) designed to communicate and embed the Macquarie culture and reinforce the ongoing importance of meeting behavioural expectations and effective risk management across all our businesses and regions.

Since 1 April 2018, over 4,000 classroom sessions have been delivered globally to Macquarie staff. A further 300,000 online courses and knowledge tests have been completed by staff, including compliance-related training for new and existing staff (focusing on appropriate workplace behaviour, fraud awareness, anti-bribery, anti-money laundering and counter-terrorism financing and other financial services compliance matters) as well as leadership courses and materials on financial services products.

Leadership development remains a high priority within Macquarie. The *Macquarie Director Program* has continued to see strong demand with 400 Directors completing the program since April 2018, and more than 1,500 Associate Directors and Division Directors having completed the program since its inception in 2014. In addition, almost 50% of Macquarie's top 340 leaders have completed Macquarie's *Executive Director Leadership Program* since its launch in February 2017. Workshop focus areas include self-awareness and leadership impact, wellbeing, cultivating environments of inclusion and innovation, and building networks to identify opportunities and support each other.

Macquarie also continues to focus on developing management capability more broadly through its manager program and investment in executive coaching and mentoring initiatives. In addition to Macquarie-delivered programs, many staff benefit from sponsored education and can pursue career development opportunities at independent institutions such as business schools and through professional bodies.

Regular appraisals, including goal setting and ongoing career development, are a key part of performance measurement and management, and support Macquarie's merit-based culture. As well as encouraging regular and ongoing feedback with managers, Macquarie requires all staff to have at least one formal appraisal session with their manager. During these appraisals, staff are encouraged to raise, discuss and respond to matters relating to training, further education and development of leadership capabilities.

In addition to the annual appraisal, Macquarie's businesses use a range of tools and models to ensure an ongoing focus on performance and development throughout the year. These include the use of 360-degree feedback surveys, personal scorecards and real-time feedback applications, all aligned to the specific needs and context of Macquarie's diverse businesses.

Alongside the structured learning and development curriculum, Macquarie recognises and encourages the social and developmental benefits of skilled volunteering and wider community engagement by staff. During 2018, reciprocal development initiatives between staff and not-for-profit organisations have been built through the Macquarie Group Foundation.



Read Ahead, Foundation Week 2018, New York

Workplace health, safety and wellbeing

Macquarie recognises the value of effective WHS performance as an integral part of how we successfully manage our business. We seek to operate harm-free environments through maintaining high WHS standards and performance across all our activities globally. We promote an integrated approach to safety and wellbeing matters and encourage our staff to speak up on any actual or potential health and safety issues.

Macquarie has a global WHS management framework that aims to prevent workplace incidents and injuries. This framework allows for the identification and assessment of hazards and application of appropriate control measures to prevent health and safety risks arising from work activities. Macquarie uses forums with health and safety representatives and staff to consult and communicate relevant information on health and safety matters. Macquarie also provides staff with appropriate training on safe work practices.

Macquarie's commitment to providing a safe work environment for all staff is reflected in our consistently low prevalence and severity of workplace incidents. In the year ended 31 March 2019, the Lost Time Injury Frequency Rate (LTIFR) across Macquarie's global workforce was 0.2.⁽⁸⁾

Macquarie's wellbeing program, *Macquarie Plus*, provides a range of benefits and initiatives to optimise the physical and psychological health and wellbeing of staff, including:

- confidential counselling services (Employee Assistance Program)
- educational seminars on a variety of health topics
- health screenings, assessments and flu vaccinations
- fitness classes and sports teams
- psychological wellbeing training

Macquarie Plus is reviewed annually to ensure it continues to promote good health and meet the needs of staff.



Further information is available at macquarie.com/macquarie-plus

Tax transparency

Macquarie acknowledges stakeholder expectations for increased transparency on tax-related matters. Macquarie is a signatory to the Australian Board of Taxation's voluntary Tax Transparency Code.



More detailed information on Macquarie's approach to tax transparency is available at macq.co/FY19taxtransparency

Political contributions and engagement

Macquarie supports democratic systems of government and believes it needs to be engaged and understand the evolving policy and regulatory environments in Australia and other jurisdictions in which we operate as these impact our business, as well as our clients' businesses.

As a listed financial institution operating in highly-regulated industries, we have a responsibility to our shareholders, clients, counterparties and employees to understand and contribute to public policy and to ensure that our organisation and operating

environments are well understood by parliamentarians and policy makers. Additionally, our clients, many of whom also operate in regulated industries, expect us to have detailed current knowledge of public policy issues and drivers when we provide advice and services to them.

Ways in which Macquarie participates in policy engagement include:

- making submissions to inquiries and industry consultation processes where appropriate. These may be processes established by parliaments or government agencies such as regulators, and submissions may be made by Macquarie directly or as part of a broader industry group
- engaging with parliamentarians and policy makers through avenues such as formal meetings, speaking in public forums and appearing before parliamentary inquiries where appropriate
- contributing to the advocacy work done by industry groups in key markets around the world. In Australia, industry groups of which Macquarie is a member include the Australian Financial Markets Association, the Australian Banking Association, the Financial Services Council and the Business Council of Australia.

In Australia, political parties are funded by a mix of public and private monies. As part of its engagement with the Australian political process, Macquarie provides financial support to the major political parties, primarily through paid attendance at events.

Macquarie has a full disclosure policy and declares all political contributions to the Australian Electoral Commission (AEC) regardless of any thresholds or other provisions that may otherwise limit the need to disclose. This disclosure is made by way of an annual AEC return on a 1 July to 30 June basis.

In the year ended 30 June 2018, Macquarie's political contributions in Australia totalled \$A252,910: Liberal Party \$A128,400, Australian Labor Party \$A113,180, and National Party \$A11,330. Contributions were memberships of political party business forums, attendance at events and party conference corporate days, and sponsorship of events.

About these disclosures

Macquarie's FY2019 ESG disclosures have been prepared in accordance with the GRI Standards: Core option. The ESG disclosures comprise relevant sections of Macquarie's 2019 Annual Report and Macquarie's website. The content of the disclosures is based on Macquarie's ESG focus areas, which have been reviewed and updated in FY2019 through desktop based research, market benchmarking, media analysis and engagement with a range of internal stakeholders across the business.



A GRI index is available at macquarie.com/ESG

(8) LTIFR is the number of lost time injuries per one million hours worked and excludes staff in operationally segregated subsidiaries.

Macquarie Group Foundation

The Macquarie Group Foundation (the Foundation) is the philanthropic arm of Macquarie Group. The Foundation encourages Macquarie staff to give back to the communities in which they live and work by contributing service, financial support and leadership to the community organisations they feel passionately about.

During the year, a record \$A31.7 million was donated to over 1,600 non-profits around the world by Macquarie staff and the Foundation. Through donations and fundraising efforts by staff and matching by the Foundation, together with the annual grant making program, over \$A360 million⁽¹⁾ has been contributed to thousands of community organisations around the world since inception.

The Foundation's focus on the communities where Macquarie staff live and work helps to leverage staff time, expertise and networks for greater social impact. In FY2019 approximately 53,000 hours of voluntary community service, including pro bono work and community board positions, was contributed globally.

Many staff provide their time and skills to non-profit organisations aligned to the Foundation's global grant-making focus area of supporting social and economic opportunities for young people. Volunteering programs include the Macquarie Leadership Education Advancement Development and Support (LEADS) internship program in the Americas, Asha Internship Program in Asia, Australian Business and Community Network (ABCN) in ANZ and Mentoring Works program in EMEA.

Macquarie staff continue to be highly engaged in global initiatives such as the annual Staff in the Community Awards and Foundation Week, as well as regional initiatives including Mentoring Week in the Americas, Community Days in Asia, Dollars for Drought in ANZ and Community Resourcing (CoRe) program in EMEA.

During the fifth annual Foundation Week – a campaign where non-profits receive 'double-matching' of amounts raised up to \$A5,000 by Macquarie teams, as well as 'donations for doers' charitable donations to recognise volunteering activities – more than \$A2.8 million was distributed to over 180 organisations around the world.

My Community

In FY2019, the Foundation launched a new staff giving platform called My Community. The platform brings various community activities into one place, making it easier for staff to get involved and track their giving activity. In My Community staff can:

- request matching for donations and fundraising
- directly donate to the organisation of their choice, with Foundation matching automatically requested
- set up giving (fundraising) and upcoming volunteering opportunities
- log volunteering hours
- see how much they have donated and volunteered through the year
- explore what's on in their region.

Grant-making focus for social impact

The Foundation launched its global grant making focus area in order to achieve the most significant social impact possible, using not only its financial resources but also the skills and networks of Macquarie staff.

The Foundation's global grant-making focus area of supporting social and economic opportunities for young people in the communities where staff live and work now represents the majority of the global granting budget.

New in-focus grant partners include Graduate NYC and Girls Inc in the Americas, Raise Foundation and Melbourne Indigenous Transition School in ANZ. Renewed grant partnerships include Seefar and Voice of the Free in Asia, ReachOut and Dallaglio RugbyWorks in EMEA. These organisations engage staff through mentoring, career development and employability programs.

Foundation Committee changes

In September 2018, Macquarie announced that Mary Reemst, Managing Director and Chief Executive Officer of Macquarie Bank, was appointed the new Chair of the Macquarie Group Foundation, effective 1 December 2018. Mary succeeded Shemara Wikramanayake, Macquarie Group Chief Executive Officer and Managing Director, who chaired the Foundation from 2013–2018. The Foundation also welcomed three new members to the Foundation Committee.

Macquarie Sports

Over 200,000 children have now participated in a Macquarie Sports program since 1999. More than 60 young athletes have been provided with the necessary experience and opportunities to pursue both their sporting and career goals through the Macquarie Sports Scholarships program. In 2019, Macquarie Sports will celebrate its 20th anniversary.

Macquarie Group Collection

The Macquarie Group Collection comprises over 800 works which are displayed in 40 offices around the world. Now in its seventh year, the Macquarie Group Collection's annual Emerging Artist Prize was awarded to Melbourne-based visual artist Liss Fenwick for her work *Girraween*, Northern Territory. The inaugural recipient of the Macquarie Group First Nations Emerging Curator Award, Freja Carmichael, launched her curatorial exhibition entitled *Around and within* in November 2018.

(1) Contribution figures comprise Macquarie Group Foundation matching support for staff donations and fundraising; Foundation donations to commemorate staff attaining 10-year and 25-year anniversaries at Macquarie; Foundation grants to not-for-profit organisations to recognise 12 months of board service by a Macquarie employee; and Macquarie Group and Foundation grants to community organisations.

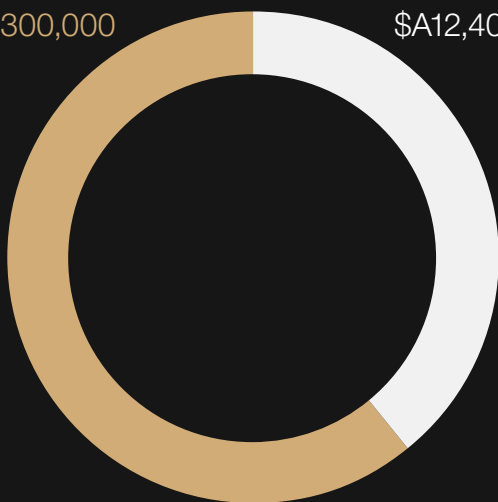
FY2019 contribution amount

Total Macquarie spend
(including staff matching)

\$A19,300,000

Staff contribution

\$A12,400,000



Further information regarding Macquarie staff community initiatives and organisations supported by the Foundation is available at macquarie.com/community

Macquarie 50th Anniversary Award

Supporting the communities in which Macquarie staff live and work has been an important part of the organisation's activities since inception in 1969.

In September 2018, Macquarie announced plans to mark the organisation's 50th anniversary by extending this tradition with a further \$A50 million commitment. It is expected to be awarded to five non-profit organisations (\$A10 million each) over a five-year period to fund projects globally that will have a lasting community benefit.

This new global award seeks to initiate or build on bold ideas that address an area of social need.

Close to 1,000 applications were received from 48 countries and a rigorous multi-stage judging process is underway. Applications covered a range of areas including health, environment, education, economic empowerment, homelessness and microfinance.

Key announcements

Finalists will be announced in May and winners will be announced in August 2019.

For more information visit macquarie.com/award



\$A50 million

philanthropic commitment
over five years



48

countries represented



~1,000

applications received



5

bold ideas will be selected



50
ANNIVERSARY
AWARD

Risk Management Report

Risk governance at Macquarie

Role of the Board

The primary role of the Board is to promote Macquarie's long-term health and prosperity. The Board is committed to oversight of Macquarie's performance, risk management and culture and to promoting the creation of enduring value by supporting its purpose to realise opportunities for the benefit of our clients, community, shareholders and our people. Macquarie's robust risk management framework supports the Board in its role. The Board is ultimately responsible for the framework, including oversight of its operation by Management.

Role of management

The Group Heads of the Operating and Central Service Groups are responsible for the implementation of the risk management framework in their groups. They are required semi-annually to attest that key risks have been identified and are adequately controlled in their groups. These management representations support the sign-off of the half year and the full year financial statements.

Three lines of defence

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

- primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all staff throughout Macquarie is to ensure they manage risks appropriately
- the Risk Management Group (RMG) forms the second line of defence and independently assesses all material risks
- Internal Audit, as the third line, provides independent and objective risk-based assurance on the compliance with, and effectiveness of, Macquarie's financial and risk management framework.

Risk management framework

Overview

Macquarie's risk management framework is the totality of systems, structures, policies, processes and people within Macquarie that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. Material risks are those that could have a material impact, financial or non-financial on Macquarie. Macquarie's material risks include conduct, reputation, environmental and social (including climate change), credit, equity, market, liquidity, operational, cyber and information security, regulatory and compliance, legal and tax risks. The risk management framework applies to all business activities across Operating and Central Service Groups.



Details about the risks we manage are available at macquarie.com/risk-management

Key components

Core risk management principles

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

- **ownership of risk at the business level:** Group Heads are responsible for ownership of all material risks that arise in, or because of, the business' operations, including identification, measurement, control and mitigation of these risks. Before taking decisions, clear analysis of the risks is sought to ensure those taken are consistent with the risk appetite and strategy of Macquarie
- **understanding worst case outcomes:** Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable and within Macquarie's risk appetite. This approach is adopted for all material risk types and is often achieved by stress testing. Macquarie operates a number of sophisticated quantitative risk management processes, but the foundation of the approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals
- **requirement for an independent sign-off by RMG:** Macquarie places significant importance on having a strong, independent Risk Management Group 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, including those with trading or investment banking experience. For all material proposals, RMG's opinion must be sought at an early stage in the decision-making process. The approval document submitted to Senior Management must include independent input from RMG on risk and return.

Risk Management Group

RMG, which forms the second line of defence, is an independent and centralised function responsible for assessing, accepting and managing risks across Macquarie. RMG designs and oversees the implementation of the risk management framework. RMG is structured into specialist teams, depicted below, and employs an integrated approach to risk analysis and management across risk classes. RMG's assessment and monitoring of risks involves a collaborative effort across the teams to ensure a detailed analysis takes place both at the individual and aggregate risk level.

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

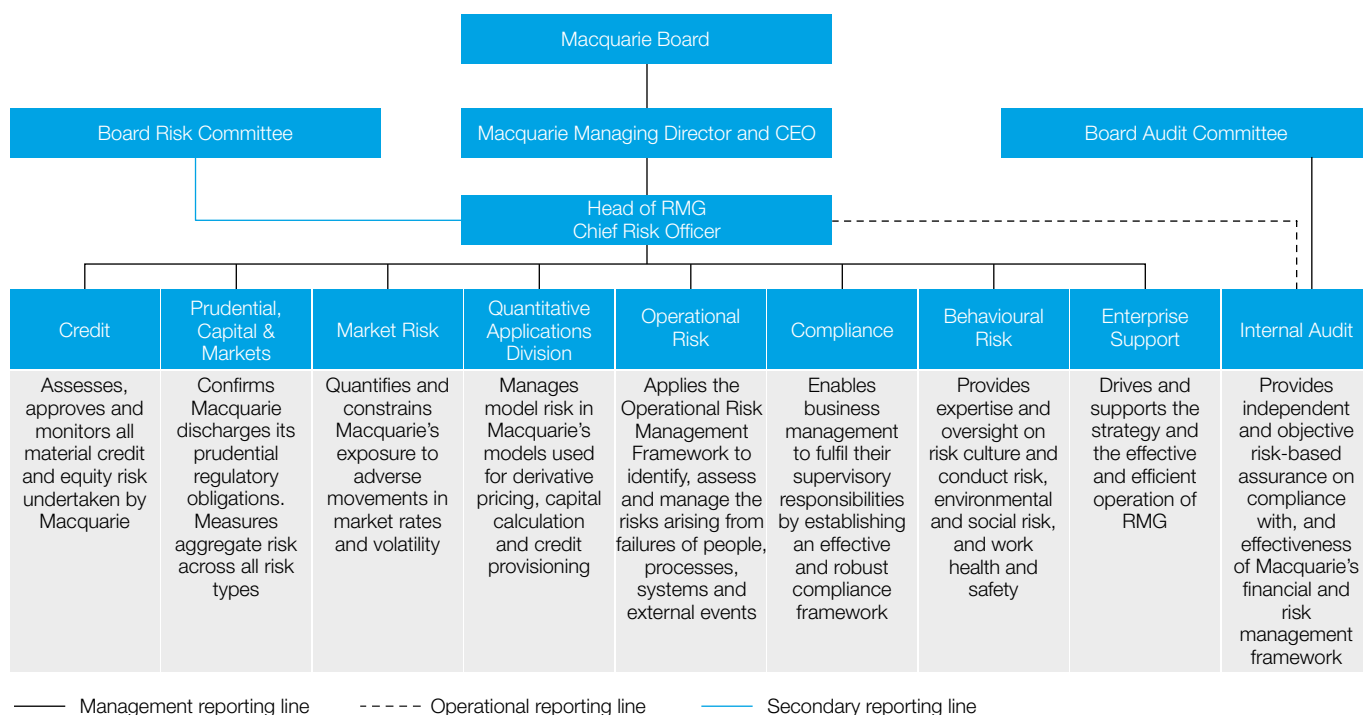
- **Independence:** RMG is independent of Macquarie's Operating and Central Service Groups. The Head of RMG, as Macquarie's CRO, reports directly to the CEO with a secondary reporting line to the BRiC. RMG approval is required for all material risk acceptance decisions
- **Centralised prudential management:** RMG's responsibility covers the whole of Macquarie. It assesses risks from a Macquarie-wide perspective and provides a consistent approach across the Group
- **Approval of all new business activities:** The Operating and Central Service Groups cannot undertake new businesses or activities, offer new products, enter new markets, or undertake significant projects without first consulting RMG. RMG reviews and assesses the risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board

- **Continuous assessment:** RMG continually reviews risks to account for changes in market circumstances and developments within Macquarie's business
- **Frequent monitoring and reporting:** The risk profile of Macquarie with respect to all material risks is monitored by RMG on an ongoing basis. Centralised systems exist to allow RMG to monitor financial risks daily. Reporting on all material risks is provided to Senior Management and the Board.

Internal audit

The Internal Audit Division, as the third line, provides independent and objective risk-based assurance to the Board Audit Committee (BAC), other Board Committees and Senior Management on the compliance with, and effectiveness of, Macquarie's financial and risk management framework. Internal Audit assesses whether material risks have been properly identified and key controls have been properly designed and are operating effectively and sustainably to mitigate those material risks.

The Head of Internal Audit reports to the BAC and has unrestricted access to the Committee and its Chairman. At each BAC meeting the Head of Internal Audit meets privately with the non-executive BAC members. The Head of Internal Audit reports operationally to the CRO for day-to-day management. The BAC reviews and monitors the remuneration of the Head of Internal Audit, after seeking input from the CRO. The BAC approves any appointment, replacement, reassignment or dismissal of the Head of Internal Audit.



Risk Management Report

Continued

Risk appetite management

Macquarie's risk appetite is the degree of risk that Macquarie is prepared to accept in pursuit of its strategic objectives and business plan. This is detailed in Macquarie's Board approved Risk Appetite Statement (RAS). The RAS describes Macquarie's risk appetite, being the nature and amount of risk that Macquarie is willing to accept in pursuit of an appropriate and resilient long-term return on its capital. The RAS states transactions must generate returns proportionate to the risks. Accordingly, a risk and return analysis is required for all significant new deals, products and businesses.

The RAS is accessible to all staff and is referred to in the *Code of Conduct*. The principles of the RAS are implemented primarily through the following mechanisms:

Policies

Policies are a key tool to ensure that risks taken are consistent with the Board approved RAS. They set out the principles that govern the acceptance and management of risks. They are designed to influence and determine all major decisions and actions, and all activities must take place within the boundaries set by them.

Limits

In many cases, limits translate risk appetite principles into hard constraints on individual businesses. These consist of granular limits for specific risk types as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk. Macquarie sets the Global Risk Limit with reference not only to capital but also to earnings so that in a prolonged, severe downturn, earnings and surplus capital are sufficient to cover losses and maintain market confidence in Macquarie.

Under Macquarie's 'no limits, no dealing' approach, compliance with specific limits is monitored by the Business and RMG. These granular limits are set to allow the Businesses to achieve their near-term plans while promoting a reassessment of the opportunity and associated risks as the limit is approached.

New product and business approval process

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

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

Risk culture

A sound risk culture has been integral to Macquarie's risk management framework since inception. Primary responsibility for risk management in Macquarie, including risk culture, is at the business level. The Board, assisted by the BRiC, is responsible for:

- reviewing, endorsing and monitoring Macquarie's approach to risk culture and conduct
- forming a view on Macquarie's risk culture and the extent to which it supports the ability of Macquarie to operate consistently within its risk appetite.

Macquarie's approach to maintaining an appropriate risk culture is based on the following three components:

Setting behavioural expectations

Senior Management, with oversight from the Board, set behavioural expectations. Staff are made aware that Macquarie's principles of *What We Stand For: Opportunity, Accountability and Integrity* must form the basis of all behaviours and actions. These behavioural expectations are specified in the Board approved *Code of Conduct*, which is actively promoted by management and cascaded through the organisation.

Leading and executing

Management implements behavioural expectations through:

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

Monitoring, measuring and reporting

Macquarie monitors and measures its risk culture to gauge effectiveness while promoting continuous improvement.

Mechanisms include:

- Reports incorporating behavioural elements (such as policy and limit breaches) are prepared by all Businesses, RMG, HR and Macquarie's Integrity Office and escalated, where relevant, according to our governance framework. These include regular reports relating to risk culture which are provided to Senior Management and the Board
- The Risk Culture team in RMG Behavioural Risk uses a well developed assessment process. It undertakes risk culture reviews across the Operating and Central Service Groups to assess the relative strengths and areas for development within a business or function.

These mechanisms facilitate a feedback loop of sharing good practice and lessons learnt to enable cultural realignment where necessary.

Remuneration and Consequence Management

Macquarie's remuneration framework and consequence management process is designed to promote accountability, encourage and reward appropriate behaviours and discourage inappropriate behaviours.

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*. In addition, the remuneration framework is characterised by significant retention and long deferral periods which enables risk outcomes to be taken into account over long periods.

The Board and Board Committees continue to take risk and conduct matters very seriously. There are robust processes in place to ensure that risk, reputation and conduct related matters, as well as financial losses and impairments, and other breaches of the risk management framework are specifically considered when assessing performance and determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate.

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



See the Remuneration Report for more details on Macquarie's Remuneration Framework and Consequence Management process

Conduct risk

Macquarie defines conduct risk as the risk of behaviour or action taken by individuals employed by, or on behalf of, Macquarie or taken collectively in representing Macquarie that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff, or Macquarie.

Such behaviour or action may include:

- breaches of laws or regulations
- disregard for Macquarie's principles of *What We Stand For* or the *Code of Conduct*
- negligence and/or a lack of reasonable care and diligence.

Conduct risk can arise inadvertently or deliberately in any of Macquarie's businesses.

Macquarie's approach to conduct risk management is integrated in our risk management framework and is consistent with our three lines of defence model. Risk-taking must be consistent with Macquarie's principles of *What We Stand For: Opportunity, Accountability and Integrity* which must form the basis of all behaviours and actions. These behavioural expectations are outlined in the Board approved *Code of Conduct*.

Macquarie has a range of controls and processes in place to identify and manage conduct risk, including:

- new and emerging conduct risks are identified through the annual strategy and business planning process
- conduct risks that may arise when Macquarie establishes a new business or product, or makes a significant change to an existing business, product, process or system are identified and assessed through the new business and product approval process
- independent monitoring and surveillance conducted by RMG, in addition to front line supervisory activities performed by the business
- the Risk and Control Self-Assessment incorporates a conduct risk lens, requiring businesses to identify and assess their key conduct risks
- where incidents occur, we investigate the underlying contributing behaviours, the impacts and resolve the issues appropriately and in a timely manner. Behavioural matters are addressed in accordance with our Consequence Management Guideline
- performance-based remuneration reflects an individual's performance, which includes assessment of a range of factors including risk management and behavioural measures
- an Integrity Office that is an independent point of contact for staff to safely raise concerns about misconduct, unethical behaviour or breaches of the *Code of Conduct*
- a global Staff Hotline for staff who wish to speak up anonymously.

Market and credit risk

Year end performance indicators

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

Trading revenue

The effectiveness of Macquarie's risk management framework can be partially measured by Macquarie's daily trading results. These are daily profit and loss results that are directly attributable to market based activity from Macquarie's trading desks.

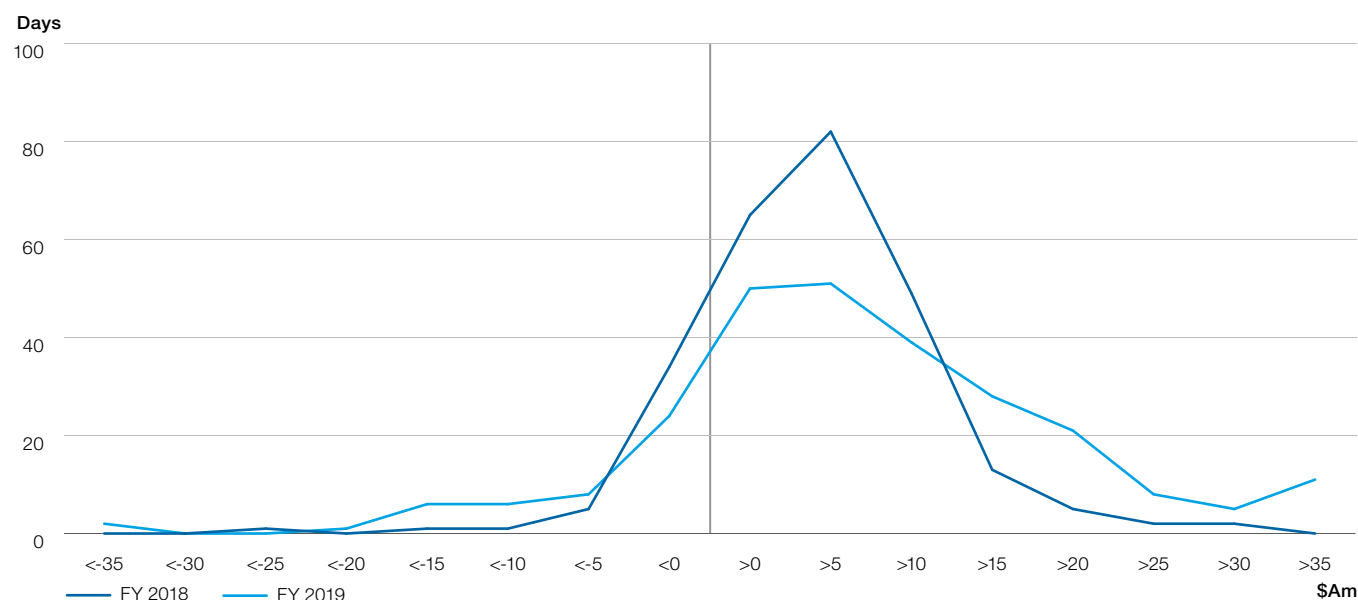
Macquarie's market risk activities continue to be based on earning income from client-facing businesses. The majority of trading income is derived from client activities rather than outright proprietary trading activity.

Macquarie's trading results over time have shown consistent profits and low volatility. This is evident in the graph below and reflects the client-based nature of trading activities. In FY2019 Macquarie made a net trading profit on 213 out of 260 trading days (2018 results: 218 out of 260 trading days) and trading loss profiles were consistent with previous years.

Risk Management Report

Continued

Daily trading profit and loss



Value-at-Risk

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

Macquarie's market risk increased throughout the year, driven by higher market volatility within the US gas market, and commodity exposure driven by regional spreads in US Gas. VaR remains modest in comparison to capital and earnings. It represents less than 0.2% of total equity.

Aggregate VaR



Loan impairment review

Macquarie prospectively adopted AASB 9 *Financial Instruments* (AASB 9) effective 1 April 2018. As permitted by AASB 9, prior year comparative information was not restated. The standard contains new requirements for the classification and measurement of certain financial instruments, new hedge accounting requirements and, from a credit provisioning perspective, introduced an expected credit loss methodology, which differed to the incurred loss methodology applied in prior years.

In addition to the above, AASB 9 introduced new disclosure requirements. Note 35.1 to the financial statements *Credit risk* now discloses loan asset exposures by stage of credit performance. Note 12 to the financial statements *Expected credit losses* discloses expected credit losses on loan assets by stage of credit performance. The 2019 numbers presented below are calculated with reference to this information. Loan assets categorised as stage III in terms of AASB 9 are now defined as 'credit impaired'. As noted, AASB 9 did not require the restatement of comparative information, and for that reason the comparative numbers in the graph below have not been restated.

Underlying credit quality, as indicated by impaired assets and credit losses, has remained relatively stable in FY19 compared to recent years. The increase in net stage III loan assets in FY19 is largely the result of the definition of 'impairment' changing under AASB 9. In the chart below, the FY19 value for impaired assets to loan assets, has been indicated on the basis of the previous definition for comparative purposes⁽¹⁾.

Ratio of Provisions and Credit Impaired Loan Assets to Loans Assets



Notes to prior year comparatives⁽²⁾:

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

(1) Excludes FY19 loans classified as FVTPL.

(2) The information for the financial years ended 31 March 2008–2019 is based on results using the Australian Accounting Standards that were effective and adopted by the Consolidated Entity at the reporting dates. Reporting periods have been restated only to the extent as required by the accounting standards. The financial reporting periods may hence not be fully comparable with one another as a result of changes in accounting standards' requirements.



Directors' Report

Rhyl Flats Offshore Wind Park, UK

Located off the coast of North Wales, Rhyl Flats is a 90 MW offshore wind farm that generates enough electricity to power an average of 70,000 homes each year. Macquarie has been active in wind power for over a decade, managing, advising and investing in projects from development to operation across four continents. As a world leading financial investor in offshore wind, we've invested in projects from the North Sea to the East China Sea.



Directors' Report

For the financial year ended 31 March 2019

The Directors of MGL submit their report with the financial report of the Consolidated Entity and of the Company for the year ended 31 March 2019.

Directors

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

Independent Directors

P.H. Warne, Chairman
G.R. Banks AO
J.R. Broadbent AC
G.M. Cairns
P.M. Coffey
M.J. Coleman
D.J. Grady AM
M.J. Hawker AM
G.R. Stevens AC
N.M. Wakefield Evans

Executive Voting Director

S.R. Wikramanayake, Managing Director and Chief Executive Officer

Other than Ms Wikramanayake, Mr Coffey and Ms Broadbent, the Directors listed above each held office as a Director of MGL throughout the financial year ended 31 March 2019. Ms Wikramanayake joined the Board of Directors effective 28 August 2018 and was appointed Managing Director and Chief Executive Officer, replacing Nicholas Moore, effective from 1 December 2018. Mr Coffey joined the Board of Directors effective from 28 August 2018. Ms Broadbent joined the Board of Directors effective from 5 November 2018.

Mrs P.A. Cross retired as an Independent Director on 26 July 2018.

Mr N.W. Moore retired as an Executive Voting Director on 30 November 2018.

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 on pages 56 to 61 of this report.

Principal activities

The principal activity of MGL during the financial year ended 31 March 2019 was to act as a Non-Operating Holding Company (NOHC) for the Consolidated Entity. The activities of the Consolidated Entity were those of a global financial group providing banking, financial, advisory, investment and funds management services. In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2019 and 31 March 2018, 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 2019 was \$A2,982 million (2018: \$A2,557 million).

Dividends and distributions

Subsequent to the year ended 31 March 2019, the Directors have resolved to pay a final ordinary dividend of \$A3.60 per share, 45% franked based on tax paid at 30% (\$A1,225 million in aggregate). The final ordinary dividend is payable on 3 July 2019.

On 18 December 2018, the Company paid an interim ordinary dividend of \$A2.15 per share, 45% franked (\$A730 million in aggregate) for the financial year ended 31 March 2019.

On 3 July 2018, the Company paid a final dividend of \$A3.20 per share, 45% franked (\$A1,089 million in aggregate) for the financial year ended 31 March 2018.

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

State of affairs

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

Operating and financial review

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

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

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

Directors' Report

For the financial year ended 31 March 2019 continued

Directors' equity participation and other relevant interests

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

Name and position	EQUITY PARTICIPATION			OTHER RELEVANT INTERESTS	
	MGL ordinary shares	RSUs held in MEREP ⁽¹⁾	PSUs held in MEREP ⁽¹⁾	Direct and Indirect Interests	Number held
Executive Voting Director					
S.R. Wikramanayake	800,014	236,853	113,132	Macquarie Small Companies Fund units	625,164.08
				Macquarie Agriculture Fund – Crop Australia units	2,000,000
Independent Directors					
G.R. Banks	6,416	–	–	Macquarie Wrap Cash Account units	234,468.71
J.R. Broadbent	4,000	–	–	Macquarie Group Capital Notes 3 (MCN3)	2,846
				Macquarie Group Capital Notes 4 (MCN4)	4,000
				Macquarie Bank Capital Notes (BCN)	3,400
G.M. Cairns	12,734	–	–	Macquarie Income Securities	900
P.M. Coffey	8,239	–	–	Macquarie Walter Scott Global Equity Fund units	408,699.89
M.J. Coleman	7,199	–	–	Macquarie Group Capital Notes 2 (MCN2)	2,000
D.J. Grady	9,074	–	–	MCN2	100
				MCN3	390
				MCN4	500
M.J. Hawker	7,335	–	–	MCN2	500
G.R. Stevens	2,584	–	–	–	–
N.M. Wakefield Evans	5,515	–	–	–	–
P.H. Warne	14,933	–	–	–	–

(1) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in Note 29 to the financial statements in the Financial Report.

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

Board and Board Committee meetings and attendance

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

	Regular Board Meetings ⁽¹⁾	BAC meetings ⁽¹⁾	BGCC meetings ⁽¹⁾	BNC meetings ⁽¹⁾	BRC meetings ⁽¹⁾	BRiC meetings ⁽¹⁾	Special Board Meetings ⁽¹⁾
Number of meetings	10	8	4	3	6	5	2
P.H. Warne	10/10	–	–	3/3	6/6	5/5	2/2
S.R. Wikramanayake ⁽²⁾	7/7	–	–	–	–	–	1/1
N.W. Moore ⁽³⁾	6/6	–	–	–	–	–	2/2
G.R. Banks	9/10	–	4/4	3/3	6/6	5/5	1/2
J.R. Broadbent ⁽⁴⁾	4/4	–	–	1/1	–	3/3	1/1
G.M. Cairns	10/10	–	–	3/3	6/6	5/5	1/2
P.M. Coffey ⁽⁵⁾	6/7	–	–	1/2	–	3/4	1/1
M.J. Coleman	10/10	8/8	4/4	3/3	–	5/5	1/2
P.A. Cross ⁽⁶⁾	2/3	1/2	–	0/1	–	0/1	1/1
D.J. Grady	10/10	–	4/4	3/3	6/6	5/5	2/2
M.J. Hawker	10/10	8/8	–	3/3	6/6	5/5	2/2
G.R. Stevens ⁽⁷⁾	8/8	4/4	–	2/2	–	3/3	2/2
N.M. Wakefield Evans	10/10	8/8	4/4	3/3	–	5/5	2/2

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

(2) Ms Wikramanayake was appointed to the Board as an Executive Voting Director effective from 28 August 2018.

(3) Mr Moore retired from the Board as an Executive Voting Director effective 30 November 2018.

(4) Ms Broadbent was appointed to the Board as an Independent Voting Director, and as a member of the Board Risk Committee and Board Nominating Committee, effective from 5 November 2018.

(5) Mr Coffey was appointed to the Board as an Independent Voting Director, and as a member of the Board Risk Committee and Board Nominating Committee, effective from 28 August 2018.

(6) Mrs Cross retired from the Board as an Independent Voting Director effective 26 July 2018.

(7) Mr Stevens was appointed as a member of the Board Audit Committee effective from 1 July 2018. The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.

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

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

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

Directors' Report

For the financial year ended 31 March 2019 continued

Directors' and officers' indemnification and insurance

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

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

This indemnity does not apply to the extent that:

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

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

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

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

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

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

Environmental regulations

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

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

Non-audit services

Fees paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), for non-audit services during the period ended 31 March 2019 total \$A9.4 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 Voting Directors are satisfied that the provision of non-audit services did not compromise the auditor independence requirements of the Act for the following reasons:

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

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



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

On 30 April 2019, the Consolidated Entity entered into a sales agreement for 25% of Macquarie Air Finance (MAF) to a third-party investor. MAF, which is reported as part of the CAF operating segment, was classified as held for sale as at 31 March 2019. Following the disposal of the interest in MAF, the Consolidated Entity will account for its 75% retained interest as an equity-accounted joint venture on the basis of the Consolidated Entity exercising joint control. There was no material change in the Consolidated Entity's shareholders' equity as a result of the disposal.

Peter Warne

Independent Director and Chairman

Shemara Wikramanayake

Managing Director and Chief Executive Officer

Sydney
3 May 2019

Auditor's independence declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2019, 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* (Cth) in relation to the audit, and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

K.G. Smith

Partner

PricewaterhouseCoopers

Sydney
3 May 2019

Liability limited by a scheme approved under Professional Standards Legislation

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GPO BOX 2650, SYDNEY NSW 2001
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Directors' experience and special responsibilities



Peter H Warne
BA (Macquarie), FAICD

Independent Chairman of MGL and MBL since April 2016

Independent Voting Director of MGL since August 2007

Independent Voting Director of MBL since July 2007

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

Experience

Peter Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of senior roles at Bankers Trust Australia Limited, including as Head of its global Financial Markets Group from 1988 to 1999. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 to 1999, then from 2000 to 2006.

He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the Australian Securities Exchange (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.

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

- Interim Chairman, New South Wales Treasury Corporation
- Member, Macquarie University Faculty of Business and Economics Industry Advisory Board
- Member, ASIC Director Advisory Panel
- Board member, Allens

Age: 63

Mr Warne is a resident of New South Wales.



Shemara R Wikramanayake
BCom LLB (UNSW)

Managing Director and Chief Executive Officer of MGL since December 2018

Executive Voting Director of MGL and MBL since August 2018

Experience

In her time at Macquarie, Shemara Wikramanayake has worked in nine cities in six countries and across several business lines, establishing and leading Macquarie's corporate advisory offices in New Zealand, Hong Kong and Malaysia, and the infrastructure funds management business in the US and Canada. She joined Macquarie in 1987 and was instrumental in establishing Macquarie Capital which at the time included: advisory; infrastructure funds; corporate leasing and lending; and cash equities.

Ms Wikramanayake was most recently the Head of Macquarie Asset Management, a role she held from 2008 to 2018. Macquarie Asset Management offers a diverse range of services including infrastructure and real asset management; securities investment management; and fund and equity-based investment solutions.

Before joining Macquarie, she worked as a corporate lawyer at Blake Dawson Waldron in Sydney.

Other current directorships/appointments

- Commissioner, Global Commission on Adaptation
- Member, Climate Finance Leadership Initiative

Age: 57

Ms Wikramanayake is a resident of New South Wales.



Gary R Banks AO
BEC (Hons) (Monash), MEc (ANU)

Independent Voting Director of MGL and MBL since August 2013

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

Experience

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

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

Other current directorships/ appointments

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

Age: 69

Mr Banks is a resident of Victoria.



Jillian R Broadbent AC
BA (Maths & Economics) (Sydney)

Independent Voting Director of MGL and MBL since November 2018

Ms Broadbent is a member of the BNC and BRiC

Experience

Jillian Broadbent has extensive investment banking industry knowledge and markets expertise, including a deep knowledge of risk management and regulation in these areas. She also has considerable executive management and listed company board experience. Ms Broadbent spent 22 years at Bankers Trust Australia until 1998, initially as the economic strategist and then as executive director responsible for risk management and derivatives in foreign exchange, interest rates and commodities.

Ms Broadbent was also a Member of the Reserve Bank of Australia Board between 1998 and 2013 and has previously served as Chair of the Board of Clean Energy Finance Corporation (CEFC), and as a director of ASX Limited, SBS, Coca-Cola Amatil, Woodside Petroleum, Qantas and Westfield Management Ltd. She has an Honorary Doctorate Degree from the University of Western Sydney.

Listed company directorships (last three years)

- Director, Woolworths Group Limited (since January 2011)

Other current directorships/ appointments

- Chair, Swiss Re Life & Health Australia Limited
- Chancellor, University of Wollongong
- Director, National Portrait Gallery of Australia
- Director, Sydney Dance Company

Age: 71

Ms Broadbent is a resident of New South Wales.

Directors' experience and special responsibilities

Continued



Gordon M Cairns
MA (Hons) (Edin)

Independent Voting Director of MGL and MBL since November 2014

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

Experience

Gordon Cairns has held a range of management and executive roles throughout his career with Nestle, Cadbury Ltd and PepsiCo culminating as Chief Executive Officer of Lion Nathan Limited from 1997 to 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.

Mr Cairns has 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.

Listed company directorships (last three years)

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

Other current directorships/appointments

- Director, World Education Australia

Age: 68

Mr Cairns is a resident of New South Wales.



Philip M Coffey
BEc (Hons) (Adelaide), GAICD, SF Finsia

Independent Voting Director of MGL and MBL since August 2018

Mr Coffey is a member of the BNC and BRiC

Experience

Phil Coffey served as the Deputy Chief Executive Officer (CEO) of Westpac Banking Corporation, from April 2014 until his retirement in May 2017. As the Deputy CEO, Mr Coffey had the responsibility of overseeing and supporting relationships with key stakeholders of Westpac including industry groups, regulators, customers and government. He was also responsible for Westpac's Mergers & Acquisitions function. Prior to this role, Mr Coffey held a number of executive positions at Westpac including Chief Financial Officer and Group Executive, Westpac Institutional Bank.

He has successfully led operations based in Australia, New Zealand, United States and the United Kingdom and Asia and has extensive experience in financial markets, funds management, balance sheet management and risk management. He began his career at the Reserve Bank of Australia and has also held executive positions at AIDC Limited and Citigroup.

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since January 2017)

Other current directorships/appointments

- Director, Clean Energy Finance Corporation

Age: 61

Mr Coffey is a resident of New South Wales.



Michael J Coleman

MCom (UNSW), FCA, FCPA, FAICD

Independent Voting Director of MGL and MBL since November 2012

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

Experience

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

Mr Coleman has been the 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. During his time with KPMG, Mr Coleman was a financial services specialist, providing audit and advisory services to large banks, investment banks and fund managers. He was KPMG's inaugural National Managing Partner in 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.

Listed company directorships (last three years)

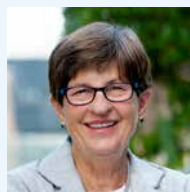
- Chairman, Bingo Industries Limited (since March 2017) (listed May 2017)

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

Age: 68

Mr Coleman is a resident of New South Wales.



Diane J Grady AM

BA (Mills), MA (Hawaii), MBA (Harv), FAICD

Independent Voting Director of MGL and MBL since May 2011

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

Experience

Diane Grady has extensive international experience in a variety of industries having spent 25 years as a full-time independent director of public companies and not-for-profit boards and as a partner with McKinsey & Co where for 15 years she consulted with clients in financial services, insurance, retailing, telecommunications, consumer goods and manufacturing industries.

Ms Grady's previous boards include Woolworths, BlueScope, Lend Lease, MLC, Goodman Group and the Sydney Opera House. She has also served as President of Chief Executive Women and Chair of Ascham School. At McKinsey Ms Grady was a firm-wide leader of the Organisation, Culture and Change Management Practice and in Australia she focused on assisting clients to grow through service improvement, innovation, and marketing strategies. She has a Masters of Chinese Studies and worked for three years as a journalist in Asia.

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, Heads Over Heels Advisory Board
- Member, NFP Chairs Forum
- Director, Tennis Australia
- Director, Grant Thornton Australia Board

Age: 70

Ms Grady is a resident of New South Wales.

Directors' experience and special responsibilities

Continued



Michael J Hawker AM

BSc (Sydney), FAICD, SF Fin, FAIM, FIoD

Independent Voting Director of MGL and MBL since March 2010

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

Experience

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

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

Listed company directorships (last three years)

- Director, Aviva plc (January 2010– March 2019)
- Director, Washington H. Soul Pattinson and Company Ltd (since October 2012)

Other current directorships/ appointments

- Director, BUPA Global Board UK
- Director, BUPA ANZ Group
- Director, Rugby World Cup Limited
- Board member, Museum of Contemporary Art Australia

Age: 59

Mr Hawker is a resident of New South Wales.



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 BAC, BRiC and BNC

Experience

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

Other current directorships/ appointments

- Chair, NSW Generations Fund Advisory Board
- Director, Lowy Institute
- Director, Anika Foundation
- Member, Investment Committee, NWQ Capital Management
- Advisor, Ellerton Capital Global Macro Fund
- Deputy Chair, Temora Aviation Museum

Age: 61

Mr Stevens is a resident of New South Wales.



Nicola M Wakefield Evans
BJuris/BLaw (UNSW), FAICD

Independent Voting Director of MGL and MBL since February 2014

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

Experience

Nicola Wakefield Evans is an experienced non-executive director and corporate finance lawyer. As a lawyer, Ms Wakefield Evans has significant Asia-Pacific experience 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.

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

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since September 2013)

Other current directorships/appointments

- Chair, 30% Club Australia
- Director, Clean Energy Finance Corporation
- Director, Chief Executive Women
- Member, Takeovers Panel
- Director, UNSW Foundation Limited
- Member, National Board, Australian Institute of Company Directors

Age: 58

Ms Wakefield Evans is a resident of New South Wales.

Company secretaries' qualifications and experience

Dennis Leong
BSc BE (Hons) (Syd), MCom (UNSW), CPA, FGIA

Company Secretary since October 2006

Dennis Leong is an Executive Director of Macquarie and has had responsibility for Macquarie's company secretarial requirements, general and professional risks insurances and aspects of its employee equity plans. He has over 25 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Ida Lawrance
BCom (Hons) (Queens), LLM (UNSW), AGIA, GAICD

Assistant Company Secretary since July 2016

Ida Lawrance is a Division Director of Macquarie and has over 20 years legal and governance experience. Prior to joining Macquarie in March 2006, Ida practiced as a lawyer in both the private and public sectors.

Remuneration Report

Letter from the Chairman of the Board Remuneration Committee

Dear shareholders

On behalf of the Board, I am pleased to present the 2019 Remuneration Report.

Macquarie's remuneration framework is integral to attracting and retaining high quality professionals with deep expertise, who develop businesses and client relationships globally and drive Macquarie's long-term success. Remuneration outcomes are aligned with outcomes delivered to our clients and shareholders. There have been no changes to the remuneration framework impacting FY2019 remuneration outcomes.

Performance

In 2019, Macquarie continued to deliver strong financial results for shareholders:

- Net profit after tax (NPAT) of \$A2,982 million has increased by 17% on the prior year
- Return on equity (ROE) of 18.0% has improved from 16.8% in the prior year, and
- Earnings per share (EPS) of 883.3 cents per share has increased by 17% on the prior year.

Pay for performance

The company-wide profit share pool is determined through a bottom-up assessment of performance at both a business and individual level, taking into consideration overall remuneration levels in the market in which each business operates. Individuals are assessed against a range of factors including their contribution to profit, business management, sound risk management, customer outcomes and conduct.

The Board reviews and has discretion to amend the company-wide pool as determined through the bottom-up assessment. This is to ensure that the final pool not only reflects all relevant internal and external factors including potential future risks, but also whether the share of profits distributed to staff is appropriate.

The Board also assesses the final profit share pool for overall reasonableness against an internal reference based on Macquarie's after-tax profits and its earnings over and above the estimated cost of capital, and an external reference of benchmarking our compensation to income ratio (compensation ratio) against an international reference group. For the fifth year in a row, the company-wide pool is substantially below the internal reference described above, and our compensation ratio of 38.3% continues to be below the average of our international reference group.

In considering all of these factors, the Board is of the view that both:

- the FY2019 profit share pool, and
- total awarded profit share for Comparable Executive Key Management Personnel (KMP)⁽¹⁾ of \$A78.3 million, representing an increase of 15% on the prior year

are appropriate.

CEO transition

As previously announced, after a successful decade, Nicholas Moore stepped down as CEO of Macquarie on 30 November 2018 and has been succeeded by Shemara Wikramanayake.

Mr Moore is not entitled to any additional payments upon retirement from the organisation.

Upon leaving Macquarie, subject to the Board determining there has been no Malus or Post Employment event, he will, over the next two years be eligible to receive his previously retained but unvested profit share amounts. These amounts were awarded and approved by shareholders during the past seven years and delivered in a combination of Macquarie equity as Restricted Share Units (RSUs) and Macquarie-managed fund equity. As at 31 March 2019, he held 629,536 RSUs valued at \$A81.5 million based on the share price on 31 March 2019 (valued at \$A50.4 million at the time of grant) and \$A7.1 million in Macquarie-managed fund equity.

In addition, his 160,271 unvested PSUs may become exercisable in accordance with the original vesting schedule, subject to the achievement of the performance hurdles.

During Mr Moore's tenure as CEO, results for shareholders have been outstanding. The Total Shareholder Return (TSR) during his tenure was 280%, significantly outperforming the average of our international reference group, the MSCI Index and the All Ordinaries Index. During the 10 years in which Mr Moore was CEO, Macquarie's market capitalisation grew from \$A16.1 billion to \$A39.0 billion. Mr Moore continues to provide services to Macquarie to ensure a smooth leadership transition.

The Board was pleased to have someone of the calibre of Ms Wikramanayake to succeed Mr Moore as CEO. Her remuneration for 2019 reflects her time in both the Head of MAM role (1 April 2018 to 30 November 2018) and the CEO role (1 December 2018 to 31 March 2019).

Culture and conduct

Our core *What We Stand For* principles of Opportunity, Accountability and Integrity, underpin our culture, guide the way our people conduct themselves and drive our performance. Over recent years, our businesses have continued to evolve through organic growth and selective acquisitions. This has resulted in the hiring of a diverse range of individuals and teams with operational and specialist expertise. The focus on Macquarie's culture and the way we do business is essential to the successful integration of new teams and staff.

All staff are made aware that Macquarie's principles of Opportunity, Accountability and Integrity must form the basis of all behaviours and actions. The remuneration framework promotes accountability, encourages and rewards appropriate behaviours and discourages inappropriate behaviours.

Consistent with last year, we have disclosed the number of matters involving conduct/policy breaches which resulted in formal consequences (refer to page 73.)

(1) Comparable Executive KMP are those KMP who are members of the Executive Committee for the full year in both FY2019 and FY2018.

Customers and community expectations

I wish to take this opportunity to acknowledge the publication of the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission) and its recommendations. The Banking Royal Commission has been a crucial reminder of the financial sector's obligations and the standards expected by clients, shareholders and the community. Macquarie is closely monitoring the implementation of the Banking Royal Commission's recommendations and will participate in industry and public consultation as appropriate.

Macquarie remains committed to being open and transparent with our customers and to meeting community expectations. For example, Macquarie announced during the year the termination of commission arrangements in the Wealth Management Division of the Banking and Financial Services (BFS) Group. This decision reflects our continued commitment to eliminating any perceived conflicts of interest in dealings with customers.

The Banking Executive Accountability Regime (BEAR) will apply to Macquarie from 1 July 2019. To ensure full compliance with the remuneration requirements of this regime by this date, the vesting period of PSUs awarded from FY2020 will be extended to four years, subject to performance hurdles (PSUs currently vest in two tranches after years three and four).

Disclosure

During the year, there have been over 300 meetings with investors and proxy advisors at which our remuneration framework was discussed. As a result of this ongoing engagement, we have disclosed additional information regarding PSUs this year. Both the fair and face value of PSUs to be granted to all Executive KMP (refer to page 83) have been disclosed, as well as further information regarding the PSU hurdles and their ongoing appropriateness.

Non-Executive Director fees

During the year Non-Executive Director (NED) fees were increased by 4% and the Chairman fees by 3%, (refer to page 85 for more details). This increase was effective 1 July 2018. Since the last change to the Board fees which were effective 1 October 2015, the compound annual growth rate (CAGR) of the Board member base fee has been 1.44% and the CAGR of the Board Chairman fee 1.04%.

I look forward to receiving your views and support at the 2019 Annual General Meeting.



Michael Hawker

Chairman

Board Remuneration Committee



Remuneration Report

Continued

Remuneration framework

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

Macquarie's longstanding and consistent approach to remuneration continues to support the overarching objective of delivering strong company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of Conduct* and *What We Stand For*. The Board recognises that to achieve this objective, we must attract, motivate and retain exceptional people while aligning their interests with those of our clients and shareholders. This broad approach has been in place since Macquarie's inception, evolving over time to ensure the framework continues to meet its overall objectives.

Macquarie's remuneration approach has been a key driver of our sustained success as an international organisation. Staff are motivated to grow businesses over the medium to long-term, taking accountability for all decisions and their accompanying risk management, customer, economic and reputational consequences.

This approach has been fundamental in attracting, motivating and retaining exceptional, entrepreneurial and ethical people. We hire world-class people in 30 highly competitive markets. These people come from and compete in various industry sectors such as hedge funds, private equity firms, global investment banks, fund managers, advisory boutiques, commodity houses and other banks. For this reason, we use an international reference group for peer comparison.

An overview of the remuneration framework is set out below.

Overall remuneration objectives and principles



Remuneration structure

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

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

Fixed remuneration	
Fixed	- for Executive KMP, is a low proportion of total remuneration relative to the industry but sufficient to avoid inappropriate risk-taking - for risk and financial control staff, generally a higher proportion of total remuneration than for front office staff.
Performance-Based Remuneration	
Profit share	- all permanent employees are eligible to participate - significant portion of profit share is retained (80% for the CEO) with a long deferral period (three to seven years for Executive Committee members) - retained profit share is delivered in a combination of MGL equity and Macquarie-managed fund equity to strengthen alignment with future performance - Malus provisions apply to certain senior employees - retained profit share is subject to forfeiture upon leaving Macquarie except in limited circumstances (such as retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances).
PSUs	- are only awarded to Executive Committee members to drive company-wide performance - are a meaningful incentive but not the major element of total remuneration - vesting of PSUs is subject to achievement of performance hurdles measured equally against ROE relative to an international reference group (50%) and absolute EPS growth (50%) - PSU awards vest in two equal tranches after three and four years⁽²⁾ - no retesting of hurdles - an international reference group recognises the extent of Macquarie's diversification and internationalisation - Malus provisions apply - unvested PSUs are subject to forfeiture upon leaving Macquarie except in limited circumstances (such as retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances).

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

Retained profit share: retention and vesting

Macquarie retains a percentage of certain individuals' annual profit share allocation (retained profit share) which is invested in a combination of Macquarie ordinary shares under the Macquarie Group Employee Retained Equity Plan (MEREP) and Macquarie-managed fund equity notionally invested under the Directors' Profit Share (DPS) Plan⁽³⁾. 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 Board Remuneration Committee (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.

(2) The Banking Executive Accountability Regime (BEAR) will apply to Macquarie from 1 July 2019. To ensure full compliance by this date, the vesting period of PSUs awarded from FY2020 will be extended to four years, subject to performance hurdles.

(3) Both the MEREP and DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in Macquarie ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 30 *Employee equity participation* to the financial statements in the Financial Report. The 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.

Remuneration Report

Continued

The following table summarises the standard retention and vesting arrangements applicable for FY2019.

FY2019 Standard profit share arrangements – retention levels, investment of retained profit share and vesting periods

Role	Available profit share (%) ⁽⁴⁾	Profit share retention (%)	Retained profit share investment		Vesting and release of profit share ⁽⁹⁾
			MEREP (MGL ordinary shares) %	DPS Plan (Macquarie-managed fund equity) %	
CEO ⁽⁶⁾	20	80	90	10	One-fifth in each of years 3–7
CEO Macquarie Bank	40	60	90	10	
Executive Committee members with Funds responsibilities ⁽⁷⁾	30–40	60–70	50	50	
Other Executive Committee members	30–40	60–70	80–90 ⁽⁸⁾	10–20	
Designated Executive Directors ⁽⁹⁾	40–50	50–60	80–90	10–20	
Other Executive Directors	40–60	40–60	80–90	10–20	One-third in each of years 3–5
Executive Directors with Funds responsibilities	40–60	40–60	25–50	50–75	As Above
Staff other than Executive Directors	40–75	25–60 ⁽¹⁰⁾	100 ⁽¹¹⁾	0 ⁽¹¹⁾	One-third in each of years 2–4

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

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

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

A small number of individuals with funds responsibilities may receive a portion of their performance-based remuneration as a share of performance fees paid by Macquarie-managed funds. The company-wide profit share pool is adjusted downwards to reflect these deferred remuneration arrangements, which are also taken into account in determining the individual's profit share allocation. Consistent with market practice, these individuals are allocated an entitlement to a share of performance fees paid by a particular fund. This allocation is based on performance, seniority and the extent of their involvement with the particular fund. An individual will not receive their entitlement until Macquarie has received performance fees towards the end of the fund's life, which is typically upwards of 10 years. One KMP, in his former role, participated in these arrangements for certain funds. Upon joining the Executive Committee, he will maintain his participation in these existing funds, but he will not be allocated any additional entitlements. No other KMP currently participate in these arrangements.

(4) Available profit share is delivered in cash except for staff (including one Executive Committee member for a period during the year) subject to the UK Remuneration Code (the Code) implementing the Capital Requirements Directive IV (CRD IV), where 50% of available profit share is delivered in Macquarie equity and is subject to a 12 month hold period.

(5) For staff (including one Executive Committee member for a period during the year) subject to the Code implementing CRD IV, retained profit share invested in Macquarie equity is subject to a further 12 month hold post the vesting period.

(6) The current CEO is subject to these arrangements from 1 December 2018. Including PSUs, the current CEO's effective deferral rate is 86% for the period that she was CEO.

(7) During FY2019, the current CEO was subject to these arrangements from 1 April 2018 to 30 November 2018, being the period that she was Head of MAM.

(8) One Executive Committee member was subject to the Code implementing CRD IV for a period during the year. For that period, retained profit share is invested 60% in Macquarie equity and 40% in the DPS Plan.

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

(10) Above certain monetary thresholds.

(11) 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.

Forfeiture of retained profit share – Malus Events

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

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

Each of the above is a Malus Event.

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

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

Early vesting and release of retained profit share

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

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

This year such discretion has been exercised and retained profit share was released for four executives due to:

- the transfer of their employment to an asset owned or managed by Macquarie, or
- their resignation to fulfil a public service role in a governmental organisation.

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 or:

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

Each of the above is a Post Employment Event.

Remuneration Report

Continued

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

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

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

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

Performance Share Units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs, which are subject to forward-looking performance hurdles and determined with reference to Macquarie's performance as a whole. As such, they provide an additional incentive to Executive Committee members to drive company-wide performance over the long-term and beyond 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⁽¹²⁾ 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 FY2019.

(12) A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 30 to the financial statements in the Financial Report.

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

	EPS CAGR hurdle	ROE hurdle
Application	50% of PSU award	50% of PSU award
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years)	Average annual ROE over the vesting period (three to four years) relative to a reference group of global financial institutions ⁽¹³⁾
Hurdle	Sliding scale applies: – 50% becoming exercisable at EPS CAGR of 7.5% – 100% at EPS CAGR of 12% – For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.	Sliding scale applies: – 50% becoming exercisable above the 50th percentile – 100% at the 75th percentile For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.
Forfeiture	– Malus provisions apply – The standard policy is that unvested PSUs will be forfeited upon termination – To ensure continued alignment with shareholders post-termination, in the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles – Should a change of control occur, the Board or the BRC has discretion to determine how unvested PSUs should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control.	

Rationale for hurdles

- ROE and EPS growth drive long-term shareholder value 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.

Use of an international reference group:

An international reference group recognises the extent of Macquarie's diversification and internationalisation. As at 31 March 2019, total international income represented approximately 66% of Macquarie's total income with approximately 58% of Macquarie's staff located outside Australia. The BRC considers an international reference group to be appropriate on the basis that Macquarie has no comparable Australian listed peers. These international firms broadly operate in the same markets and compete for the same people as Macquarie.

(13) 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. Comparator company information is presented in the same order throughout the Remuneration Report.

Remuneration Report

Continued

Macquarie's EPS CAGR performance

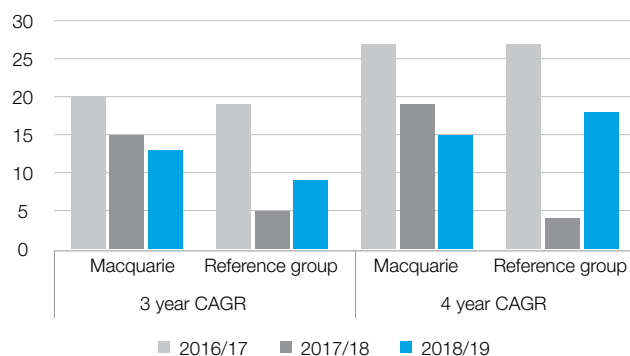
EPS for FY2019 was 883.3 cents per share which has increased by 17% on the prior year. For PSUs to fully vest, Macquarie needs to achieve at least 12% CAGR over the vesting period.

Supporting the rigour of the hurdle, to achieve a full vesting the following cumulative EPS is required:

- over three years, a cumulative EPS growth of 40% is required
- over four years, a cumulative EPS growth of 57% is required.

The below graph shows EPS CAGR for Macquarie over three and four years. The average EPS CAGR of Macquarie's international reference group is shown for comparison though this does not form part of Macquarie's PSU hurdle.

Macquarie's 3 and 4 year EPS CAGR compared to an international reference group



Source: Bloomberg

Macquarie's ROE performance compared to an international reference group

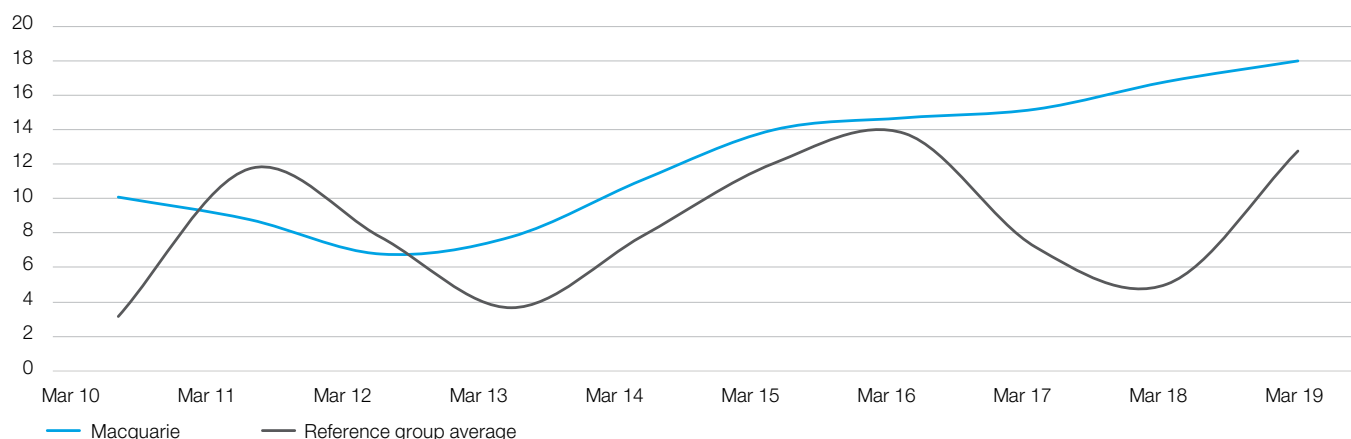
Macquarie's ROE for FY2019 of 18.0% has improved from 16.8% in the prior year, and is higher than all but one of the international reference group. In addition, Macquarie's three, five and ten-year average annual ROE exceeds all but one of the reference group.

Reference group ROE over ten years FY2010–2019

	1 year average % p.a.	3 year average % p.a.	5 year average % p.a.	10 year average % p.a.
Macquarie	18.0	16.7	15.7	12.3
Average of reference group	12.8	8.3	10.2	8.5
Company	10.9	8.2	6.5	3.5
Company	2.6	0.7	0.2	3.6
Company	4.7	(1.3)	(1.3)	3.7
Company	0.0	(1.5)	(2.5)	1.8
Company	13.2	9.2	9.2	10.5
Company	13.3	11.1	10.7	9.8
Company	49.8	33.7	53.2	32.4
Company	11.7	9.3	8.3	5.5
Company	8.6	5.5	7.0	5.5

Source: Bloomberg, Macquarie as reported

Macquarie ROE versus the average of Macquarie's international reference group⁽¹⁴⁾ over ten years FY2010–2019 (%)



Source: Bloomberg (reference group) and Macquarie as reported

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

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 2018 comprised the second tranche of those awards granted in 2014 and the first tranche of those granted in 2015. The performance hurdles under each tranche were fully met and 100% of the awards became exercisable. As a result:

PSU tranche	EPS CAGR Hurdle			ROE Hurdle		
	Macquarie result (for vesting period)	Hurdle	Outcome	Macquarie result (for vesting period)	Hurdle	Outcome
2014 Tranche 2	18.57%	50% at 7.5% CAGR 100% at 12% CAGR	100% exercisable	13.59%	50% above the 50th percentile ⁽¹⁵⁾ 100% at the 75th percentile ⁽¹⁵⁾	100% exercisable
2015 Tranche 1	14.71%	50% at 7.5% CAGR 100% at 12% CAGR	100% exercisable	14.18%	50% above the 50th percentile ⁽¹⁶⁾ 100% at the 75th percentile ⁽¹⁶⁾	100% exercisable

Other features of Macquarie's remuneration structure

Minimum shareholding requirement	Executive Directors are required to hold a relevant interest in Macquarie ordinary shares that have a value equal to 5% of an Executive Director's aggregate profit share allocation 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. For Executive Committee members, compliance with this policy equates to a minimum shareholding requirement of between 160% to 670% of fixed remuneration.
Promotion Awards	Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on Director-level set with reference to an Australian dollar value. Currently these awards range from \$A25,000 to \$A175,000 depending on the promotion level.
Hedging	Macquarie prohibits staff from hedging shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP.

Employment contracts

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

Length of contract	Permanent open-ended
Remuneration review period	1 April to 31 March annually
Profit share participation	Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'. Refer to pages 65 to 68 for details.
PSU participation	Executive Committee members are eligible to receive PSUs. Refer to pages 68 to 71 for details.
Termination of employment	Requires no more than four weeks' notice ⁽¹⁷⁾ by Macquarie or the Executive Committee member (Post-employment restrictions apply).
Post-employment restrictions	Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie's election, for up to three months post-termination.

(15) Peer group ROE at 50th percentile 6.66% and peer group ROE at 75th percentile 8.26%

(16) Peer group ROE at 50th percentile 6.64% and peer group ROE at 75th percentile 8.26%

(17) Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment. In the UK, the statutory minimum notice period increases from 4 weeks to a maximum 12 weeks based on years of service.

Remuneration Report

Continued

Approach to determining remuneration outcomes

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

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

Fixed remuneration	
Fixed	Reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements.
Performance-based remuneration	
Profit share	The company-wide profit share pool is determined through a bottom-up assessment at both the business group and individual level: Business groups – Reflects each business' contribution to company-wide profits taking into account liquidity, capital and funding usage – For support groups, based on the quality and integrity of control functions and support services; not primarily determined with reference to profitability – Considers the risk profile of each business including consideration of any significant reputational or compliance matters – Also considers overall remuneration levels in the market in which each business operates. Individuals – Based on business profits and individual contribution to profits for front office staff – Primarily based on contribution to high quality control functions for risk management and financial control staff – For other support staff, based on their contribution to delivering high quality services to support the businesses – Other factors considered include risk management and compliance (both financial and non-financial risks), business leadership (including customer outcomes), people leadership and professional conduct – May be adjusted downwards based on an assessment of both financial and non-financial risks including conduct issues that have arisen during the year – Also considers relativities in the market in which each business operates. Company-wide profit share pool – Is an aggregate of the bottom-up assessment conducted at both the business and individual level – Is assessed for overall reasonableness, including consideration of: – an internal reference based on Macquarie's after-tax profits and its earnings over and above the estimated cost of capital – the resultant compensation expense to income ratio and how it compares to that of peers – The Board retains discretion to amend the final pool determined in accordance with the bottom-up assessment to ensure that all relevant factors, including risk and conduct matters, have been appropriately taken into consideration – The Chief Financial Officer (CFO) confirms that payment of the profit share pool would not result in elimination of capital surpluses.
PSUs	– The pool is determined with reference to profits over recent years – The Board retains discretion to determine the final PSU pool taking into consideration the risk profile of Macquarie – Individual allocations reflect role and complexity, and contribution to driving the collective performance of Macquarie – The BRC considers both fair and face value when determining individual PSU allocations – PSUs are granted in August each year. Details of the 2018 grants are included on pages 96 to 97 in Appendix 4.

Risk considerations and consequence management

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

Risk culture

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

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*. In addition, the remuneration framework is characterised by significant retention and long deferral periods, which enable risk outcomes to be taken into account over long periods.

The Board and the BRC continue to take risk and conduct matters very seriously. There are robust processes in place to ensure that risk, reputation and conduct-related matters, as well as financial losses and impairments, and other breaches of the risk management framework are specifically considered when assessing performance and determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate. A wide range of risks that could have a financial or non-financial impact on Macquarie are considered, including if there has been a detriment to customers.

To assist the Board and the BRC:

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

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

Consequence management

Macquarie operates a robust consequence management process whereby incidents, breaches of policy and misconduct are regularly reported to senior management. Macquarie's Consequence Management Guideline applies wherever a breach of internal policy, including the *Code of Conduct*, or regulatory requirement is identified. Consequences may include requirements to undergo further training, removal of delegated authorities or permissions, adjustments to performance-based remuneration, impact on promotion, formal warnings or termination. In any given year, each of these different types of consequences may be imposed on individuals working at Macquarie. The most serious consequences are formal warnings and terminations. Where an employee has received a formal warning, in most cases the discretionary component of their remuneration will be impacted and in some cases the outcome is that no profit share allocation is made. Promotion decisions may also be impacted. Impacts may also be applied where a formal warning has not been issued. In each case, judgement is exercised as to the appropriate consequence/s based on all the relevant circumstances. In the event that an individual's employment is terminated due to a compliance or conduct concern (or they resign), Macquarie's standard policy would apply, whereby retained and unvested remuneration is forfeited.

To assist the Board and the BRC:

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

In 2019, there were 163 (FY2018: 157) matters involving conduct/policy breaches that resulted in formal consequences. Of those:

- for 23 matters, termination of employment was the outcome, compared with 38 matters in FY2018
- for 140 matters, a formal warning was issued compared with 119 matters in FY2018. Where a formal warning was issued, additional consequences were applied as appropriate including additional training, removal of delegated authorities or permissions, adjustments to performance-based remuneration and/or impact to promotion. Of the 140 matters, 34 have resulted in individuals subsequently leaving Macquarie.

These matters were considered to be isolated issues and there was no evidence of broader systemic conduct issues.

Remuneration Report

Continued

Pay for performance

This section details Macquarie's results and demonstrates the link between pay and performance.

Macquarie's results

Macquarie has delivered strong financial results for shareholders in FY2019. NPAT and EPS have both increased by 17% compared with FY2018. In addition, returns to shareholders have been strong with an increase in ordinary dividends of 10% compared to the prior year.

Total compensation in FY2019 has not increased to the same extent as NPAT and EPS, and the compensation expense to income ratio is relatively stable compared to the prior year.

Comparison of performance measures and executive remuneration measures: FY2018–2019

	Expressed as	2019	2018	Increase/ (Decrease) %
Performance measures				
NPAT	\$Am	2,982	2,557	17
Basic EPS	Cents per share	883.3	758.2	17
Ordinary Dividends	Cents per share	575.0	525.0	10
Return on equity	Percent	18.0	16.8	
Annual TSR ^{(18),(19)}	Percent	32.8	21.3	
Executive remuneration measures				
Total Compensation Expense	\$Am	4,891	4,221	16
Compensation Expense to Income ratio	Percent	38.3	38.7	
Average staff headcount ⁽²⁰⁾		15,357	14,382	7
Actual staff headcount ⁽²⁰⁾		15,715	14,810	6
Awarded profit share – Current CEO ⁽²¹⁾	\$Am	16.3	16.0	2
Awarded profit share – Former CEO ⁽²²⁾	\$Am	13.1	18.1	(28)
Awarded profit share – Comparable Executive KMP	\$Am	78.3	68.2	15
Statutory Remuneration – Current CEO ⁽²¹⁾	\$Am	18.0	18.9	(5)
Statutory Remuneration – Comparable Executive KMP	\$Am	90.4	82.8	9

Performance over past 10 years: FY2010–2019

Year ended 31 March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Income Statement										
NPAT (\$Am)	1,050	956	730	851	1,265	1,604	2,063	2,217	2,557	2,982
Basic EPS (cents per share)	320.2	282.5	210.1	251.2	383.6	502.3	619.2	657.6	758.2	883.3
Shareholder returns										
Return on equity (%)	10.1	8.8	6.8	7.8	11.1	14.0	14.7	15.2	16.8	18.0
Ordinary Dividends (cents per share)	186	186	140	200	260	330	400	470	525	575
Special Dividends (cents per share) ⁽²³⁾	–	–	–	–	116	–	–	–	–	–
Share price as at 31 March (\$A)	47.3	36.6	29.1	37.2	57.9	76.7	66.1	90.2	102.9	129.4
Annual TSR (%) ⁽¹⁹⁾	80.0	(19.0)	(16.0)	34.5	67.2	40.0	(9.2)	46.0	21.3	32.8
10 year TSR (%) ⁽¹⁹⁾	215.0	131.9	56.3	170.4	189.6	187.7	83.5	99.0	257.7	723.6

(18) Source: Bloomberg.

(19) TSR data reflects the reinvestment of gross dividends.

(20) Headcount for both 2019 and 2018 includes staff employed in operationally segregated subsidiaries (OSS).

(21) For Ms Wikramanayake, FY2019 reflects her time in both the Head of MAM role (1 April 2018 to 30 November 2018) and the CEO role (1 December 2018 to 31 March 2019). FY2018 reflects her former role as Head of MAM.

(22) Mr Moore's FY2019 awarded profit share reflects his time as CEO from 1 April 2018 to 30 November 2018.

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

Total shareholder returns

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

Macquarie TSR versus the MSCI Index⁽²⁴⁾: 30 April 2003, being the date the index was first calculated, to 31 March 2019



Source: Bloomberg

Macquarie TSR since listing versus the All Ords Index⁽²⁵⁾: 29 July 1996 to 31 March 2019



Source: Bloomberg

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

(25) Indexed to 100 on 29 July 1996, being when MBL shares were first quoted on ASX. The All Ordinaries Accumulation Index (All Ords Index) comprises the 500 largest ASX listed companies by market capitalisation. As per the footnote for the MSCI World Capital Markets Index, Macquarie TSR calculations assume continuous listing.

Remuneration Report

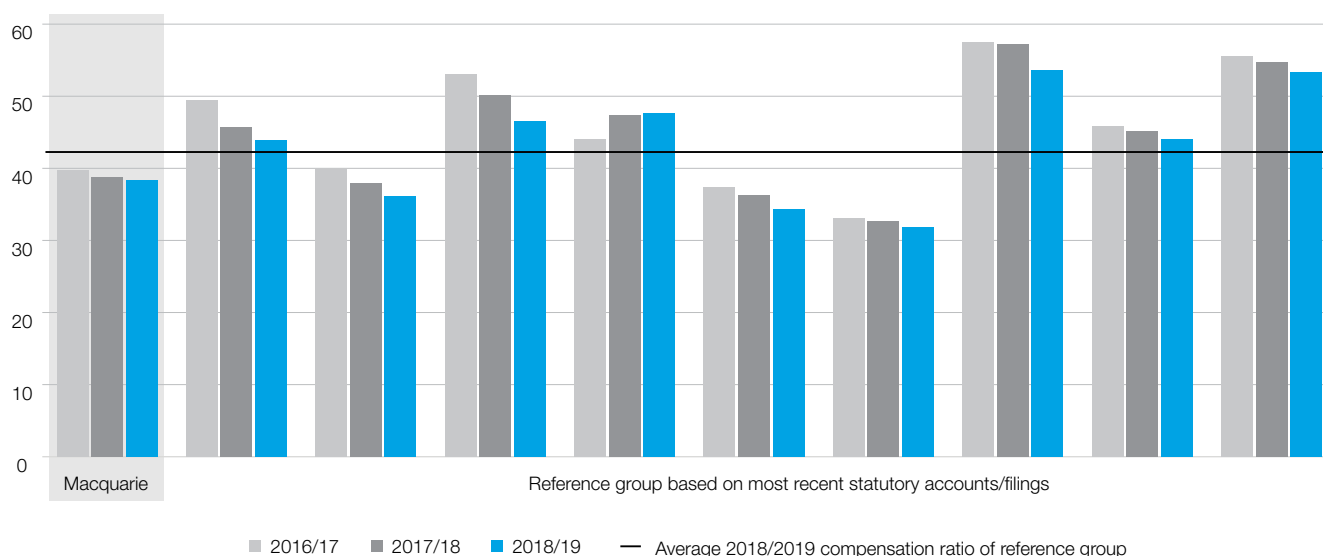
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Compensation expense to income ratio

In determining the reasonableness of the company-wide profit share pool, the Board considers Macquarie's compensation expense to income ratio (compensation ratio) compared to that of our peers as a broad guide to assess whether the share of profits distributed to staff and shareholders is equitable. The compensation ratio effectively adjusts for differences in size between organisations, however some companies are or have become part of larger organisations, often with large retail operations that can distort comparisons.

In the following chart, Macquarie's compensation ratio is compared with that of the international reference group⁽²⁶⁾ (see page 64). This shows that Macquarie's compensation ratio of 38.3% is below the average of our peers.

Compensation expense to income ratio: FY2017–2019 (%)

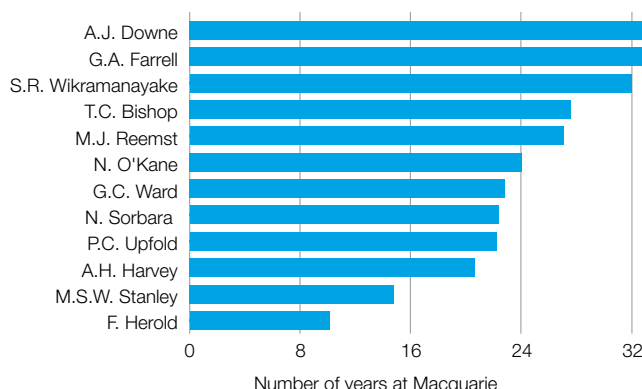


Source: Data has been calculated by Macquarie. The information is based on publicly available information for the reference group. In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some organisations.

Tenure of Executive KMP⁽²⁷⁾

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

- Macquarie's Executive KMP had an average tenure of 24 years with Macquarie as at 31 March 2019. Their strong leadership and deep expertise has been integral to driving company and business performance in FY2019
- as at 31 March 2019, 47% of Director-level staff had ten or more years' experience with Macquarie, while a further 23% had between five and ten years' experience with Macquarie
- the 6.0% Director-level voluntary turnover rate in FY2019 is marginally lower compared with the prior year and remains below the voluntary turnover rate across Macquarie overall.



(26) The reference group comprises Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.

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

Executive KMP remuneration outcomes for FY2019

This section details Executive KMP remuneration outcomes for FY2019 and demonstrates the link between pay and performance.

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

The tables on the following pages:

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

Executive KMP fixed remuneration outcomes

No fixed remuneration increases are proposed for Executive KMP in 2019 with the exception of Ms Wikramanayake whose fixed remuneration will increase from \$A710,375 to \$A805,092, effective 1 July 2019, to reflect her role as CEO.

In line with our pay for performance approach to remuneration, fixed remuneration of our Executive KMP in FY2019 comprised approximately 7% of total awarded remuneration, with the balance at risk and explicitly linked to performance.

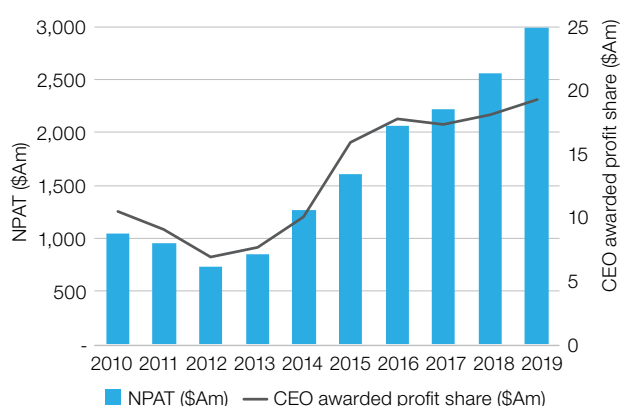
Executive KMP profit share outcomes

In determining each Executive KMP's profit share for the year, the BRC carefully considered a number of factors with respect to each Executive KMP, including the financial performance of each business, their business and people leadership, their business judgement as well as risk and conduct matters including client and customer outcomes.

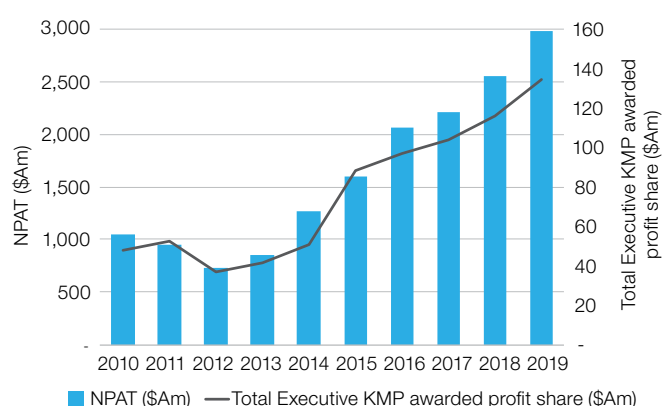
The BRC's assessment of each KMP's performance for FY2019 recognises their strong leadership and deep expertise as being integral to driving company and business performance. The BRC also considered multi-year alignment between CEO and total Executive KMP awarded profit share and Macquarie NPAT over a ten-year period.

For FY2019 the Board determined that total awarded profit share for Comparable Executive KMP of \$A78.3 million⁽²⁸⁾, representing an increase of 15% on the prior year, is appropriate.

CEO awarded profit share⁽²⁹⁾



Total Executive KMP awarded profit share



(28) Total FY2019 awarded profit share for all Executive KMP is \$A134 million as set out in the Total Executive KMP awarded profit share graph.

(29) For 2019, the graph reflects awarded profit share for the CEO role for 2019. This equates to the sum of awarded profit share for Mr Moore for the period 1 April 2018 to 30 November 2018 and awarded profit share for Ms Wikramanayake for the period 1 December 2018 to 31 March 2019.

Remuneration Report

Continued

CEO remuneration outcomes for FY2019

As previously announced, after a successful decade, Nicholas Moore stepped down as CEO of Macquarie on 30 November 2018 and has been succeeded by Shemara Wikramanayake. The Board was delighted that Macquarie had a candidate of Ms Wikramanayake's calibre to lead the organisation. She has a strong international track record working across many of our businesses and after 32 years at Macquarie, her understanding of our unique culture has made for a smooth and successful transition into the role.

During his 33 years at Macquarie, Mr Moore contributed significantly to Macquarie's growth, and as CEO drove the transformation of Macquarie into the successful global diversified business it is today. As announced at the time, Mr Moore continues to provide services to Macquarie to ensure a smooth leadership transition.

Macquarie's *Remuneration Policy* does not provide Mr Moore with any additional payments upon retirement from the organisation.

Awarded remuneration disclosed in the table below reflects Mr Moore's time as CEO in FY2019. He was not awarded profit share for the period of the year that he was not CEO. He will receive no PSU grant for his service in the 2019 year, and his grant of PSUs approved at the 2018 AGM, will be reduced. He continues to receive a portion of his salary for his services since stepping down as CEO.

During his time as CEO, up to 80% of Mr Moore's profit share was retained by the organisation to ensure ongoing alignment with shareholders' interests. Subject to Board approval, Mr Moore is now eligible to receive previously disclosed and shareholder approved profit share amounts which have been retained over the past seven years and invested in Macquarie shares as RSUs and Macquarie-managed funds. As at 31 March 2019, Mr Moore held 629,536 RSUs valued at \$A81.5 million based on the share price on 31 March 2019 (valued at \$A50.4 million at the time of grant) and \$A7.1 million in Macquarie-managed fund equity.

Subject to the Board determining there has been no Malus or Post Employment event (refer to page 67 to 68), his unvested profit share will be released over a two-year period. He is also eligible to receive:

- his previously awarded, and approved by shareholders, but not yet exercisable PSUs which are subject to performance hurdles and may become exercisable in accordance with the original vesting schedule. The number of PSUs that vest will be subject to the achievement of the performance hurdles tested at each vesting date. Details of these PSUs are disclosed on page 98.
- payment in lieu of any outstanding leave and other statutory entitlements.

For Ms Wikramanayake, FY2019 awarded remuneration disclosed in the tables below reflects her time in both the Head of MAM role (1 April 2018 to 30 November 2018) and the CEO role (1 December 2018 to 31 March 2019).

Macquarie Group					
S.R. Wikramanayake – Macquarie CEO			N.W. Moore – Former Macquarie CEO		
Awarded remuneration (\$A)	FY2019	FY2018	Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	722,632	722,423	Fixed remuneration	554,645	818,746
Available profit share	4,281,930	4,785,436	Available profit share	2,614,627	3,616,294
Retained profit share	12,020,410	11,175,707	Retained profit share	10,468,326	14,487,770
Total	17,024,972	16,683,566	Total	13,637,598	18,922,810
– Macquarie: – Strong financial results: NPAT of \$A2,982 million increased 17% on the prior year; ROE of 18.0% increased from 16.8% in the prior year; EPS of 883.3 cents per share increased 17% on the prior year – maintained a strong funded balance sheet – strong risk management approach and a continued focus on conduct and culture – continued focus on a culture of putting customers first and delivering on customer and community expectations – focussed on ensuring the sustainability of Macquarie's growth in a rapidly changing global landscape – smooth transition of the CEO role with continuation of strong results for all stakeholders in 4th quarter of FY2019 – during the year, a record \$A31.7 million was donated to over 1,600 non-profits around the world by Macquarie staff and the Macquarie Foundation. Ms Wikramanayake was Chair of the Macquarie Foundation until 30 November 2018. – Mr Moore's awarded remuneration reflects his time as CEO from 1 April 2018 to 30 November 2018 – Ms Wikramanayake's FY2019 awarded remuneration reflects her time in both Head of MAM role (1 April 2018 to 30 November 2018) and CEO role (1 December 2018 to 31 March 2019). FY2018 remuneration reflects her former role as Head of MAM – MAM delivered a net profit contribution of \$A1,503 million for FY2019, down 4% on the prior year; performance fee income of \$A765 million increased 29% from the prior year across a broad range of funds, managed accounts and co-investors; base fees of \$A1,738 million increased 11% in FY2019; AUM of \$A542.7 billion increased 11% in FY2019.					

Macquarie Bank

M.J. Reemst – Macquarie Bank CEO

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	758,913	722,423
Available profit share	1,705,191	1,590,412
Retained profit share	2,560,189	2,389,344
Total	5,024,293	4,702,179

- strong MBL financial performance
- stable credit ratings throughout the year
- capital, funding and liquidity regulatory ratios are well in excess of regulatory minimums
- strong risk management approach and a continued focus on conduct and culture underpinned by our long-held principles of *What We Stand For*: Opportunity, Accountability and Integrity
- continued focus on a culture of putting customers first and delivering on customer and community expectations
- The Office of the Customer Advocate developed greater maturity
- maintained relationships with regulators to ensure Macquarie can respond to the continually evolving regulatory landscape
- The Transportation and Principal Finance businesses within CAF were disposed of to the Non-Bank by MBL in response to the evolving strategic direction of these businesses
- on track to be compliant with the BEAR 1 July 2019
- during the year, a record \$A31.7 million was donated to over 1,600 non-profits around the world by Macquarie staff and the Macquarie Foundation. Ms Reemst was appointed Chair of the Macquarie Foundation, effective 1 December 2018.

Macquarie Asset Management (MAM)

M.S.W. Stanley⁽³⁰⁾ – Group Head

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	231,730	n/a
Available profit share	2,044,400	n/a
Retained profit share	3,066,600	n/a
Total	5,342,730	n/a

- successfully transitioned into the Head of MAM role on 1 December 2018
- MAM delivered a net profit contribution of \$A1,503 million for FY2019, down 4% on the prior year
- performance fee income of \$A765 million, an increase of 29% on the prior year across a broad range of funds, managed accounts and co-investors across all regions
- base fees of \$A1,738 million for FY2019, an increase of 11% on the prior year
- AUM of \$A542.7 billion for FY2019, an increase of 11% on the prior year
- MIRA has raised \$A18.9 billion in new capital raised from investors globally
- build out of the real estate platform to AUM \$A26.8 billion through the acquisition of GLL Real Estate Partners and the merger of Macquarie Capital's real estate business into MIRA
- appointed investment manager of The Infrastructure Fund (TIF), a \$A2.5 billion unlisted infrastructure fund in Australia
- MIM received the *Financial Standard Investment Leadership Award* for the 2019 Investment Manager of the Year
- MIRA received the Willis Towers Watson award for the *World's Largest Infrastructure*⁽³¹⁾.

(30) Mr Stanley was appointed to the Executive Committee effective 1 December 2018. Awarded remuneration disclosed reflects his time as Executive KMP from the period 1 December 2018 to 31 March 2019.

(31) For more information and disclosures about these awards visit macquarieim.com/mimdisclosures

Remuneration Report

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Banking and Financial Services (BFS)

G.C. Ward – Group Head

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	770,807	770,584
Available profit share	3,220,917	3,142,957
Retained profit share	4,835,407	4,720,981
Total	8,827,131	8,634,522

- BFS delivered a net profit contribution of \$756 million for FY2019, an increase of 3% on the prior year. This includes the vehicles portfolio (Macquarie Leasing), transferred from CAF to BFS in December 2018
- sustainable organic growth across the product suite: Australian mortgages portfolio of \$A38.5 billion, an increase of 18%; funds on platform of \$A86.0 billion, an increase of 4% on the prior year; business lending of \$A8.2 billion, an increase of 12% on the prior year; total BFS deposits of \$A53.4 billion, an increase of 17% on the prior year; Australian vehicle finance portfolio of \$A15.2 billion down 5% on the prior year
- Bank Levy incurred for 12 months in FY2019, compared with 9 months in the prior year (effective 1 July 2017)
- integrated the vehicles portfolio (Macquarie Leasing) from CAF to BFS in December 2018, creating an enhanced retail offering focused on delivering exceptional client experience (full integration into the Personal Banking and Business Banking channels is planned for FY2020)
- continued significant focus on client experience and outcomes
- embedded holistic view of the regulatory and industry environment and themes across BFS to ensure ongoing alignment with client and community expectations
- received a number of recent awards, including *Australian Business Banking Awards 2018* winner (Non Major Business Bank), *2019 Mozo Experts Choice Awards* winner (Exceptional Everyday Account) and *2019 Roy Morgan Customer Satisfaction Awards (Retail Superannuation Fund of the Year)*.

Corporate and Asset Finance (CAF)

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

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	722,632	722,423
Available profit share	2,690,413	3,029,356
Retained profit share	4,039,408	4,551,131
Total	7,452,453	8,302,910

F. Herold⁽³²⁾ – Group Co-Head (Principal Finance)

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	338,709	n/a
Available profit share	1,146,965	n/a
Retained profit share	1,720,447	n/a
Total	3,206,121	n/a

- CAF delivered a net profit contribution of \$A1,028 million for FY2019, down 10% on the prior year
- Continued to be a global provider of specialist finance and asset management solutions, with a \$A21.3 billion asset and loan portfolio.

The Asset Finance portfolio:

- Vehicles portfolio (Australia) moved from CAF to BFS and Transportation to CAF Principal Finance in December 2018
- the Fund Linked Products and Ship Finance/Export Credit Agency business units in MSIS were integrated
- leading provider of global solutions for assets such as mobile devices, IT and integrated circuit manufacturing
- financing 8.3 million meters in the UK and provider of distributed energy/storage solutions
- provider of global solutions for assets in the resources, construction and infrastructure sector.

Principal Finance:

- Mr Brazil stepped down as Co-Head of CAF, and from the Executive Committee effective 30 November 2018. He became Chairman of CAF Principal Finance
- Mr Herold successfully transitioned into the Co-Head of CAF role and became a member of the Executive Committee on 1 December 2018
- notable realisations included the sale of Principal Finance's majority stake in Energetics, a leading UK multi-utility network provider, to a European infrastructure investor
- no significant impairments in FY2019
- disciplined and focused origination and execution across geographies, sectors and instruments.

(32) Mr Herold was appointed to the Executive Committee effective 1 December 2018. Awarded remuneration disclosed reflects his time as Executive KMP from the period 1 December 2018 to 31 March 2019.

Commodities and Global Markets (CGM)

A.J. Downe – Group Head

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	993,316	934,710
Available profit share	7,380,952	5,158,730
Retained profit share	11,071,429	7,738,096
Total	19,445,697	13,831,536

N. O'Kane⁽³³⁾ – Head of Commodity Markets and Finance

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	846,795	590,962
Available profit share	7,866,928	4,050,098
Retained profit share	11,800,391	6,075,147
Total	20,514,114	10,716,207

- CGM delivered a net profit contribution of \$A1,505 million for FY2019, an increase of 65% on the prior year
- diverse platform covering more than 25 segments, with more than 160 products
- strong results across the commodities platform, particularly from North American Gas and Power, Global Oil, and EMEA Gas and Power
- continued strong performance in Fixed Income & Currencies with increased client demand for UK securitisations
- lower equity trading income reflecting challenging market conditions and reduced opportunities in specific Asian retail markets
- maintained ranking as the No.2 physical gas marketer in North America⁽³⁴⁾
- ranked No. 1 North American Power Dealer of the Year⁽³⁵⁾
- Andrew Downe stepped down as Head of CGM after 22 years leading the business and from the Executive Committee effective 31 March 2019. Mr Downe will continue to lead the Cash Equities business globally and maintain regional leadership for CGM in Asia. Mr Downe will continue to retain a direct reporting line to the CEOs of MBL and MGL for certain strategic and bank risk matters. From 1 April 2019, Nicholas O'Kane, previously Head of Commodity Markets and Finance succeeded Mr Downe as Head of CGM.

Macquarie Capital

T.C. Bishop – Group Head

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	697,156	722,423
Available profit share	3,822,471	2,556,019
Retained profit share	8,927,472	5,973,361
Total	13,447,099	9,251,803

- Macquarie Capital delivered a net profit contribution of \$A1,353 million for FY2019, an increase of 89% on the prior year
- maintained strong market positions in key sectors and geographies; continued to advise on and participate in leading transactions globally, and continued growth in revenue from financial sponsor clients in the US
- expansion of the business into new geographies and continued investments in assets, in particular green energy and infrastructure assets, and expansion into new geographies
- realisation of Macquarie's 21.8% interest in Quadrant Energy through the sale of 100% of the business to Santos Limited for \$US2.2 billion, plus the realisation of Macquarie's 23.9% interest in PEXA, through a trade sale process valuing 100% of the business at \$A1.6 billion
- continued to develop and construct assets that directly benefit communities (for example, Norte III power plant, Metro Martin Place development) and apply our green energy expertise to help communities meet their energy needs whilst minimising their carbon footprint (for example, Markbygden Ett and Överturingen onshore wind farms, Kwinana waste-to-energy facility)
- Tim Bishop will step down as Head of Macquarie Capital and from the Executive Committee effective 31 May 2019. Mr Bishop will take on the role of Chairman of Macquarie Capital. Daniel Wong, currently Global Co-Head of Infrastructure and Energy Group based in London, and Michael Silverton, currently Head of Americas, Europe and Asia Group based in New York, will succeed Mr Bishop as co-Group Heads of Macquarie Capital.

(33) Mr O'Kane was appointed to the Executive Committee effective 15 June 2017. Awarded remuneration disclosed for FY2018 reflects his time as an Executive KMP.

(34) Platts Q4 CY18.

(35) 2019 Energy Risk Commodity Rankings.

Remuneration Report

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Corporate Operations Group (COG)

N. Sorbara – COO and Group Head

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration ⁽³⁶⁾	770,807	759,027
Available profit share	2,349,375	2,272,017
Retained profit share	3,527,370	3,413,349
Total	6,647,552	6,444,393

- responsible for Technology, Market Operations, Human Resources, Business Services, Business Improvement and Strategy, Digital Transformation and Data and the Macquarie Foundation
- ongoing strategic initiatives resulting in net operational efficiencies
- strong operational metrics across all Divisions
- significant platform investments across all Operating and Central Service Groups
- leading the Metro Martin Place development, 17 office upgrades and 21 lease renewals
- investment in Digital Transformation and Data teams to identify and drive transformational opportunities
- sponsorship of leadership development, innovation, and diversity and inclusion initiatives across the organisation
- material effort in regulatory reform.

Risk Management Group (RMG)

P.C. Upfold⁽³⁷⁾ – CRO and Group Head

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	770,807	770,584
Available profit share	2,349,375	2,272,017
Retained profit share	3,527,370	3,413,349
Total	6,647,552	6,455,950

- responsible for identifying, assessing and monitoring risks across Macquarie
- active regulator relationships in all jurisdictions, with particular focus on relationships with our 20 key global regulators
- formed Behavioural Risk Division (June 2018) to enhance and leverage Line 2 oversight of risk culture, global conduct risk program, work health and safety (WHS), and environmental and social risk (ESR)
- strengthened capabilities, specifically in the non-financial risk space and Internal Audit, to meet increased business need and regulatory expectations.

Financial Management Group (FMG)

A.H. Harvey⁽³⁸⁾ – CFO and Group Head

Awarded remuneration (\$A)	FY2019	FY2018
Fixed remuneration	723,233	143,890
Available profit share	2,349,375	568,004
Retained profit share	3,527,370	853,338
Total	6,599,978	1,565,232

- responsible for financial, tax and treasury services to all areas of Macquarie
- ensures Macquarie continues to meet its financial, regulatory and compliance obligations and is well positioned to respond effectively to future changes
- continued responsibility for Macquarie's corporate communications and investor relations and actively engages and manages rating agency and banking relationships
- continued responsibility for capital and funding, liquidity and interest rate risk management of Macquarie's balance sheet
- increased focus on technology and efficiency with the General Ledger replacement program commencing in FY2019.

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

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

(38) Mr Harvey was appointed to the Executive Committee as CFO and Head of FMG effective 1 January 2018. Awarded remuneration disclosed for FY2018 reflects remuneration awarded in respect of his role as an Executive KMP.

Allocation of PSUs to Executive KMP

As a result of ongoing engagement with shareholders, investors and other external stakeholders we have disclosed PSU allocations for all Executive KMP at face and fair value.

The table below provides an estimate of the face value of the PSUs to be granted assuming a share price of \$A129.42, the 31 March 2019 closing price of Macquarie's ordinary shares, and a fair value of \$A79.8322 per PSU. The fair value takes into account trading restrictions, the fact that PSUs do not attract dividends and the vesting performance hurdles and timeframes. As a result, the fair value of a PSU is lower than the face value of a PSU. The following assumptions were used in estimating the fair value: a risk free interest rate of 1.65% per annum, share volatility of 20.49% and a forecast dividend yield of 5.08% per annum (paid in two instalments each year).

As in previous years, the number of PSUs that will be allocated will be calculated by dividing the fair value of the award by the fair value of a PSU at the date of grant. Approval will be sought at Macquarie's 2019 Annual General Meeting to allocate PSU awards to the Macquarie CEO, who is also an Executive Voting Director.

Executive KMP	PSU Face Value (\$A)	PSU Fair Value (\$A)
S.R. Wikramanayake	4,133,804	2,550,000
N.W. Moore	–	–
T.C. Bishop	–	–
A.J. Downe	–	–
G.A. Farrell	2,918,033	1,800,000
A.H. Harvey	2,058,813	1,270,000
F. Herold	2,918,033	1,800,000
N. O'Kane	2,918,033	1,800,000
M.J. Reemst	2,058,813	1,270,000
N. Sorbara	2,058,813	1,270,000
M.S.W. Stanley	2,918,033	1,800,000
P.C. Upfold	2,058,813	1,270,000
G.C. Ward	2,918,033	1,800,000

Remuneration Report

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Remuneration governance

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

Strong Board oversight

The Board oversees Macquarie's remuneration framework. The Board has a BRC whose objective is to assist the Board and the Board of Macquarie Bank, a key operating subsidiary, with Macquarie's remuneration policies and practices. The BRC currently comprises five independent Non-Executive Directors (NEDs):

- M.J. Hawker (Chairman)
- G.R. Banks, G.M. Cairns, D.J. Grady, P.H. Warne.

The BRC members have the required experience and expertise in human resources, remuneration and risk to enable them to achieve effective governance of Macquarie's remuneration framework. The BRC has a regular meeting cycle and met six times during FY2019. Attendance at meetings by the BRC members is set out in the Directors' Report. Strict processes are in place to ensure conflicts of interest are appropriately managed.

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

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



The Charter is available at macquarie.com/leadership-corporate-governance

Macquarie's strong remuneration governance framework provides the BRC with multiple opportunities to review and challenge both individual remuneration outcomes and the company-wide profit share pool. There is a consistent and robust process for the BRC to assess performance and determine remuneration outcomes for Macquarie's most senior staff.

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

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

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

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

The BRC also consider the risk-related matters raised in the CRO Report. Finally, the BRC considers remuneration levels for organisations in an international reference group that broadly operate in the same markets and compete for the same people as Macquarie. This information helps the BRC and Board make decisions about remuneration.

Engagement with external stakeholders

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

Independent remuneration review

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

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

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

Pay Governance's findings included that:

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

Non-Executive Director remuneration

The Macquarie Board seeks to attract and appoint high calibre Non-Executive Directors (NEDs). Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, differ significantly from the arrangements applicable to Executives.

Non-Executive Director remuneration

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

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

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

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

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

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions over and above the minimum level of contribution required under applicable legislation.

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

Board and Committee fees are reviewed annually⁽³⁹⁾. Guerdon Associates was engaged by the Board during FY2019 to provide trend and peer analysis against an Australian and International comparator group. The board reviewed NED remuneration in the context of external market factors. To address the increasing demands on NEDs given the growth in the scale of Macquarie's operations and regulatory initiatives that have increased the responsibilities and time commitment of NEDs, the Board determined to increase the total Macquarie and Macquarie Bank Board member base fee from \$A250,000 to \$A260,000 while leaving Committee fees unchanged. The combined Macquarie and Macquarie Bank annual Board Chairman fee was also increased from \$A865,000 to \$A890,000. Both fee increases were effective from 1 July 2018.

Board fees were last changed in FY2016. This increase in fees of \$A115,000 per annum was accommodated within the current cap. Since the last change to the Board fees which were effective 1 October 2015, the compound annual growth rate (CAGR) of the Board member base fee has been 1.44% and the CAGR of the Board Chairman fee 1.04%.

Minimum shareholding requirement for Non-Executive Directors

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

The Board minimum shareholding requirements:

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

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

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

Under Macquarie's Trading Policy, NEDs may only trade Macquarie securities during designated trading windows and are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each NED's current holding of Macquarie ordinary shares is included on page 52 of the Directors' Report.

	MGL FEES		MBL FEES		TOTAL FEES	
	Chairman	Member	Chairman	Member	Chairman	Member
MGL and MBL Annual Director Fees (from 1 July 2018)	\$A	\$A	\$A	\$A	\$A	\$A
Board	623,000	182,000	267,000	78,000	890,000	260,000
Board Risk Committee (BRiC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Audit Committee (BAC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Remuneration Committee (BRC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Governance and Compliance Committee (BGCC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Nominating Committee (BNC)	n/a	8,000	n/a	n/a	n/a	8,000

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

Remuneration Report

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Appendix 1: Key Management Personnel (KMP) for FY2019

All the individuals listed below have been determined to be KMP for FY2019 for the purposes of the *Corporations Act 2001* (Cth) and as defined by AASB 124 *Related Party Disclosures*. KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of MGL and its controlled entities (together making Executive KMP) and NEDs. MGL's NEDs are required by the Act to be included as KMP for the purposes of disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management.

Name	Position	Term as KMP for FY2019
Executive Voting Director		
S.R. Wikramanayake ⁽¹⁾	CEO	Full year as Executive KMP. Appointed to the Board effective from 28 August 2018
N.W. Moore	Former CEO	Ceased to be a member of the Board and Executive Committee on 30 November 2018
Non-Executive Directors		
G.R. Banks AO	Independent Director	Full year
J.R. Broadbent AC	Independent Director	Appointed to the Board effective from 5 November 2018
G.M. Cairns	Independent Director	Full year
P.M. Coffey	Independent Director	Appointed to the Board effective from 28 August 2018
M.J. Coleman	Independent Director	Full year
P.A. Cross	Independent Director	Ceased to be a member of the Board on 26 July 2018
D.J. Grady AM	Independent Director	Full year
M.J. Hawker AM	Independent Director	Full year
G.R. Stevens AC ⁽²⁾	Independent Director	Full year
N.M. Wakefield Evans	Independent Director	Full year
P.H. Warne	Independent Chairman	Full year
Executives⁽³⁾		
T.C. Bishop	Head of Macquarie Capital	Full year
B.A. Brazil	Former Co-Head of CAF	Ceased to be a member of the Executive Committee on 30 November 2018
A.J. Downe	Head of CGM	Full year – ceased to be a member of the Executive Committee on 31 March 2019
G.A. Farrell	Co-Head of CAF	Full year
A.H. Harvey	CFO, Head of FMG	Full year
F. Herold	Co-Head of CAF	Appointed to the Executive Committee effective from 1 December 2018
N. O'Kane ⁽⁴⁾	Head of Commodity Markets and Finance (CMF)	Full year
M.J. Reemst	Macquarie Bank CEO	Full year
N. Sorbara	COO, Head of COG	Full year
M.S.W. Stanley	Head of MAM	Appointed to the Executive Committee effective from 1 December 2018
P.C. Upfold	CRO, Head of RMG	Full year
G.C. Ward	Deputy Managing Director and Head of BFS	Full year

(1) Ms Wikramanayake was appointed CEO on 1 December 2018. She was formerly Head of MAM.

(2) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.

(3) Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 3 May 2019.

(4) Mr O'Kane was Head of Commodity Markets and Finance for the full year to 31 March 2019 and has succeeded Mr Downe as Head of CGM effective 1 April 2019.

Remuneration Report

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Appendix 2: Executive KMP remuneration disclosure (in accordance with Australian Accounting Standards)

		SHORT-TERM EMPLOYEE BENEFITS			
Name	Position	Year	Salary (including superannuation) \$A	Performance related remuneration \$A	Total short-term employee benefits \$A
Executive Voting Director					
S.R. Wikramanayake ⁽¹⁾	CEO	2019	722,632	4,281,930	5,004,562
		2018	722,423	4,785,436	5,507,859
Other Executives					
T.C. Bishop	Head of Macquarie Capital	2019	697,156	3,822,471	4,519,627
		2018	722,423	2,556,019	3,278,442
A.J. Downe ⁽²⁾	Head of CGM	2019	993,316	7,380,952	8,374,268
		2018	934,710	5,158,730	6,093,440
G.A. Farrell	Co-Head of CAF	2019	722,632	2,690,413	3,413,045
		2018	722,423	3,029,356	3,751,779
M.J. Reemst	Macquarie Bank CEO	2019	758,913	1,705,191	2,464,104
		2018	722,423	1,590,412	2,312,835
N. Sorbara ⁽³⁾	COO, Head of COG	2019	770,807	2,349,375	3,120,182
		2018	759,027	2,272,017	3,031,044
P.C. Upfold	CRO, Head of RMG	2019	770,807	2,349,375	3,120,182
		2018	770,584	2,272,017	3,042,601
G.C. Ward	Deputy Managing Director, Head of BFS	2019	770,807	3,220,917	3,991,724
		2018	770,584	3,142,957	3,913,541
Total Remuneration – Comparable Executive KMP ⁽⁴⁾		2019	6,207,070	27,800,624	34,007,694
		2018	6,124,597	24,806,944	30,931,541
New and Former Executives and Executive Voting Directors					
S.D. Allen ⁽⁵⁾	Former CRO, Head of RMG	2019	–	–	–
		2018	578,731	1,476,811	2,055,542
B.A. Brazil ⁽⁶⁾	Former Co-Head of CAF	2019	455,428	3,716,054	4,171,482
		2018	722,423	5,728,513	6,450,936
A.H. Harvey ⁽⁷⁾	CFO, Head of FMG	2019	723,233	2,349,375	3,072,608
		2018	143,890	568,004	711,894
F. Herold ⁽⁸⁾	Co-Head of CAF	2019	338,709	1,146,965	1,485,674
		2018	–	–	–
M. McLaughlin ⁽⁶⁾	Former Country Head, USA	2019	–	–	–
		2018	172,857	–	172,857
N.W. Moore ⁽⁹⁾	Former CEO	2019	554,645	2,614,627	3,169,272
		2018	818,746	3,616,294	4,435,040
N. O’Kane ⁽⁷⁾	Head of CMF	2019	846,795	7,866,928	8,713,723
		2018	590,962	4,050,098	4,641,060
M.S.W. Stanley ⁽⁸⁾	Head of MAM	2019	231,730	2,044,400	2,276,130
		2018	–	–	–
Total Remuneration – Executive KMP (including new and former executives)		2019	9,357,610	47,538,973	56,896,583
		2018	9,152,206	40,246,664	49,398,870

See footnotes on page 90.

LONG-TERM EMPLOYEE BENEFITS			SHARE BASED PAYMENTS				
Restricted profit share \$A	Earnings on prior year restricted profit share \$A	Total long-term employee benefits \$A	Equity awards including shares \$A	PSUs \$A	Total share-based payments \$A	Total Remuneration \$A	Percentage of remuneration that consists of PSUs %
4,065,932	1,517,718	5,583,650	4,765,166	2,682,457	7,447,623	18,035,835	14.87
5,583,009	1,897,726	7,480,735	3,595,850	2,308,390	5,904,240	18,892,834	12.22
891,910	328,718	1,220,628	4,481,123	1,725,538	6,206,661	11,946,916	14.44
596,405	266,622	863,027	3,340,241	1,991,767	5,332,008	9,473,477	21.02
1,107,143	363,707	1,470,850	6,412,322	1,951,829	8,364,151	18,209,269	10.72
773,810	1,014,743	1,788,553	5,015,379	2,308,390	7,323,769	15,205,762	15.18
403,562	172,308	575,870	3,577,470	2,467,555	6,045,025	10,033,940	24.59
454,403	299,756	754,159	3,298,853	2,308,392	5,607,245	10,113,183	22.83
255,779	70,577	326,356	1,697,792	1,695,773	3,393,565	6,184,025	27.42
238,562	110,241	348,803	1,397,486	1,349,723	2,747,209	5,408,847	24.95
352,406	90,791	443,197	2,230,146	1,735,880	3,966,026	7,529,405	23.05
340,803	111,893	452,696	1,740,081	1,596,954	3,337,035	6,820,775	23.41
352,406	102,754	455,160	2,584,621	1,695,773	4,280,394	7,855,736	21.59
340,803	129,141	469,944	2,187,911	1,349,723	3,537,634	7,050,179	19.14
966,275	241,473	1,207,748	3,008,864	2,413,354	5,422,218	10,621,690	22.72
942,887	292,986	1,235,873	2,527,447	2,205,306	4,732,753	9,882,167	22.32
8,395,413	2,888,046	11,283,459	28,757,504	16,368,159	45,125,663	90,416,816	
9,270,682	4,123,108	13,393,790	23,103,248	15,418,645	38,521,893	82,847,224	
-	-	-	-	-	-	-	-
221,522	150,674	372,196	1,533,423	926,041	2,459,464	4,887,202	18.95
557,408	236,137	793,545	5,292,571	1,292,145	6,584,716	11,549,743	11.19
859,277	481,598	1,340,875	7,231,912	1,914,747	9,146,659	16,938,470	11.30
352,406	89,210	441,616	2,369,642	742,495	3,112,137	6,626,361	11.21
85,201	27,668	112,869	481,155	90,605	571,760	1,396,523	6.49
172,045	47,689	219,734	1,003,733	167,152	1,170,885	2,876,293	5.81
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	59,197	59,197	159,831	83,646	243,477	475,531	17.59
1,045,851	368,381	1,414,232	20,032,879	3,319,100	23,351,979	27,935,483	11.88
1,446,518	803,246	2,249,764	9,674,838	3,290,441	12,965,279	19,650,083	16.75
1,180,039	261,910	1,441,949	6,751,745	1,052,331	7,804,076	17,959,748	5.86
607,515	303,968	911,483	4,323,099	410,528	4,733,627	10,286,170	3.99
1,533,300	719,784	2,253,084	760,907	167,152	928,059	5,457,273	3.06
-	-	-	-	-	-	-	-
13,236,462	4,611,157	17,847,619	64,968,981	23,108,534	88,077,515	162,821,717	
12,490,715	5,949,459	18,440,174	46,507,506	22,134,653	68,642,159	136,481,203	

Remuneration Report

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- (1) Ms Wikramanayake commenced as CEO effective from 1 December 2018. She was previously Head of MAM.
- (2) Mr Downe is paid in \$SG. His base salary for FY2019 differs to FY2018 due to exchange rate movements.
- (3) Mrs Sorbara's FY2018 full-time equivalent salary was \$A770,584. Mrs Sorbara was a part-time employee until 31 May 2017 and became a full-time employee effective 1 June 2017. She did not receive a base remuneration increase during the year.
- (4) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2019 and FY2018.
- (5) Mr Allen ceased to be a member of the Executive Committee on 31 December 2017 and retired from Macquarie on 4 July 2018. During the year the BRC exercised its discretion to accelerate the vesting of retained profit share in the form of RSUs due to his retirement from Macquarie. The release of the RSUs will take place over a two-year period post termination of employment and will be subject to Macquarie's Malus and Post Employment events provisions set out on pages 67 to 68. The BRC also waived the employment condition attached to the PSUs, however, these will only become exercisable upon the achievement of the performance hurdles tested at each vesting date. Outstanding amortisation \$A8.6 million was recognised as remuneration during the current year.
- (6) Mr Brazil ceased to be a member of the Executive Committee on 30 November 2018. Mr McLaughlin ceased to be a member of the Executive Committee on 15 June 2017. Both individuals are currently still employed by Macquarie.
- (7) Mr Harvey and Mr O'Kane were appointed to the Executive Committee effective from 1 January 2018 and 15 June 2017 respectively.
- (8) Mr Herold and Mr Stanley were appointed to the Executive Committee effective from 1 December 2018.
- (9) Mr Moore stated his intention to retire and stepped down from his role as CEO on 30 November 2018. From 1 December 2018, he has continued to provide services to Macquarie to ensure a smooth leadership transition.

For FY2019 he was awarded \$A13.6 million (as set out on page 78) for his role as CEO for the period of 1 April 2018 to 30 November 2018. His statutory remuneration of \$A27.9 million includes \$A9.7 million relating to the current year and \$A18.2 million of accelerated amortisation of prior years' equity awards which have been previously disclosed and approved by shareholders.

As a result of his intention to retire, the amortisation of his equity awards is being recognised over an accelerated vesting period resulting in further accounting amortisation of \$A14.2 million in FY2019 and \$A10.9 million in FY2020.

Subject to BRC approval, the release of the RSUs will take place over a two-year period post termination of employment and will be subject to Macquarie's Malus and Post Employment events provisions set out on pages 67 to 68. Also, subject to BRC approval, the continuing employment condition attached to Mr Moore's previously granted PSUs will be waived. The PSUs released will only become exercisable upon the achievement of the performance hurdles tested at each vesting date.

Additional information regarding the statutory remuneration disclosures set out in this Appendix

The remuneration disclosures set out in this Appendix have been prepared in accordance with Australian Accounting standards and differ to the additional disclosures set out on pages 78 to 83.

Under the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2019 and 31 March 2018 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

The following information provides more detail regarding 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 (DPS Plan).
- (b) *Earnings on prior years, restricted profit share:* Profit share amounts retained under the 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 65 to 66. This is recognised as an expense over the respective vesting periods, or service period if shorter, as described on page 65 to 66 and includes amounts relating to prior year equity awards that have been previously disclosed. Equity awards in respect of FY2019 performance will be granted during FY2020, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2018. The expense is estimated using the price of MGL ordinary shares as at 31 March 2019 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 68 to 69. This includes amounts relating to prior year PSU awards. PSUs will be granted during FY2020, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2018. The expense is estimated using the price of MGL ordinary shares as at 31 March 2019 and the number of PSUs expected to vest. The estimate also incorporates an interest rate to maturity of 1.65% per annum, expected vesting dates of 1 July 2022 and 1 July 2023, and a dividend yield of 5.08% 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.

Remuneration Report

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Appendix 3: Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on page 85 of the Remuneration Report. The fees shown include fees paid as members of both the MGL and MBL Boards.

	Year	Fees \$A	Other benefits ⁽¹⁾ \$A	Total Compensation \$A
G.R. Banks	2019	370,500	–	370,500
	2018	363,000	–	363,000
J.R. Broadbent ⁽²⁾	2019	122,883	–	122,883
	2018	–	–	–
G.M. Cairns	2019	335,500	–	335,500
	2018	328,000	–	328,000
P.M. Coffey ⁽³⁾	2019	180,008	–	180,008
	2018	–	–	–
M.J. Coleman	2019	410,500	18,000	428,500
	2018	403,000	–	403,000
P.A. Cross ⁽⁴⁾	2019	123,500	–	123,500
	2018	368,000	–	368,000
D.J. Grady	2019	370,500	–	370,500
	2018	363,000	–	363,000
M.J. Hawker ⁽⁵⁾	2019	433,833	–	433,833
	2018	403,000	–	403,000
G.R. Stevens ⁽⁶⁾	2019	313,750	–	313,750
	2018	122,083	–	122,083
N.M. Wakefield Evans	2019	410,500	–	410,500
	2018	403,000	–	403,000
P.H. Warne	2019	883,750	–	883,750
	2018	865,000	–	865,000
Total Remuneration – Non-Executive KMP	2019	3,955,224	18,000	3,973,224
	2018	3,618,083	–	3,618,083

(1) Other benefits for NEDs include due diligence fees paid to Mr Coleman of \$A18,000 in FY2019.

(2) Ms Broadbent was appointed to the MGL and MBL Boards as an Independent Voting Director effective 5 November 2018. She became a member of the Board Risk Committee and a member of the Board Nominating Committee effective 5 November 2018.

(3) Mr Coffey was appointed to the MGL and MBL Boards as an Independent Voting Director effective 28 August 2018. He became a member of the Board Risk Committee and a member of the Board Nominating Committee effective 28 August 2018.

(4) Mrs Cross ceased to be a member of the MGL and MBL Boards effective 26 July 2018.

(5) Mr Hawker was appointed as Chairman of the Board Risk Committee effective 1 September 2018.

(6) Mr Stevens was appointed to the MGL and MBL Boards as an Independent Voting Director effective 1 November 2017. He became a member of the Board Risk Committee and a member of the Board Nominating Committee effective 1 November 2017 and a member of the Board Audit Committee effective 1 July 2018. The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.

Appendix 4: Share disclosures

Shareholdings of KMP and their related parties

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

Name and position	Number of shares held at 1 April 2018 ⁽¹⁾	Shares received on withdrawal from the MEREP	Other changes ⁽²⁾	Number of shares held as at 31 March 2019 ^{(3),(4)}
Executive Directors				
S.R. Wikramanayake	710,003	90,011	–	800,014
N.W. Moore	2,310,976	186,599	–	2,497,575
Non-Executive Directors				
G.R. Banks	6,416	–	–	6,416
J.R. Broadbent	–	–	4,000	4,000
G.M. Cairns	12,734	–	–	12,734
P.M. Coffey	8,239	–	–	8,239
M.J. Coleman ⁽⁵⁾	9,369	490	(1,423)	8,436
P.A. Cross	7,636	–	–	7,636
D.J. Grady	8,552	–	647	9,199
M.J. Hawker ⁽⁶⁾	11,407	–	8	11,415
G.R. Stevens	1,028	–	1,556	2,584
N.M. Wakefield Evans	5,267	–	248	5,515
P.H. Warne	14,933	–	–	14,933
Executives				
T.C. Bishop	–	80,764	(80,764)	–
B.A. Brazil	100,045	122,230	(204,626)	17,649
A.J. Downe	98,594	118,552	(168,552)	48,594
G.A. Farrell	–	102,700	(102,700)	–
A.H. Harvey	–	19,476	(434)	19,042
F. Herold	–	–	–	–
N. O'Kane	4,840	89,002	(89,002)	4,840
M.J. Reemst	10,902	31,624	(52) ⁽⁷⁾	42,474
N. Sorbara	9,384	44,070	(44,070)	9,384
M.S.W. Stanley	45,361	–	–	45,361
P.C. Upfold	75,151	38,049	(38,049)	75,151
G.C. Ward	–	77,194	(77,194)	–

(1) Or date of appointment if later.

(2) Includes on-market acquisitions and disposals.

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

(4) In addition to the MGL ordinary shares set out in this table, Executive KMP also hold an interest in MGL ordinary shares through the MEREP, as set out in the table in page 98.

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

(6) Changes during the year for Mr Hawker reflect a change in related party.

(7) Changes during the year for Ms Reemst reflect a change in related party.

Remuneration Report

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RSU awards to KMP

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

A significant portion of an Executive KMP's retained profit share is invested in Macquarie equity, delivered as RSUs. There have been no alterations to the terms or conditions of the grants set out below since the grant date. RSU awards are subject to forfeiture as set out on page 67. The value of the grants at vesting could vary significantly as they are dependent on the MGL ordinary share price at the time of vesting. Retention rates, the vesting profiles and service and performance criteria for the current year are set out on page 66. RSUs are granted in the financial year following the year of Macquarie's performance to which the grant relates. For example, RSUs granted to KMP in August 2018 relate to their performance in FY2018. All awards that were eligible to vest, vested during the year. No awards were forfeited during the year.

Name and position	RSU awards granted to date ^{(8),(9)}	Grant date	Number vested during the year ^{(10),(11)}
Executive Director			
S.R. Wikramanayake	49,162	21-Jun-18	–
	49,025	22-Jun-17	–
	54,473	17-Jun-16	–
	42,608	6-Jul-15	8,521
	47,019	25-Jun-14	8,034
	35,957	25-Jun-13	7,191
	58,075	7-Jun-12	7,638
	66,611	3-Mar-10	11,016
N.W. Moore	114,627	15-Aug-18	–
	139,235	15-Aug-17	–
	156,144	15-Aug-16	–
	124,404	17-Aug-15	24,880
	117,102	15-Aug-14	18,809
	92,048	15-Aug-13	18,410
	133,805	15-Aug-12	26,761
	144,026	15-Aug-11	28,806
Executives			
T.C. Bishop	47,265	21-Jun-18	–
	38,155	22-Jun-17	–
	53,773	17-Jun-16	–
	39,035	6-Jul-15	7,807
	37,947	25-Jun-14	6,131
	45,305	25-Jun-13	9,060
	31,361	7-Jun-12	563
B.A. Brazil	68,098	21-Jun-18	–
	96,743	22-Jun-17	–
	127,396	17-Jun-16	–
	84,429	6-Jul-15	16,885

Name and position	RSU awards granted to date ^{(8),(9)}	Grant date	Number vested during the year ^{(10),(11)}
A.J. Downe	63,660	21-Jun-18	–
	84,151	22-Jun-17	–
	54,749	17-Jun-16	–
	57,546	6-Jul-15	11,509
	75,152	25-Jun-14	12,232
	58,182	25-Jun-13	11,636
	95,575	7-Jun-12	19,115
	82,233	20-Jun-11	16,449
G.A. Farrell	36,012	21-Jun-18	–
	45,901	22-Jun-17	–
	41,749	17-Jun-16	–
	44,959	6-Jul-15	8,991
	48,496	25-Jun-14	7,777
	46,229	25-Jun-13	9,245
	88,108	7-Jun-12	17,621
A.H. Harvey	27,009	21-Jun-18	–
N. O'Kane	61,902	21-Jun-18	–
M.J. Reemst	18,906	21-Jun-18	–
	21,229	22-Jun-17	–
	18,787	17-Jun-16	–
	14,810	6-Jul-15	2,962
N. Sorbara	27,009	21-Jun-18	–
	26,967	22-Jun-17	–
	25,049	17-Jun-16	–
	18,512	6-Jul-15	3,702
	17,105	25-Jun-14	3,039
	12,327	25-Jun-13	2,465
P.C. Upfold	27,009	21-Jun-18	–
	32,131	22-Jun-17	–
	33,399	17-Jun-16	–
	26,446	6-Jul-15	5,289
G.C. Ward	33,211	21-Jun-18	–
	40,801	22-Jun-17	–
	32,445	17-Jun-16	–
	26,446	6-Jul-15	5,289
	31,696	25-Jun-14	4,847
	31,229	25-Jun-13	6,246
	46,460	7-Jun-12	9,292
	43,316	20-Jun-11	8,664

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

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

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

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

Remuneration Report

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PSU awards to KMP

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

Name and position	GRANTED TO DATE				FORFEITED/LAPSED DURING THE FINANCIAL YEAR ⁽¹²⁾			EXERCISED DURING THE FINANCIAL YEAR ⁽¹²⁾	
	Number	Date	Accounting Fair Value \$A ⁽¹³⁾	Face Value \$A ⁽¹⁴⁾	Number	%	Value \$A	Number exercised	Value \$A ⁽¹⁵⁾
Executive Directors									
S.R. Wikramanayake	23,561	15-Aug-18	2,466,207	2,956,906	–	–	–	–	–
	33,552	15-Aug-17	2,449,276	2,944,524	–	–	–	–	–
	37,332	15-Aug-16	2,462,541	2,917,122	–	–	–	–	–
	37,374	17-Aug-15	2,495,462	2,951,799	–	–	–	18,687	2,317,562
	57,848	15-Aug-14	2,770,919	3,299,071	–	–	–	28,924	3,587,154
N.W. Moore	33,378	15-Aug-18	3,493,785	4,188,939	–	–	–	–	–
	47,532	15-Aug-17	3,469,807	4,171,408	–	–	–	–	–
	52,887	15-Aug-16	3,488,600	4,132,590	–	–	–	–	–
	52,947	17-Aug-15	3,535,271	4,181,754	–	–	–	26,473	3,242,413
	84,920	15-Aug-14	4,067,668	4,842,988	–	–	–	42,460	5,200,501
Executives									
T.C. Bishop	23,561	15-Aug-18	2,466,207	2,956,906	–	–	–	–	–
	28,333	15-Aug-17	2,068,292	2,486,504	–	–	–	–	–
	31,524	15-Aug-16	2,079,426	2,463,285	–	–	–	–	–
	31,560	17-Aug-15	2,107,261	2,492,609	–	–	–	15,780	1,920,426
	43,315	15-Aug-14	2,074,789	2,470,254	–	–	–	21,658	2,635,779
B.A. Brazil	22,003	15-Aug-18	2,303,126	2,761,377	–	–	–	–	–
	34,903	15-Aug-17	2,547,898	3,063,087	–	–	–	–	–
	41,023	15-Aug-16	2,706,012	3,205,537	–	–	–	–	–
	35,298	17-Aug-15	2,356,847	2,787,836	–	–	–	17,649	2,192,888
A.J. Downe	23,561	15-Aug-18	2,466,207	2,956,906	–	–	–	–	–
	33,552	15-Aug-17	2,449,276	2,944,524	–	–	–	–	–
	37,332	15-Aug-16	2,462,541	2,917,122	–	–	–	–	–
	37,374	17-Aug-15	2,495,462	2,951,799	–	–	–	18,687	2,284,112
	57,848	15-Aug-14	2,770,919	3,299,071	–	–	–	28,924	3,535,959
G.A. Farrell	23,561	15-Aug-18	2,466,207	2,956,906	–	–	–	–	–
	33,552	15-Aug-17	2,449,276	2,944,524	–	–	–	–	–
	37,332	15-Aug-16	2,462,541	2,917,122	–	–	–	–	–
	37,374	17-Aug-15	2,495,462	2,951,799	–	–	–	18,687	2,284,902
	57,848	15-Aug-14	2,770,919	3,299,071	–	–	–	28,924	3,537,135
A.H. Harvey	16,624	15-Aug-18	1,740,089	2,086,312	–	–	–	–	–
N. O’Kane	23,561	15-Aug-18	2,466,207	2,956,906	–	–	–	–	–

Name and position	GRANTED TO DATE				FORFEITED/LAPSED DURING THE FINANCIAL YEAR ⁽¹²⁾			EXERCISED DURING THE FINANCIAL YEAR ⁽¹²⁾	
	Number	Date	Accounting Fair Value \$A ⁽¹³⁾	Face Value \$A ⁽¹⁴⁾	Number	%	Value \$A	Number exercised	Value \$A ⁽¹⁵⁾
M.J. Reemst	16,624	15-Aug-18	1,740,089	2,086,312	–	–	–	–	–
	23,673	15-Aug-17	1,728,115	2,077,542	–	–	–	–	–
	26,339	15-Aug-16	1,737,407	2,058,129	–	–	–	–	–
	26,369	17-Aug-15	1,760,658	2,082,624	–	–	–	13,184	1,612,271
N. Sorbara	16,624	15-Aug-18	1,740,089	2,086,312	–	–	–	–	–
	23,673	15-Aug-17	1,728,115	2,077,542	–	–	–	–	–
	26,339	15-Aug-16	1,737,407	2,058,129	–	–	–	–	–
	26,369	17-Aug-15	1,760,658	2,082,624	–	–	–	13,184	1,602,124
	36,191	15-Aug-14	1,733,549	2,063,973	–	–	–	18,096	2,199,341
P.C. Upfold	16,624	15-Aug-18	1,740,089	2,086,312	–	–	–	–	–
	23,673	15-Aug-17	1,728,115	2,077,542	–	–	–	–	–
	26,339	15-Aug-16	1,737,407	2,058,129	–	–	–	–	–
	26,369	17-Aug-15	1,760,658	2,082,624	–	–	–	13,184	1,611,744
G.C. Ward	23,561	15-Aug-18	2,466,207	2,956,906	–	–	–	–	–
	32,434	15-Aug-17	2,367,663	2,846,408	–	–	–	–	–
	36,087	15-Aug-16	2,380,417	2,819,838	–	–	–	–	–
	36,128	17-Aug-15	2,412,267	2,853,389	–	–	–	18,064	2,195,724
	49,584	15-Aug-14	2,375,074	2,827,776	–	–	–	24,792	3,014,607

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

(13) Based on the accounting fair value on the date of grant.

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

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

As required under the Act, Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to KMP. The accounting fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period. The 2018 PSU allocation has been determined based on a fair valuation of a PSU as at 15 August 2018. The accounting fair value of \$A104.67 at this date has been estimated using a discounted cash flow method.

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

Interest rate to maturity	2.33% per annum
Expected vesting dates	1 July 2021 and 1 July 2022
Dividend yield	5.16% per annum

PSUs have a nil exercise price. PSUs vest on a pro-rata basis as set out on page 69. For the 2018 grant, the first tranche will vest on 1 July 2021. The PSUs expire on 15 August 2027.

Remuneration Report

Continued

MEREP awards of KMP and their related parties

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



Further details in relation to the MEREP RSU and PSU awards are disclosed in Note 30 *Employee equity participation* to the financial statements in the Financial Report.

Name and position	Type of Award	Number of Awards held at 1 April 2018 ⁽¹⁶⁾	Awards granted during the financial year ⁽¹⁷⁾	Awards vested/ exercised during the financial year ^{(18),(19)}	Awards not able to be exercised due to performance hurdles not met	Number of awards held as at 31 March 2019 ⁽²⁰⁾
Executive Director						
S.R. Wikramanayake	RSU	230,091	49,162	(42,400)	–	236,853
	PSU	137,182	23,561	(47,611)	–	113,132
N.W. Moore	RSU	632,575	114,627	(117,666)	–	629,536
	PSU	195,826	33,378	(68,933)	–	160,271
Executives						
T.C. Bishop	RSU	209,279	47,265	(43,326)	–	213,218
	PSU	113,075	23,561	(37,438)	–	99,198
B.A. Brazil	RSU	535,534	68,098	(104,581)	–	499,051
	PSU	111,224	22,003	(17,649)	–	115,578
A.J. Downe	RSU	334,966	63,660	(70,941)	–	327,685
	PSU	137,182	23,561	(47,611)	–	113,132
G.A. Farrell	RSU	238,160	36,012	(55,089)	–	219,083
	PSU	137,182	23,561	(47,611)	–	113,132
A.H. Harvey	RSU	121,433	27,009	(19,476)	–	128,966
	PSU	–	16,624	–	–	16,624
F. Herold ⁽²¹⁾	DSU	114,441	–	–	–	114,441
N. O’Kane	RSU	383,218	61,902	(89,002)	–	356,118
	PSU	–	23,561	–	–	23,561
M.J. Reemst	RSU	90,226	18,906	(18,440)	–	90,692
	PSU	76,381	16,624	(13,184)	–	79,821
N. Sorbara	RSU	97,252	27,009	(12,790)	–	111,471
	PSU	94,477	16,624	(31,280)	–	79,821
M.S.W. Stanley ⁽²¹⁾	DSU	136,640	–	–	–	136,640
P.C. Upfold	RSU	140,910	27,009	(24,865)	–	143,054
	PSU	76,381	16,624	(13,184)	–	79,821
G.C. Ward	RSU	165,068	33,211	(34,338)	–	163,941
	PSU	129,441	23,561	(42,856)	–	110,146

(16) Or date of appointment if later

(17) RSU awards are granted in the financial year following the year of the Company’s performance to which the grant relates. RSUs disclosed as granted above relate to FY2018. PSUs are granted annually in August.

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

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

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

(21) DSUs are granted in jurisdictions where legal or tax rules make the grant of RSUs impractical. DSUs are structured to provide the holder with the same benefits and risks of RSU holders.

Appendix 5: Loan disclosures

Loans to Key Management Personnel and their related parties

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

Name and Position	Balance at 1 April 2018 ⁽²⁾ \$A'000	Interest charged ⁽³⁾ \$A'000	Write downs \$A'000	Balance as at 31 March 2019 \$A'000	Highest balance during the year \$A'000
Non-Executive Directors					
D.J. Grady (related party)	464	19	–	454	464
M.J. Hawker (related party)	100	9	–	340	340
M.S.W. Stanley ⁽⁴⁾	202	2	–	208	208
P.H. Warne (related party)	–	5	–	481	485

(1) There were no other loans provided by Macquarie to KMP and their related parties during the financial year ended 31 March 2019.

(2) Or date of appointment if later.

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

(4) Mr Stanley's loan is denominated in EUR. The opening balance of €131 thousand has been converted to AUD at the spot rate on the date he became KMP (i.e. 1 December 2018). The closing balance of €132 thousand has been converted to AUD at the spot rate on 31 March 2019. There has been an exchange rate movement of \$A4,000 during the year.

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

Throughout this Remuneration Report financial information for Macquarie relating to the years ended 31 March 2010 through to 31 March 2019 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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Financial Report

MKIF Machang Bridge, South Korea

Machang Bridge is a 1.7 km, dual two-lane, cable-stayed bridge that provides a vital link across Masan Bay and alleviates traffic congestion in Masan and Changwon as an alternative route between South Korea's two southern provinces. Macquarie Korea Infrastructure Fund (MKIF) is a 70% shareholder in the bridge.

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The Financial Report was authorised for issue by the Board of Directors on 3 May 2019.
The Board of Directors has the power to amend and reissue the Financial Report.

Income Statements

For the financial year ended 31 March 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 ⁽¹⁾ \$m	2018 \$m	2019 ⁽¹⁾ \$m	2018 \$m
Interest and similar income					
Effective interest method	2	4,611	4,477	766	479
Others	2	744	466	–	–
Interest and similar expense	2	(3,595)	(2,957)	(836)	(521)
Net interest income/(expense)		1,760	1,986	(70)	(42)
Fee and commission income	2	5,526	4,670	10	10
Net trading income/(expense)	2	2,791	1,957	144	(39)
Net operating lease income	2	950	935	–	–
Share of net (losses)/profits of associates and joint ventures	2	(56)	241	–	–
Credit impairment (charges)	2	(320)	(80)	(8)	–
Other impairment (charges)/reversal	2	(232)	(286)	3,350	2,700
Other operating income and charges	2	2,335	1,497	1,799	1,730
Net operating income		12,754	10,920	5,225	4,359
Employment expenses	2	(5,217)	(4,493)	(5)	(4)
Brokerage, commission and trading-related expenses	2	(1,140)	(830)	–	–
Occupancy expenses	2	(441)	(402)	–	–
Non-salary technology expenses	2	(684)	(604)	–	–
Other operating expenses	2	(1,405)	(1,127)	(56)	(1)
Total operating expenses		(8,887)	(7,456)	(61)	(5)
Operating profit before income tax		3,867	3,464	5,164	4,354
Income tax (expense)/benefit	4	(879)	(883)	(39)	3
Profit after income tax		2,988	2,581	5,125	4,357
(Profit)/loss attributable to non-controlling interests:					
Macquarie Income Securities	26	(15)	(14)	–	–
Other non-controlling interests		9	(10)	–	–
Total profit attributable to non-controlling interests		(6)	(24)	–	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		2,982	2,557	5,125	4,357
		Cents per share	Cents per share		
Basic earnings per share	6	883.3	758.2		
Diluted earnings per share	6	868.1	743.5		

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

(1) The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) and AASB 15 *Revenue from contracts with customers* (AASB 15) on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Refer to Note 1 for the impact from the initial adoption of AASB 9 and AASB 15.

Statements of comprehensive income

For the financial year ended 31 March 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 ⁽¹⁾ \$m	2018 \$m	2019 ⁽¹⁾ \$m	2018 \$m
Profit after income tax		2,988	2,581	5,125	4,357
Other comprehensive income/(loss) ⁽²⁾					
Movements in items that may be subsequently reclassified to the income statement:					
Fair value through other comprehensive income (FVOCI) reserve ⁽³⁾ :					
Revaluation losses recognised in other comprehensive income	26	(114)	(129)	–	–
Changes in allowance for expected credit losses	26	52	–	–	–
Transferred to income statement on:					
Impairment	26	–	16	–	–
Sale or reclassification	26	–	(263)	–	–
Cash flow hedges, net movement recognised in OCI		(58)	54	–	–
Share of other comprehensive (loss)/income of associates and joint ventures	26	(32)	2	–	–
Exchange differences on translation and hedge of foreign operations		422	263	–	–
Movements in items that will not be subsequently reclassified to the income statement:					
Fair value gain attributable to own credit risk on debt that is subsequently measured at fair value through profit or loss	26	6	37	–	–
Total other comprehensive income/(loss)		276	(20)	–	–
Total comprehensive income		3,264	2,561	5,125	4,357
Total comprehensive loss/(income) attributable to non-controlling interests:					
Macquarie Income Securities		(15)	(14)	–	–
Other non-controlling interests		36	(146)	–	–
Total comprehensive loss/(income) attributable to non-controlling interests		21	(160)	–	–
Total comprehensive income attributable to ordinary equity holders of Macquarie Group Limited		3,285	2,401	5,125	4,357

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

- (1) The March 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Refer to Note 1 for the impact from the initial adoption of AASB 9 and AASB 15.
- (2) All items are net of tax, where applicable.
- (3) Represents the available for sale reserve for financial year prior to adoption of AASB 9 on 1 April 2018.

Statements of financial position

As at 31 March 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 ⁽¹⁾ \$m	2018 \$m	2019 ⁽¹⁾ \$m	2018 \$m
Assets					
Cash and bank balances		9,787	9,722	–	–
Cash collateral on securities borrowed and reverse repurchase agreements		29,348	28,837	–	–
Trading assets	7	18,670	15,341	–	–
Margin money and settlement assets	8	19,111	18,198	–	–
Derivative assets		14,457	12,937	–	–
Financial investments	9	7,161	7,160	–	–
Held for sale assets	10	9,023	3,341	–	–
Other assets	10	5,169	5,156	41	12
Loan assets	11	78,474	73,509	–	–
Due from subsidiaries	28	–	–	23,379	17,269
Property, plant and equipment	13	4,701	11,426	–	–
Interests in associates and joint ventures	14	4,219	4,055	–	–
Intangible assets	15	2,031	993	–	–
Investments in subsidiaries	16	–	–	28,965	25,347
Deferred tax assets	17	1,031	650	8	19
Total assets		203,182	191,325	52,393	42,647
Liabilities					
Cash collateral on securities lent and repurchase agreements		4,838	5,383	–	–
Trading liabilities	18	8,108	8,061	–	–
Margin money and settlement liabilities	19	22,576	20,878	–	–
Derivative liabilities		12,666	11,925	1	1
Deposits	20	56,191	48,395	49	24
Held for sale liabilities	21	6,809	523	–	–
Other liabilities	21	6,736	6,905	386	196
Bank borrowings		9,318	9,007	7,131	3,191
Due to subsidiaries	28	–	–	959	843
Debt issued	22	50,188	55,927	13,036	12,177
Deferred tax liabilities	17	425	749	–	–
Total liabilities excluding loan capital		177,855	167,753	21,562	16,432
Loan capital	24	6,963	5,392	2,409	1,135
Total liabilities		184,818	173,145	23,971	17,567
Net assets		18,364	18,180	28,422	25,080
Equity					
Contributed equity	25	6,181	6,243	8,767	8,849
Reserves	26	1,773	1,297	1,026	902
Retained earnings	26	9,807	8,817	18,629	15,329
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		17,761	16,357	28,422	25,080
Non-controlling interests	26	603	1,823	–	–
Total equity		18,364	18,180	28,422	25,080

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

(1) The March 2019 financial position reflects the adoption of AASB 9 on 1 April 2018. As permitted by AASB 9, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Refer to Note 1 for the impact from the initial adoption of AASB 9.

Statements of changes in equity

For the financial year ended 31 March 2019

	Notes	Contributed Equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
CONSOLIDATED							
Balance as at 1 Apr 17		6,290	1,396	7,877	15,563	1,707	17,270
Profit after income tax		–	–	2,557	2,557	24	2,581
Other comprehensive (loss)/income, net of tax		–	(193)	37	(156)	136	(20)
Total comprehensive (loss)/income		–	(193)	2,594	2,401	160	2,561
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,26	–	–	(1,649)	(1,649)	–	(1,649)
Purchase of shares by MEREP Trust	25	(373)	–	–	(373)	–	(373)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(5)	(5)	27	22
Dividends and distributions paid or provided for		–	–	–	–	(71)	(71)
Other equity movements:							
MEREP expense	26	–	383	–	383	–	383
Additional deferred tax benefit on MEREP expense	26	–	37	–	37	–	37
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	293	(293)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	40	(40)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	25,26	(7)	7	–	–	–	–
		(47)	94	(1,654)	(1,607)	(44)	(1,651)
Balance as at 31 Mar 18		6,243	1,297	8,817	16,357	1,823	18,180
Change on initial application of AASB 9		–	54	(166)	(112)	(16)	(128)
Restated balance as at 1 Apr 18		6,243	1,351	8,651	16,245	1,807	18,052
Profit after income tax		–	–	2,982	2,982	6	2,988
Other comprehensive income/(loss), net of tax		–	297	6	303	(27)	276
Total comprehensive income/(loss)		–	297	2,988	3,285	(21)	3,264
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,26	–	–	(1,819)	(1,819)	–	(1,819)
Purchase of shares by MEREP Trust	25	(454)	–	–	(454)	–	(454)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(13)	(13)	(1,078)	(1,091)
Dividends and distributions paid or provided for		–	–	–	–	(105)	(105)
Other equity movements:							
MEREP expense	26	–	491	–	491	–	491
Additional deferred tax benefit on MEREP expense	26	–	24	–	24	–	24
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	370	(370)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	23	(23)	–	–	–	–
Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity	25	2	–	–	2	–	2
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	25,26	(3)	3	–	–	–	–
		(62)	125	(1,832)	(1,769)	(1,183)	(2,952)
Balance as at 31 Mar 19		6,181	1,773	9,807	17,761	603	18,364

Statement of changes in equity

For the financial year ended 31 March 2019 continued

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
COMPANY					
Balance as at 1 Apr 17		8,933	804	12,607	22,344
Profit after income tax		–	–	4,357	4,357
Total comprehensive income		–	–	4,357	4,357
Transactions with equity holders in their capacity as ordinary equity holders:					
Contributions of ordinary equity, net of transaction costs		1	–	–	1
Dividends paid	5,26	–	–	(1,635)	(1,635)
Purchase of shares by MEREP Trust	25	(373)	–	–	(373)
Other equity movements:					
MEREP expense relating to employees of subsidiaries	26	–	383	–	383
Additional deferred tax benefit on MEREP expense	26	–	3	–	3
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	293	(293)	–	–
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	2	(2)	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	25,26	(7)	7	–	–
		(84)	98	(1,635)	(1,621)
Balance as at 31 Mar 18		8,849	902	15,329	25,080
Change on initial application of AASB 9		–	–	(20)	(20)
Restated balance as at 1 Apr 18		8,849	902	15,309	25,060
Profit after income tax		–	–	5,125	5,125
Total comprehensive income		–	–	5,125	5,125
Transactions with equity holders in their capacity as ordinary equity holders:					
Contributions of ordinary equity, net of transaction costs		2	–	–	2
Dividends paid	5,26	–	–	(1,805)	(1,805)
Purchase of shares by MEREP Trust	25	(454)	–	–	(454)
Other equity movements:					
MEREP expense relating to employees of subsidiaries	26	–	491	–	491
Additional deferred tax benefit on MEREP expense	26	–	1	–	1
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	370	(370)	–	–
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	25,26	1	(1)	–	–
Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity	25	2	–	–	2
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	25,26	(3)	3	–	–
		(82)	124	(1,805)	(1,763)
Balance as at 31 Mar 19		8,767	1,026	18,629	28,422

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 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 ⁽¹⁾ \$m	2018 \$m	2019 ⁽¹⁾ \$m	2018 \$m
Cash flows generated from operating activities					
Interest and similar income received		5,362	4,908	766	479
Interest and similar expense paid		(3,547)	(2,940)	(832)	(492)
Fees and other non-interest income received		5,065	4,405	22	9
Fees and commissions paid		(1,090)	(877)	–	–
Operating lease income received		2,719	1,831	–	–
Dividends and distributions received		309	228	1,758	1,730
Employment expenses paid		(4,416)	(3,913)	(5)	(4)
Operating expenses paid		(1,557)	(1,836)	(35)	–
Income tax paid		(1,161)	(483)	(474)	(187)
Changes in operating assets and liabilities:					
Net movement in trading assets and liabilities		1,076	4,836	142	(157)
Net movement in loan assets and balance with related entities		(4,205)	(3,720)	(6,022)	(6,712)
Net movement in assets under operating lease		(1,668)	(1,202)	–	–
Net movement in deposits		7,717	665	23	13
Net movement in bank borrowings		4,675	131	4,279	854
Net movement in debt issued		(8,385)	2,344	1,634	6,447
Net movement in other assets and liabilities		(126)	68	(13)	28
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		1,326	1,104	–	–
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		(1,330)	(1,099)	–	–
Net cash flows generated from operating activities	27	764	4,450	1,243	2,008
Cash flows generated from/(utilised in) investing activities					
Net proceeds from financial investments		795	111	–	–
Proceeds from the disposal of or capital return from associates, subsidiaries and businesses, net of cash deconsolidated		4,798	3,510	2,040	–
Payments for the acquisition of associates or capital contribution, subsidiaries and businesses, net of cash acquired		(2,437)	(4,224)	(2,304)	–
Proceeds from the disposal of property, plant and equipment, and intangible assets		–	58	–	–
Payments for the acquisition of property, plant and equipment, and intangible assets		(633)	(255)	–	–
Net cash flows generated from/(utilised in) investing activities		2,523	(800)	(264)	–
Cash flows utilised in financing activities					
Payments for non-controlling interests		(136)	(33)	–	–
Proceeds from the issue of loan capital		1,557	–	1,550	–
Payments on redemption of loan capital		(270)	(330)	(270)	–
Dividends and distributions paid		(1,835)	(1,663)	(1,805)	(1,635)
Payments for acquisition of treasury shares	25	(454)	(373)	(454)	(373)
Net cash flows utilised in financing activities		(1,138)	(2,399)	(979)	(2,008)
Net increase in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year		13,005	11,754	–	–
Cash and cash equivalents at the end of the financial year	27	15,154	13,005	–	–

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

- (1) The March 2019 financial results reflect the adoption of AASB 9 on 1 April 2018. As permitted by AASB 9, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Prior comparative financial year has been reclassified to conform to current year presentation. Refer to Note 1 for the impact from initial adoption of AASB 9.

Notes to the financial statements

For the financial year ended 31 March 2019

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 and are applicable to both the Consolidated Entity (Macquarie Group Limited and its subsidiaries) as well as to the Company (Macquarie Group Limited), 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 Group Limited is a for-profit Company for the purposes of preparing 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.

Basis of measurement

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

- financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL), financial assets classified as fair value through other comprehensive income (FVOCI) and financial instruments that are designated as FVTPL (DFVTPL)
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships
- non-current assets and disposal groups that have been classified as held for sale and where the disposal group has been written down to its fair value less costs to sell
- liabilities in terms of cash-settled share-based payment obligations
- commodities that are measured at fair value less costs to sell in accordance with the broker-trader exemption
- investment property that is subsequently measured at fair value.

Presentation changes

Statement of financial position

Following the adoption of AASB 9 *Financial Instruments* (AASB 9), and in order to present items on the basis of the nature of the underlying item as opposed to its measurement basis, the Consolidated Entity has made changes to the presentation of certain items in its statement of financial position.

The effect of these presentation changes has been disclosed in the 'Change on initial application of AASB 9' section of this note and as footnotes to the other relevant notes to the financial statements.

Income statement

The Consolidated Entity has made certain presentation changes in its income statements and Note 2 *Operating profit before income tax*, in order to align the presentation of items of income and expense with the categories of financial instruments presented in the statements of financial position.

This has had no effect on the measurement of these items and therefore on retained earnings or profit for any period. Comparative information has been represented, for all these presentation changes in the statement of financial position and income statement.

Critical accounting estimates and significant judgements

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

- determining the appropriate business model for a group of financial assets and assessing whether the cash flows generated by an asset constitute solely payment of principal and interest (SPPI) (Note 1(viii))
- measurement of Expected Credit Loss (ECL) including the choice of inputs, estimates and assumptions relating to information about past events, current conditions and forecasts of economic conditions (Note 1(xxiii) and 12)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries (Note 1(ii), 1(xxiii), 14 and 16)
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Note 1(xxiii) and 15)
- fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 37)
- distinguishing between whether assets or a business is acquired under a business combination (Note 1(iii))
- determination of control of subsidiaries and structured entities (Note 1(ii) and 33)
- determination of significant influence over associates and joint control over joint ventures (Note 1(ii))
- recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities (Note 1(vii), 4 and 17)
- recognition of fees by determining whether multiple services provided in a single contract are distinct and whether incurred expenses can be presented net of any associated revenue (Note 1(v))
- recognition and measurement of provisions related to actual and potential claims, including contingent liabilities, and supplemental income, maintenance liabilities and end of lease compensation (Note 1(v), 10, 21 and 31).

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

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and it is therefore 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 reported assets and liabilities.

(a) New Accounting Standards and amendments to Accounting Standards and Interpretations that are not yet effective for the financial year

(i) AASB 16 Leases

AASB 16 *Leases* (AASB 16) replaces the current AASB 117 *Leases* standard for the Consolidated Entity's financial year commencing on 1 April 2019.

AASB 16 sets out a comprehensive model for identifying and measuring lease arrangements. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. Contracts that are leases within the scope of AASB 16 from the lessee's perspective require the recognition of a right-of-use (ROU) asset and a related lease liability, being the present value of future lease payments. This results in an increase in the recognised assets and liabilities in the Consolidated Entity's statement of financial position. The income statement will include interest expense on the lease liability together with depreciation of the ROU asset. As compared to AASB 117, the pattern of expense recognition changes with higher costs in the earlier stages of the lease as a result of the interest expense being determined on the lease liability that amortises over the lease term. The classification of leases where the Consolidated Entity is lessor remains unchanged under AASB 16.

Transition

Alternative methods of calculating the ROU asset are permitted under AASB 16 which impacts the size of the transition adjustment. The Consolidated Entity will apply the modified retrospective approach as permitted by AASB 16. Under the modified retrospective transition approach, prior period comparative financial statements are not restated and the Consolidated Entity can choose between two alternate methods of measuring the lease assets on a lease by lease basis. The Consolidated Entity will measure the ROU for existing operating leases of office space from which it conducts its business as if AASB 16 had always been applied. The resulting transition adjustment will be recognised as an adjustment to the Consolidated Entity's retained earnings as at 1 April 2019. For other leases the ROU will be measured based on the lease liability.

Based on the elected transition method, the Consolidated Entity will recognise lease liabilities of approximately \$950 million and ROU assets of approximately \$750 million. After adjusting for amounts currently recorded on the balance sheet (representing the difference between the cumulative lease expense recognised and cash paid on these leases), this results in a reduction to retained earnings of approximately \$50 million. The transition

adjustment has, as permitted by AASB 16, been determined by the Consolidated Entity by electing practical expedients to not recognise short-term or low value leases on its statement of financial position at the transition date.

Judgement has been applied by the Consolidated Entity in determining the transition adjustment which includes the determination of which contractual arrangements represent a lease, the period over which the lease exists, the incremental borrowing rate of the Consolidated Entity, and the variability of future cash flows.

A schedule of current operating lease commitments is disclosed in Note 32.

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

Interpretation 23, which clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* (AASB 112) where there is uncertainty over income tax treatments, and requires an 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 and 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 are presented.

Interpretation 23 will apply to the Consolidated Entity from 1 April 2019. The Consolidated Entity's existing recognition and measurement accounting policies are aligned with that as required by Interpretation 23 and hence no transition adjustment to retained earnings is required. The application of Interpretation 23 will however increase income tax payable to approximately \$592 million with an offsetting decrease in deferred tax liabilities to approximately \$246 million. The Consolidated Entity will not restate the comparative financial reporting period.

(iii) Revised IFRS Conceptual Framework

The IASB has issued the revised IFRS Conceptual Framework (Framework) for financial reporting. The Australian equivalent Conceptual Framework has not yet been issued.

The main purpose of the Framework is to assist the IASB in developing accounting standards and assist financial report preparers to develop accounting policies when there is no specific or similar standard that addresses a particular issue.

Amendments include the definition and recognition criteria for assets, liabilities, income and expenses, and other relevant financial reporting concepts. The Framework is effective for Macquarie's annual reporting periods beginning on 1 April 2020. The Consolidated Entity is currently assessing the impact of the revised Framework.

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

(iv) AASB 123 *Borrowing costs*

An amendment to AASB 123 *Borrowing costs* (AASB 123) clarifies that, to the extent an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The amendment to AASB 123 will apply to borrowing costs that the Consolidated Entity incurs on or after 1 April 2019. The amendment is not expected to have a material impact on the Consolidated Entity's financial statements.

(v) AASB 119 *Employee Benefits*

An amendment to AASB 119 *Employee Benefits* (AASB 119) specifies an entity should account for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment requires the use of assumptions for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The amendment also clarifies that, when a plan event occurs, the past service cost or a gain or loss on settlement is to be recognised separately from its assessment of the asset ceiling.

The amendment to AASB 119 will apply to the Consolidated Entity from 1 April 2019 and is not expected to have a material impact on the Consolidated Entity's financial statements.

(b) New Australian Accounting Standards and amendments to Accounting Standards that are either effective in the current financial year or have been early adopted

(i) AASB 3 *Business Combinations*

An amendment to AASB 3 *Business Combinations* (AASB 3) revised the definition of a business to provide additional guidance to assist entities to determine whether the acquisition of activities and assets should be accounted for as a business combination or as an asset acquisition. Existence of a process (or processes) has been identified as a key criteria for distinguishing a business combination from an asset acquisition.

To be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. The amendment also limited the definition of

output to focus on goods or services provided to customers, investment income (such as dividend or interest) or other income from ordinary activities.

A concentration test has also been included which the Consolidated Entity may elect to apply on a transaction by transaction basis for assessment whether an acquired set of activities and assets is not a business.

Whilst the amendment is effective for annual reporting periods beginning on or after 1 January 2020, the Consolidated Entity has early adopted the amendment from 1 April 2018.

(ii) AASB 9 *Financial Instruments and related amendments*

AASB 9 replaced AASB 139 *Financial Instruments: Recognition and Measurement* from 1 April 2018. AASB 9 resulted in changes to accounting policies covering the classification, measurement and impairment of financial assets and the application of hedge accounting.

The Consolidated Entity early adopted from 1 October 2016 the provisions relating to the presentation in other comprehensive income (OCI) of changes in the credit risk of the Consolidated Entity of financial liabilities that have been designated at FVTPL. The Consolidated Entity has applied all other requirements of AASB 9 from 1 April 2018.

Transition

As permitted by AASB 9, the Consolidated Entity and the Company have not restated comparative financial statements and have recorded transition adjustments to the opening balance sheet, retained earnings and OCI at 1 April 2018.

The transition adjustment, which mainly relates to AASB 9's expected credit loss impairments (ECL) requirements, reduced the Consolidated Entity's shareholders' equity by \$128 million after tax and the Company's shareholders' equity by \$20 million. The transition to AASB 9 did not have a material impact on the Consolidated Entity's minimum regulatory capital requirements. Refer to the next section 'Change on initial application of AASB 9' for further details of the transition impact.

The key changes in the Consolidated Entity's significant accounting policies following the transition to AASB 9 have been included within the relevant sections of this note and other notes in this Financial Report. Accounting policies applicable to the prior period have been provided in *italics* as appropriate for comparability purposes.

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

AASB 2017-6 amended AASB 9 to permit entities to measure at amortised cost or fair value through OCI, particular financial assets that would otherwise have contractual cash flows that meet the SPPI test but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, including the business model relevant to the financial asset. Whilst AASB 2017-6 is effective for annual periods beginning on or after 1 January 2019, the Consolidated Entity has early adopted the amendment from 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

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 (debt instruments) 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. AASB 9's ECL requirements are applied to these long-term interests before applying the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures* (AASB 128).

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

Change on initial application of AASB 9:

The table on the following page summarises the presentation and carrying amount changes in the Consolidated Entity's statement of financial position as a result of the adoption of AASB 9 as at 1 April 2018, and includes:

- a comparison of AASB 139 and AASB 9's measurement categories
- the impact of the classification and measurement changes, and the new ECL requirements on the 'and Company's' statement of financial position.

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Notes to the financial statements

For the financial year ended 31 March 2019 continued

	AASB 139 measurement category	Carrying amount as at 31 Mar 18 \$m	Presentation changes \$m	Revised presentation as at 31 Mar 18 \$m
Assets				
Receivables from financial institutions ⁽¹⁾	Amortised cost	38,559	(38,559)	–
Cash and bank balances ⁽¹⁾	Amortised cost	–	9,722	9,722
Cash collateral on securities borrowed and reverse repurchase agreements ^{(1),(A)}	Amortised cost	–	28,837	28,837
Trading assets ⁽²⁾	FVTPL	15,585	(244)	15,341
Margin money and settlement assets ⁽⁵⁾	Amortised cost	–	18,198	18,198
Derivative assets	FVTPL	12,937	–	12,937
Financial investments ^{(3),(4),(B)}	Available for sale	–	6,166	6,166
	FVTPL (designated)	–	994	994
Investment securities available for sale ⁽³⁾	Available for sale	6,166	(6,166)	–
Held for sale and other assets ^{(4),(5),(C),(D)}	Amortised cost	12,830	(10,016)	2,814
	FVTPL	647	–	647
	FVTPL (designated)	–	143	143
	Non financial asset	4,893	–	4,893
Loan assets ^{(2),(4),(5),(E),(F)}	Amortised cost	81,150	(8,182)	72,968
	FVTPL	–	244	244
	FVTPL (designated)	–	297	297
Other financial assets at fair value through profit or loss ⁽⁴⁾	FVTPL (designated)	1,434	(1,434)	–
Property, plant and equipment	Non financial asset	11,426	–	11,426
Interests in associates and joint ventures – equity	Non financial asset	3,641	–	3,641
Interests in associates and joint ventures – loans ⁽⁵⁾	Amortised cost	414	–	414
	Non financial asset	993	–	993
Intangible assets	Non financial asset	650	–	650
Deferred tax assets	Non financial asset	–	–	–
Total assets		191,325	–	191,325
Liabilities				
Cash collateral on securities lent and repurchase agreements ^{(1),(A)}	Amortised cost	–	5,383	5,383
Trading liabilities	FVTPL	8,061	–	8,061
Margin money and settlement liabilities ⁽⁵⁾	Amortised cost	–	20,878	20,878
Derivative liabilities	FVTPL	11,925	–	11,925
Deposits ⁽⁵⁾	Amortised cost	59,412	(11,017)	48,395
Held for sale and other liabilities ^{(5),(6)}	Amortised cost	9,847	(8,811)	1,036
	FVTPL (designated)	640	153	793
	Non financial liability	5,599	–	5,599
Payables to financial institutions ^{(1),(5)}	Amortised cost	15,440	(15,440)	–
Bank borrowings ⁽¹⁾	Amortised cost	–	9,007	9,007
Debt issued ⁽⁶⁾	Amortised cost	53,717	–	53,717
	FVTPL	–	2,210	2,210
Other debt issued at fair value through profit or loss ⁽⁶⁾	FVTPL	2,363	(2,363)	–
Deferred tax liabilities	Non financial liability	749	–	749
Total liabilities excluding loan capital		167,753	–	167,753
Loan capital	Amortised cost	5,392	–	5,392
Total liabilities		173,145	–	173,145
Net assets		18,180	–	18,180
Equity				
Contributed equity		6,243	–	6,243
Reserves		1,297	–	1,297
Retained earnings ^{(1),(F)}		8,817	–	8,817
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		16,357	–	16,357
Non-controlling interests		1,823	–	1,823
Total equity		18,180	–	18,180

AASB 9 classification and measurement changes	AASB 9 REMEASUREMENT					AASB 9 MEASUREMENT CATEGORIES					
	Classification change \$m	ECL \$m	Tax impact \$m	Net impact \$m	Carrying amount at 1 Apr 18 \$m	Amortised cost \$m	HFT \$m	FVTPL \$m	DFVTPL \$m	FVOCI \$m	
										</	

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

Footnotes to the AASB 9 Transition Table

Presentational changes

On adoption of AASB 9 the Consolidated Entity elected to make the following presentation changes to certain financial assets and financial liabilities in order to better reflect the nature of the underlying assets and liabilities:

- (1) The following balances were previously presented as 'Receivables from financial institutions':
- \$28,837 million of balances now presented as 'Cash collateral on securities borrowed and reverse repurchase agreements'
 - \$9,722 million now presented as 'Cash and bank balances'.

Similarly, \$5,383 million of balances previously presented as part of 'Payables to financial institutions' are now presented as part of 'Cash collateral on securities lent and repurchase agreements' and \$9,007 million presented as 'Bank Borrowings'.

- (2) Corporate loans of \$244 million that were managed on a fair value basis and that were previously presented under 'Trading assets' were re-presented to be included as part of 'Loan assets' held at FVTPL.
- (3) Available-for-sale debt and equity securities of \$6,166 million were re-presented to be included within 'Financial investments'.
- (4) Debt and equity securities of \$1,434 million that were previously presented as part of 'Other financial assets at fair value through profit or loss' were re-presented to be included as part of 'Financial investments' (\$994 million), 'Loan assets' (\$297 million) and 'Held for sale and other assets' (\$143 million).
- (5) Margin placed (\$8,182 million) previously presented as part of 'Loan assets' and security and commodity settlement balances (\$10,016 million) previously presented as a part of 'Held for sale and other assets' were re-presented as 'Margin money and settlement assets'.
- Similarly, the following amounts were re-presented as part of 'Margin money and settlement liabilities':
- \$11,017 million of balances previously presented as part of 'Deposits'
 - \$1,050 million of balances previously presented as part of 'Payables to financial institutions'
 - \$8,811 million of balances previously presented as part of 'Held for sale and other liabilities'.
- (6) Financial liabilities that were previously presented as part of 'Other debt issued at fair value through profit or loss' were re-presented to be included in 'Held for sale and other liabilities' (\$153 million) and 'Debt issued' (\$2,210 million).

AASB 9 classification and measurement changes

Following the adoption of AASB 9, the following classification and measurement changes arose:

- (A) Reverse repurchase agreements of \$16,083 million, that were classified as at amortised cost under AASB 139 were classified as FVTPL under AASB 9. This AASB 9 measurement basis reflects the Consolidated Entity's business model of managing

the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows. Repurchase agreements of \$2,522 million, that were classified as at amortised cost under AASB 139, were reclassified to DFVTPL on adoption of AASB 9 as these repurchase agreements are managed together with the reverse repurchase agreements and evaluated on a fair value basis.

- (B) Debt financial investments of \$338 million, that were classified as available for sale under AASB 139, were classified as FVTPL as they either did not meet AASB 9's SPPI criteria or were held in a business model with the intention to sell. Other debt financial investments of \$5,310 million, that were previously classified as available for sale, were classified as at FVOCI on adoption of AASB 9 since these financial assets were held in a business model to both collect contractual cash flows and with the intention to sell. Equity financial investments of \$518 million, that were classified as available for sale under AASB 139, and equity financial investments of \$891 million, that were classified as DFVTPL under AASB 139, were classified as FVTPL on adoption of AASB 9 since the Consolidated Entity did not elect to measure such financial assets as FVOCI.
- (C) Commodity-related debtors of \$254 million, which were classified as at amortised cost under AASB 139, were classified as FVTPL on adoption of AASB 9 since these financial assets were held in a business model with the intention to sell.
- (D) Loans to associates of \$312 million that had been classified as held for sale under AASB 5 *Non-current assets held for sale and discontinued operations* were previously classified as at amortised cost under AASB 139. These loans are held in a business model to both collect cash flows and with the intention to sell and were re-classified to FVOCI on adoption of AASB 9.
- (E) Loans of \$710 million, that were classified as at amortised cost under AASB 139, were classified as at FVTPL on adoption of AASB 9 as they either did not meet AASB 9's SPPI criteria or were originated with the intention to sell.
- (F) Loans of \$675 million that were classified as at amortised cost under AASB 139 were determined to be held within a business model to both collect cash flows and to realise through sale. These loans were accordingly re-classified as at FVOCI on adoption of AASB 9.
- (G) Loans to associates and joint ventures of \$260 million, that were previously classified as at amortised cost, were reclassified to FVOCI on adoption of AASB 9 since the loans are held within a business model whose objective is to both collect contractual cash flows and to realise through sale. Further, loans of \$14 million, that were previously classified as at amortised cost under AASB 139, were reclassified to FVTPL on adoption of AASB 9 since such financial assets were held in a business model with the intention to sell.
- (H) The \$40 million increase in retained earnings for changes in classification and measurement of financial assets mainly relates to the reversal of fair value impairment losses on certain available for sale debt securities that were recognised previously in retained earnings under AASB 139. These fair value impairment losses are now recognised within OCI under AASB 9. An ECL impairment loss has been separately recognised on these debt securities in retained earnings on adoption of AASB 9.

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

The following table provides a reconciliation between the closing impairment allowance for financial assets under AASB 139 (incurred credit loss) to the opening impairment allowance determined in accordance with AASB 9 (ECL) as at 1 April 2018. Changes to the impairment allowance from AASB 139 to AASB 9 are due to the reclassification of financial assets between amortised cost and fair value and the remeasurement of impairment allowances under AASB 9's new ECL requirements.

Financial assets	Measurement category under AASB 139	Measurement category under AASB 9	Loss allowance under AASB 139 \$m	Re-classification \$m	Re-measurement ⁽¹⁾ \$m	Adjusted to fair value at transition date ⁽²⁾ \$m	ECL allowance under AASB 9 \$m
CONSOLIDATED							
Financial investments	Available for sale	FVOCI	–	–	52	–	52
Other assets	Amortised cost	Amortised cost	108	–	20	–	128
Loan assets	Amortised cost	Amortised cost	470	(139)	170	–	501
		FVTPL	–	67	–	(67)	–
		FVOCI	–	72	(1)	–	71
			470	–	169	(67)	572
Interests in associates and joint ventures – loans	Amortised cost	Amortised cost	19	(18)	–	–	1
		FVOCI	–	18	12	–	30
			19	–	12	–	31
Undrawn commitments and financial guarantees			–	–	33	–	33
Total			597	–	286	(67)	816

(1) The ECL movement on loan assets of \$169 million is primarily due to a lifetime ECL allowance recognised on exposures that have experienced a significant increase in credit risk (SICR) since origination.

(2) Represents AASB 139 impairment allowance on amortised cost financial assets that were reclassified to FVTPL on transition to AASB 9.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	AASB 139 measurement category	Carrying amount as at 31 Mar 18 \$m	Presentation changes \$m	Revised presentation as at 31 Mar 18 \$m	AASB 9 classification and measurement changes \$m
Assets					
Other assets	Non financial asset	12	–	12	–
Due from subsidiaries ^(A)	Amortised cost	17,269	–	17,269	(1,101)
	FVTPL	–	–	–	1,101
Investments in subsidiaries	Non financial asset	25,347	–	25,347	–
Deferred tax assets	Non financial asset	19	–	19	–
Total assets		42,647	–	42,647	–
Liabilities					
Derivative liabilities	FVTPL	1	–	1	–
Deposits	Amortised cost	24	–	24	–
Other liabilities	Non financial liability	196	–	196	–
Payables to financial institutions ^(B)	Amortised cost	3,191	(3,191)	–	–
Bank borrowings ^(B)	Amortised cost	–	3,191	3,191	–
Due to subsidiaries	Amortised cost	843	–	843	–
Debt issued	Amortised cost	12,177	–	12,177	–
Total liabilities excluding loan capital		16,432	–	16,432	–
Loan capital	Amortised cost	1,135	–	1,135	–
Total liabilities		17,567	–	17,567	–
Net assets		25,080	–	25,080	–
Equity					
Contributed equity		8,849	–	8,849	–
Reserves		902	–	902	–
Retained earnings		15,329	–	15,329	–
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		25,080	–	25,080	–
Total equity		25,080	–	25,080	–

(A) Internal capital notes of \$1,101 million issued by a Group subsidiary, previously measured at amortised cost under AASB 139 were re-classified to FVTPL as these notes did not meet AASB 9's SPPI criteria.

(B) Payables to Financial Institutions of \$3,191 million, primarily representing term loans from banks, were re-presented as 'Bank Borrowings'.

AASB 9 REMEASUREMENT					AASB 9 MEASUREMENT CATEGORIES				
Classification change \$m	ECL \$m	Tax impact \$m	Net impact \$m	Carrying amount at 1 Apr 18 \$m	Amortised cost \$m	HFT \$m	FVTPL \$m	DFVTPL \$m	FVOCI \$m
COMPANY									
-	-	-	-	12	-	-	-	-	-
-	(28)	-	(28)	16,140	16,140	-	-	-	-
-	-	-	-	1,101	-	-	1,101	-	-
-	-	-	-	25,347	-	-	-	-	-
-	-	8	8	27	-	-	-	-	-
-	(28)	8	(20)	42,627	16,140	-	1,101	-	-
-	-	-	-	1	-	1	-	-	-
-	-	-	-	24	24	-	-	-	-
-	-	-	-	196	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	3,191	3,191	-	-	-	-
-	-	-	-	843	843	-	-	-	-
-	-	-	-	12,177	12,177	-	-	-	-
-	-	-	-	16,432	16,235	1	-	-	-
-	-	-	-	1,135	1,135	-	-	-	-
-	-	-	-	17,567	17,370	1	-	-	-
-	(28)	8	(20)	25,060	-	-	-	-	-
-	-	-	-	8,849	-	-	-	-	-
-	-	-	-	902	-	-	-	-	-
-	(28)	8	(20)	15,309	-	-	-	-	-
-	(28)	8	(20)	25,060	-	-	-	-	-
-	(28)	8	(20)	25,060	-	-	-	-	-

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

The following table provides a reconciliation between the closing impairment allowance for financial assets under AASB 139 (incurred credit loss) to the opening impairment allowance determined in accordance with AASB 9 (ECL) as at 1 April 2018. Changes to the impairment allowance from AASB 139 to AASB 9 are due to the reclassification of financial assets between amortised cost and fair value and the remeasurement of impairment allowances under AASB 9's new ECL requirements.

Financial assets	Measurement category under AASB 139	Measurement category under AASB 9	Loss allowance under AASB 139 \$m	Re-measurement \$m	ECL allowance under AASB 9 \$m
COMPANY					
Due from Subsidiaries	Amortised cost	Amortised cost	–	28	28

(iii) AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occurs when control of the goods or services are transferred to the customer.

The Consolidated Entity and the Company adopted AASB 15 on 1 April 2018. No material adjustment to opening retained earnings was recognised as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised as at 31 March 2018. However, the Consolidated Entity and the Company have prospectively presented certain amounts of expenses, which were previously presented on a net basis within fee and commission income, on a gross basis under AASB15 within other fee and commission expense and operating expenses.

The key changes in significant accounting policies from the transition to AASB 15 are included within the relevant sections of this note and other notes in this Financial Report. Accounting policies applicable to the prior period have also been provided in ***Italics*** in relevant sections for comparability.

(iv) AASB 3 Business combinations

An amendment to AASB 3 revised the definition of a business to provide additional guidance to assist entities to determine whether the acquisition of activities and assets should be accounted as a business combination or as an asset acquisition. Existence of a process (or processes) has been identified as a key criteria for distinguishing business combination from an asset acquisition.

To be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. The amendment also limited the definition of output to focus on goods or services provided to customers, investment income (such as dividend or interest) or other income from ordinary activities.

A concentration test has also been included which the Consolidated Entity may elect to apply on a transaction by transaction basis for assessment whether an acquired set of activities and assets is not a business.

The amendment is to be effective for annual reporting periods starting on or after 1 January 2020, however the Consolidated Entity has early adopted the amendment from 1 April 2018.

Other amendments made to existing standards that are mandatorily effective for this annual reporting period did not result in a material impact to the Consolidated Entity's Financial report.

(c) Other developments

(i) IBOR reform: Transition to alternative reference rates

Interbank-offered rates (IBOR), are interest rate benchmarks used in a wide variety of financial instruments such as derivatives, loans and bonds. Examples of IBOR include 'LIBOR', 'EURIBOR' and 'BBSW'. IBOR have become increasingly based on the expert judgement of panel banks due to the declining amount of unsecured, wholesale borrowings by banks since the financial crisis. For this reason, these IBOR are less robust, and do not constitute transactions-based market interest rates as envisioned by regulators for international standards for benchmarks. As a result, an IBOR reform process is underway whereby regulators and industry bodies plan to reform or replace existing IBORs with more suitable alternative reference rates (ARRs). In addition, many banks have grown uncomfortable in providing submissions based on expert judgement. For LIBOR, the most widely used interest rate benchmark in the world, the UK Financial Conduct Authority (the regulator of LIBOR) has convinced banks to remain on the LIBOR panels but will not compel them to make LIBOR submissions beyond the end of 2021. As such, there can be no guarantee that LIBOR will be determined after 2021 on the same basis as at present, if at all.

IBOR reform will impact the accounting for financial instruments that reference IBORs. IBOR reform is expected to affect financial reporting including: hedge accounting; the accounting for contractual amendments necessary to facilitate a transition to ARRs, and; updating fair value methodologies to reflect the new ARRs.

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

Given the uncertainty around the timing and method of transition from IBOR to ARR, the current absence of term structures on new ARRs and the continued reliance on IBORs in pricing long-term financial instruments, management has, consistent with other market participants in the preparation of their financial statements, applied judgement in the current reporting period to determine that certain hedge relationships continue to qualify for hedge accounting. Impacted hedge relationships are those that hedge the variability of cash flows (cash flow hedges) and fixed interest rate risk (fair value hedges) due to changes in IBORs.

The IASB has commenced a project to address accounting issues leading up to IBOR reform and upon transition to ARRs. The IASB has tentatively decided to grant certain mandatory relief to support the continuation of hedge accounting despite the uncertainty arising from IBOR reform. The IASB intends to publish its proposals in May 2019. Management continues to monitor market developments and the activities of standard setters and regulators, has commenced a project to prepare for the introduction of ARRs, and will continue to monitor its judgements regarding hedge accounting.

(ii) Principles of consolidation

Subsidiaries

This consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) which the Consolidated Entity controls. The Consolidated Entity controls entities where it has:

- (i) power to direct the relevant activities
- (ii) exposure, or rights, to significant variable returns
- (iii) the ability to utilise power to affect the Consolidated Entity's 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 provide it with 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 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 that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities of the SE are directed by means of contractual arrangements. 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 the SE's relevant activities, 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.

Consolidation

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains but only to the extent that there is no evidence of impairment. Non-controlling interests (NCI) in the results and equity of subsidiaries are shown separately in the consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

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 was obtained. 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 (including the nature of such approval). 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.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(ii) Principles of consolidation continued

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. Existing ownership interests (including in-substance existing ownership interests) in associates and joint ventures are accounted for under the equity method. Equity accounting is applied from the date that the Consolidated Entity has significant influence or joint control and ceases when the Consolidated Entity no longer has significant influence or joint control.

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 the financial and operating policies or jointly control the relevant activities 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 (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

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 statement, and the share of the post-acquisition movements in reserves in the consolidated statement of comprehensive income. Equity accounting of losses is restricted to the Consolidated Entity's interests in its associate or joint venture, unless the Consolidated Entity has an obligation or has made payment on behalf of the entity.

Long-term interests in an associate or joint venture, which are in the nature of debt and in-substance form part of the net investment in the associate or joint venture, but to which the equity method is not applied, are accounted for in accordance with the Consolidated Entity's financial instruments accounting policies, before applying the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures*. The Consolidated Entity calculates expected credit loss on these loans in accordance with AASB 9 *Financial Instruments*.

Where there is an indicator of impairment, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Impairment losses are recognised as impairment charges as part of other operating income and charges. A reversal of a previously recognised impairment loss is recognised only to the extent that the investment's carrying value does not exceed the carrying amount that would have been determined (including consideration of any equity accounted losses), if no impairment loss had been recognised.

Interests in associates and joint ventures are classified as held for sale when the Consolidated Entity determines that the interest will be recovered principally through a sale transaction rather than through continuing use. Equity accounting is suspended when the interest is classified as held for sale.

On disposal of an investment in an associate or a joint venture, the difference between the sales consideration, any retained interest and the carrying value is recognised as a gain or loss in investment income as part of other operating income and charges together with any gains and losses in OCI that related to the associate or joint venture.

Prior to the adoption of AASB 9, the impairment of long-term interests in the nature of debt and that in-substance formed part of the net investment in the associate or joint venture, were determined in accordance with AASB 128's impairment requirements, as compared to AASB 9's ECL approach.

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 investment income as part other operating income and charges.

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 investment income as part of other operating income and charges. To the extent the sale represents a contribution to an associate or joint venture, retained ownership interests are not revalued.

Changes in the Consolidated Entity's interest in a subsidiary that does not result in the loss of control are accounted for directly within equity. Increases in the Consolidated Entity's ownership of an associate or joint venture are accounted for as an increase in the carrying value of the interest in associate or joint venture. The difference between the reduction in the Consolidated Entity's interest in an associate or joint venture that remains an associate or joint venture and the proceeds received is accounted for as investment income as part of other operating income and charges. A proportionate amount of associated OCI is reclassified to profit or loss, or reclassified within equity, as would otherwise be required on disposal of the underlying position.

(iii) Business combinations

Business combinations are accounted for using the acquisition method. The consideration exchanged is measured as the aggregate of the acquisition-date fair values of assets transferred, equity instruments issued, and liabilities incurred. Transaction costs of a business combination are recognised directly in the income statement.

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 elects, on a transaction-by-transaction basis, to measure either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities.

Note 1

Summary of significant accounting policies continued

(iii) Business combinations continued

Goodwill is measured as the excess of the consideration exchanged, recognised NCI, and the fair value of previously-held equity interests over the fair value of the identifiable net assets of the business acquired and is recognised as part of intangible assets in the statement of financial position. Goodwill is subsequently measured at cost less accumulated impairments. 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 investment income as part of other operating income and charges, but only after a reassessment of the identification and measurement of the net assets acquired.

Contingent consideration that is dependent on any subsequent event is measured at fair value with changes in its fair value recognised in investment income as part of other operating income and charges.

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 acquisition date. The discount rate used is the Consolidated 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. The Consolidated Entity identifies a business where an acquired integrated set of activities and assets includes an economic resource (input) and a substantive process that together significantly contribute to the ability to provide goods or services to customers, generate investment income or other income from ordinary activities (outputs).

On a transaction by transaction basis, the Consolidated Entity may perform a simplified assessment to determine that an acquired set of activities is not a business. Under this assessment, the transaction is accounted for as an asset acquisition if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Prior to the adoption of amendments to the definition of a business under AASB 3, some of the factors that the Consolidated Entity used in identifying a business combination included:

- 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 and a majority of the critical processes
- 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) Foreign currency translation

Functional and presentation currency

The functional currency of each entity in the Consolidated Entity is determined as 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.

Transactions and balances

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

Translation differences on financial instruments measured 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 financial assets classified as FVOCI are included in OCI, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement (see Note 1(xi)).

For the detailed policy on *Financial instruments* refer Note 1(viii).

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. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate
- income and expenses for each income statement are translated at actual or average exchange rates at the dates of the transactions
- all resulting exchange differences are recognised in OCI reserves within a separate component of equity, being the foreign currency translation reserve (FCTR).

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 recognised as part of the FCTR in OCI.

Foreign currency gains and losses on intragroup loans are recognised in the income statement except where the loan is in-substance part of the Consolidated Entity's net investment in the foreign operation, in which case the foreign currency gains and losses are recognised in the Consolidated Entity's FCTR.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(iv) Foreign currency translation continued

When a foreign operation is disposed of, exchange differences recognised in the FCTR are reclassified to the income statement and recognised in investment income as part of other operating income and charges.

(v) Revenue and expense recognition

Net interest income

Interest income and interest expense (with the exception of borrowing costs that are capitalised on a qualifying asset, which is not measured at fair value) is recognised using the effective interest rate (EIR) method for financial assets, and liabilities carried at amortised cost or debt financial assets classified as at fair value through OCI. The EIR method calculates the amortised cost of a financial instrument at a 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 that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL, except for financial assets which on initial recognition are classified as purchased or originated credit-impaired (POCI). Interest income on these assets is determined using a credit-adjusted EIR by discounting the estimated future cash receipts, including credit losses expected at initial recognition, through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. Interest income on financial assets that are not classified as POCI but are subsequently classified as credit-impaired, is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying value after deducting the impairment loss).

Interest income on financial assets and liabilities that are classified as FVTPL is accounted for on a contractual rate basis.

Prior to the adoption of AASB 9, interest income on financial assets that were measured at amortised cost (being loans and receivables and held to maturity financial assets) or classified as available for sale, was recognised in accordance with the EIR method. There was no specified accounting treatment under AASB 139 for financial assets that are now classified as POCI. These assets were accounted for on a consistent basis as other financial assets that were measured at amortised cost.

Fee and commission income

Revenue earned by the Consolidated Entity from its contracts with customers primarily consists of the following categories of fee and commission income:

Base management and performance fee – The Consolidated Entity earns base management and performance fees for providing asset management services for listed and unlisted funds. It has been determined that the provision of asset management services is typically a single performance obligation. Base management fees are recognised over the life of the contract as the asset management services are provided. Any associated performance fees are deemed to be a variable component of the same asset management service and are recognised only when it is highly probable that the performance hurdles are met, and a significant reversal of cumulative fees recognised to date will not occur. Determining the amount and timing of performance fees to be recognised involves judgement, the use of estimates and consideration of the following:

- nature of underlying fund assets and potential for volatility of investment returns
- returns on assets realised to-date
- time remaining until realisation of fund assets or crystallisation date
- the proportion of assets already realised
- potential downside valuation on remaining unrealised assets and reliability of those estimates.

Mergers and acquisitions, advisory and underwriting fees – The Consolidated Entity earns revenue through its role as advisor on corporate transactions as well as through its role as manager and underwriter of equity and debt issuances. The revenue from these arrangements is recognised at a point in time, and when it has been established that the customer has received the benefit of the service. For advisory services this is typically at the time of closing the transaction.

Where mandates contain rights to invoice upon reaching certain milestones, the Consolidated Entity will assess if there are distinct services transferred at these milestones and recognise revenue accordingly, otherwise it will defer recognition until the performance obligation has been completed. Management of capital raisings and underwriting of debt or equity capital raisings are each considered distinct performance obligations that are typically satisfied on the allocation date of the underwritten securities.

Brokerage and Commission – The Consolidated Entity enters into contracts with customers to act as an agent to buy and sell securities and fees related to this service are recognised on trade date. The brokerage and commission income is presented net of any rebates.

Other fee and commission income – Other fee and commission income includes fees earned on a range of banking products and services platforms, wealth services, credit cards, structuring fees, lending services, stock borrowings and lending activities and income on structured products which are recognised when the performance obligation is satisfied.

Note 1

Summary of significant accounting policies continued

(v) Revenue and expense recognition continued

Prior to the adoption of AASB 15, fee and commission income was recognised as the related services were performed. Where commissions and fees were subject to clawback or meeting certain performance hurdles, they were recognised as income when it became highly probable that those conditions would not affect the outcome. Performance fees from Macquarie-managed unlisted funds were recognised when the fee could be reliably measured, and its receipt became highly probable. and other factors that were broadly aligned with AASB 15's revenue recognition requirements.

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 the related depreciation expense.

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 these are 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 end of the lease.

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 recognised net of supplemental rent revenue. Maintenance liabilities are recognised separately and disclosed in Note 21 *Held for sale and other liabilities*.

Other operating income and charges

Other operating income and charges includes investment income, and other income.

Investment income includes gains and losses arising from subsequent changes in the fair values of equity investment securities, debt investment securities at fair value through profit or loss and dividends or distributions on these securities, which represent the return on such investments. Impairment losses/reversal of impairment losses on such financial assets are not reported separately from other changes in fair value.

Gain or loss on change of control, joint control and/or significant influence and reclassifications to/from held for sale also forms part of investment income. Refer Note 1(ii) *Principles of consolidation* for details on timing of recognition of gains or losses.

Dividends

Dividends or distributions on financial assets are recognised, as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends and distributions from associates and joint ventures reduce the carrying amount of the investment in the Consolidated Entity's statement of financial position. 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.

Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

(vi) 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 is based on the financial information used to produce the Consolidated Entity's financial statements. Information about geographical segments is based on the jurisdiction of the respective entities.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(vii) Taxation

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

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences 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 in OCI are also recognised in OCI.

The Consolidated Entity exercises judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery.

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

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

Tax consolidation

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

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

charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

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

Goods and Services tax (GST)

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

(viii) Financial instruments

Recognition of financial instruments

Financial instruments are recognised when the Consolidated Entity becomes a party to the contractual provisions of the instrument.

A financial instrument is initially recognised at fair value and is adjusted for (in the case of instruments not carried at FVTPL) transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument. Transaction costs relating to financial instruments carried at FVTPL are expensed in the income statement.

Derecognition of financial instruments

Financial assets

Financial assets are de-recognised from the statement of financial position when:

- the rights to cash flows have expired
- the Consolidated Entity has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

In transactions where the Consolidated Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. Any interest in the transferred and derecognised financial asset that is created or retained by the Consolidated Entity is recognised as a separate asset or liability. In transfers where control over the asset is retained, the Consolidated Entity continues to recognise the asset to the extent of its continuing involvement as determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

Gains and losses on the derecognition of non-trading related financial assets and liabilities are recognised as other income as part of other operating income and charges.

Note 1

Summary of significant accounting policies continued

(viii) Financial instruments continued

Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated financial instrument is a substantially different financial instrument. Where the modification results in derecognition of the original financial instrument, the new financial instrument is recorded initially at its fair value and the resulting difference is recorded in other income.

For financial instruments measured at amortised cost, and for financial assets measured at fair value through OCI, when the modification does not result in derecognition, a gain or loss is recognised in other income as the difference between the financial instrument's original contractual cash flows and the modified cash flows discounted at the original EIR.

Classification and subsequent measurement

Financial assets

Financial assets are classified based on the business model within which the asset is held and on the basis of the financial asset's contractual cash flow characteristics.

Business model assessment

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

The Consolidated Entity exercises judgement to determine the appropriate level at which to assess its business models and its intention with respect to its financial assets.

Solely payment of principal and interest (SPPI)

Key considerations for the SPPI assessment include the timing of the contractual cash flows and the interest component, where interest primarily reflects the time value of money and the credit risk of the principal outstanding.

Amortised cost

A financial asset is subsequently measured at amortised cost using the EIR method if 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 meet the SPPI requirements
- (iii) the financial asset has not been designated to be measured at FVTPL (DFVTPL).

Interest income determined in accordance with the EIR is recognised in interest income. Gains and losses arising from the derecognition of financial assets that are measured on an amortised cost basis are recognised in other income as part of other operating income and charges.

Fair value through other comprehensive income (FVOCI)

A financial asset is subsequently measured at FVOCI if 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 meet the SPPI requirements
- (iii) the financial asset has not been designated to be measured at FVTPL (DFVTPL).

Subsequent changes in fair value are recognised in OCI, with the exception of interest, which is recognised as part of interest income, ECL, which is recognised as a credit impairment charge in other operating income and charges, and foreign exchange gains and losses, which are recognised in net trading income. When debt financial assets at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI and recognised in investment income as part of other operating income and charges.

Fair value through profit or loss

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are measured at FVTPL, with all changes in fair value recognised in investment income as part of other operating income and charges.

For the purposes of the Consolidated Entity's and Company's financial statements, the FVTPL classification consists of the following:

- financial assets that are held for active trading (held for trading or 'HFT'). This classification includes all derivative financial assets
- financial assets that have been designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (DFVTPL)
- financial assets in a business model whose objective is achieved by managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows or financial assets that fail the SPPI test (FVTPL).

Changes in the fair value of HFT instruments are recognised in net trading income. Changes in the fair value of financial assets that are DFVTPL and FVTPL are recognised as investment income as part of other operating income and charges.

The interest component of financial assets that are classified as HFT, DFVTPL and FVTPL are recognised in interest income.

Equity financial assets are measured at FVTPL.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued (viii) Financial instruments continued

Reclassification of financial instruments

The Consolidated Entity reclassifies debt financial assets when and only when its business model for managing those assets changes. Financial assets that are reclassified are subsequently measured based on the financial asset's new measurement category.

The Consolidated Entity does not reclassify financial liabilities after initial recognition.

Prior to the adoption of AASB 9, the Consolidated Entity's financial assets were classified into the following categories:

- *Loans and receivables; being receivables and amounts due from subsidiaries that were non-derivative financial assets with fixed or determinable payments and that were not quoted in an active market. The measurement and recognition of gains and losses of such assets aligns with that for financial assets classified as at amortised cost under AASB 9*
- *Held for trading financial assets, being those financial assets that were held for trading purposes. The measurement and recognition of gains and losses of such assets aligns with the HFT category under AASB 9*
- *Available for sale, being financial assets that were initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair values were recognised through OCI in the available for sale reserve in equity until the asset was derecognised or impaired, at which time the cumulative gain or loss was recognised in the income statement. Interest income on available for sale debt financial assets was aligned with the treatment for financial assets classified as FVOCI under AASB 9.*
- *When the fair value of an available for sale equity financial asset was less than its initial carrying amount and there was objective evidence of impairment, the cumulative loss was transferred from OCI and to investment income in the income statement. Such impairment losses were not permitted to be reversed through the income statement*
- *Other financial assets were designated at FVTPL if:*
 - *the asset contained embedded derivatives which should otherwise have been separated and carried at fair value*
 - *the asset was 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 eliminated or significantly reduced a measurement or recognition inconsistency that would otherwise have arisen.*

Embedded derivatives in financial assets classified as loans and receivables and available for sale were required to be separately accounted for at fair value through profit or loss.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, unless they are either held for trading purposes, in which case they are classified as HFT, or have been designated to be measured at FVTPL (DFVTPL). A financial liability may be DFVTPL if

- the liability contains embedded derivatives which must otherwise be separated and carried at fair value
- doing so eliminates or significantly reduces an accounting mismatch.

All derivative liabilities are classified as HFT.

Gains and losses arising from the derecognition of financial liabilities that are subsequently measured on an amortised cost basis are recognised in other income as part of other operating income and charges. The changes in fair value of financial liabilities that are classified as HFT are recognised as part of net trading income. Changes in the fair value of financial liabilities that are classified as DFVTPL are recognised in other income as part of other operating income and charges, with the exception of changes in fair value relating to changes in the Consolidated Entity's own credit risk that is presented separately in OCI and is not subsequently reclassified to profit or loss. The interest component of financial liabilities that are classified as HFT or DFVTPL is recognised in interest expense.

Offsetting of 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.

(ix) Cash collateral on securities borrowed & lent and repurchase & reverse repurchase agreements

As part of its trading and financing activities, the Consolidated Entity borrows and lends securities on a collateralised basis. The securities subject to the arrangement are not derecognised from the statement of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder. These transactions include:

- Reverse repurchase transactions, where the Consolidated Entity purchases securities under an agreement to resell
- Repurchase transactions, where the Consolidated Entity sells securities under an agreement to repurchase.

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.

Reverse repurchase agreements, except for commodity agreements, are measured at FVTPL to reflect the Consolidated Entity's business model to realise fair value gains and losses as opposed to a business model in which the objective is to collect contractual cash flows. Repurchase agreements are measured at DFVTPL to eliminate an accounting mismatch created by managing these agreements together with the reverse repurchase agreements. Commodity agreements are measured at amortised cost as they are held in a business model to collect contractual cash flows and AASB 9's SPPI criteria are met.

Note 1

Summary of significant accounting policies continued

(ix) Cash collateral on securities borrowed & lent and repurchase & reverse repurchase agreements continued

The Consolidated Entity uses trade date accounting when recording regular purchases and sales of these assets and liabilities. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised profit or loss arising from revaluing that contract to fair value is recognised in the income statement.

Refer Note 1(viii) for the detailed *Financial Instruments* accounting policy.

Prior to the adoption of AASB 9, reverse repurchase and repurchase agreements were respectively classified as loans and receivables and financial liabilities measured at amortised cost.

(x) Trading assets and liabilities

Trading assets (long positions) comprise financial instruments such as debt and equity securities, bank bills and treasury notes purchased with the intent of being actively traded. It also includes bullion and commodities for which the Consolidated Entity has a trading intention. Trading liabilities comprise obligations to deliver assets (short positions) across the same trading categories and which the Consolidated Entity intends to actively trade.

Trading assets and liabilities are classified as HFT. Commodities are measured at fair value less costs to sell in accordance with the broker-trader exception.

The Consolidated Entity uses trade date accounting when recording regular purchases and sales of trading assets and liabilities. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability 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, and the de-recognition criteria are met, it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

(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 by the Consolidated Entity for the purposes of risk management of existing financial and non-financial assets and liabilities and entered into for client trading purposes.

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

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.

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. The Consolidated Entity applies this day 1 profit or loss policy to all financial instruments measured at fair value.

Hedge accounting

As part of its ongoing business, the Consolidated Entity is exposed to several financial risks, principally that of interest and foreign exchange rates and commodity price risk (collectively referred to as the hedged risk or exposure). The Consolidated Entity has limited appetite for such risks and has policies and practices in place to ensure that these risks are effectively managed. The Consolidated Entity mitigates these risks through the use of derivative financial instruments and, in the case of foreign currency risk, foreign-denominated debt issued (collectively referred to as hedging instruments). In order to account for the difference in measurement bases or location of the gains and losses between the exposure that is being hedged and the hedging instrument, the Consolidated Entity applies hedge accounting as detailed in the table that follows:

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(xi) Derivative instruments continued

	Fair value hedge	Cash flow hedge	Net investment in a foreign operation hedge
Nature of hedge	The hedge of the fair value risk of a financial asset, liability or non-financial contract.	The hedge of the change in cash flows of a financial asset or liability (or a highly probable forecast transaction).	The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates.
Hedged risk	– Interest rate risk – Commodity price risk	– Interest rate risk – Foreign exchange risk – Commodity price risk	– Foreign exchange risk (spot)
Hedged item	– Fixed interest rate financial assets and liabilities – Commodity transportation contracts	– Floating interest rate financial assets and liabilities – Foreign currency denominated interest bearing financial assets and liabilities – Commodity purchase and sales agreements	– Foreign operations
Hedging instruments	– Interest rate swaps – Commodity forward contracts	– Interest rate swaps – Cross currency swaps – Commodity swaps and futures	– Foreign exchange forward contracts – Foreign currency denominated issued debt
Designation and documentation	At inception of the hedge relationship, documentation is required of the Consolidated Entity's risk management objective and strategy for the hedge, hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	All hedge relationships are required to be assessed for hedge ineffectiveness both at the inception and throughout the hedge relationship by demonstrating that: – an economic relationship exists between the hedged item and the hedging instrument; – credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and – the hedge ratio is reflective of the Consolidated Entity's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the hedged item or the hedging instrument.		
Accounting treatment for the hedging instrument	Fair value through the income statement.	Fair value through the cash flow hedge reserve and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Fair value through the foreign currency translation reserve and recognised in the income statement at the time at which there is a disposal of the hedged foreign operation or to non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated.
Accounting treatment for the hedged item	Carrying value adjusted for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis or under other accounting standards (such as executory contracts for the purchase and sales of commodities).	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve.

	Fair value hedge	Cash flow hedge	Net investment in a foreign operation hedge
Accounting treatment for hedge ineffectiveness	Recognised in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument.	Recognised in the income statement to the extent to which changes in fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item.	
Accounting treatment if the hedge relationship is discontinued	Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an effective interest rate basis.	The gain or loss remains in the cash flow hedge reserve to the extent that the hedged cash flows are still expected to take place and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk. Where the hedged cash flows are no longer expected to take place, the gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.	The gain or loss remains recognised in the foreign currency translation reserve until such time as there is a disposal of the hedged foreign operation or is recognised in non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated.
Other accounting policies	None	The foreign currency basis spread of the hedging instrument, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the Consolidated Entity's reserves and released to the income statement at the time when the hedged exposure affects the income statement.	

AASB 139's hedge accounting requirements, which were applied prior to the adoption of AASB 9, for the Consolidated Entity and Company are substantially the same as that of AASB 9 with the exception of the requirement for the hedge to be highly effective and the limit on the application of hedge accounting for financial risks in non-financial contracts.

(xii) Margin money and settlement assets and liabilities

Margin money and settlement assets and liabilities includes trade settlement balances, margin money and client monies and balances with clearing houses. Margin and client money primarily represents deposits placed with clearing house or received from clients in relation to future trading and other derivatives Transactions. The balance includes both initial margin and variance margin which varies based on trading activities. Settlement balances represents outstanding trade timing balances as at the reporting date due to the timing difference between trade date and settlement date. Balances are carried at amortised cost except for certain margin money balances in the form of money market funds which are carried at FVTPL.

(xiii) Financial investments

Investment securities in this category include investments in equity or debt securities which are not actively traded by the Consolidated Entity.

Debt investment securities in this category are in the nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities.

Financial investments are initially recognised at fair value adjusted for directly attributable transaction costs on settlement date and subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments Note 1(viii).

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued

(xiv) Loan Assets

This category includes loans and receivables that are not held for trading purposes and typically includes the Consolidated Entity's lending activities to its customers.

Loan assets are initially recognised at fair value adjusted for directly attributable transaction costs on settlement date. Loan assets are subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments Note 1(viii).

Certain finance lease receivables are also presented under loan assets. For the detailed policy on financial instruments refer to Note 1(viii).

(xv) Property, plant and equipment

Property, plant and equipment are stated at historical cost (which includes, where applicable, directly attributable borrowing costs) less, where applicable, accumulated depreciation and accumulated impairment losses. 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 annual depreciation rates:

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

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

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

Useful lives, residual values and depreciation methods are reviewed annually and reassessed in light of commercial and technological developments. Gains and losses on disposal are determined by comparing the proceeds with the asset's carrying amount and are recognised in other income as part of other operating income and charges.

(xvi) Goodwill and other identifiable intangible assets

Goodwill

Goodwill is measured as the excess of consideration, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the entity or business acquired. Goodwill arising from business combinations is included in intangible assets in the statement of financial position.

Other acquired identifiable intangible assets

At the time at which the Consolidated Entity determines that it controls an entity, the Consolidated Entity identifies intangible assets that are required to be initially recognised at fair value. 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.

The following intangible assets are typically identified and recognised by the Consolidated Entity:

- Licences and trading rights: 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: carried at cost less accumulated amortisation and accumulated impairment loss. Certain management right intangible assets have indefinite useful lives as the underlying income stream is related to the management of funds that have no defined end date and are expected to operate perpetually. For management rights that have a finite useful life, 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: 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: carried at cost less accumulated impairment loss.

Amortisation of intangible assets is recognised in other operating expenses and impairments are recognised in other operating income and charges.

Software

Certain internal and external costs directly incurred in acquiring and developing certain computer software programmes are capitalised and amortised over the estimated useful life, usually a period of three to seven years. The capitalised software asset is subject to impairment testing on an annual basis. Amortisation of computer software programmes and impairments, where applicable, is recognised in other operating expenses.

Cost incurred on the maintenance of software is expensed as incurred and recognised in other operating expenses.

(xvii) Deposits

Deposits include business banking and mortgage deposits and other balances such as client monies which are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

Note 1

Summary of significant accounting policies continued

(xviii) Other Assets and liabilities

Contract assets, contract liabilities and capitalised expenses

Where the Consolidated Entity provides services to clients and the consideration is unconditional, a contract receivable is recognised. Where the consideration is conditional on something other than passage of time, such as performance fees, these are recorded as contract assets. Both contract receivables and contract assets are assessed for impairment in accordance with AASB 9.

The Consolidated Entity, as permitted by AASB 15, has applied the practical expedient that allows for costs incurred to obtain a contract to be expensed as incurred where the amortisation period for any asset recognised would be less than 12 months. The Consolidated Entity also applies the practical expedient not to adjust consideration for the effects of a significant financing component, where the period between transferring a good or service and when the customer pays for that good or service is expected to be one year or less.

Contract liabilities relate to prepayments received from customers where the Consolidated Entity is yet to satisfy its performance obligation.

Non-current assets and liabilities of disposal groups classified as held for sale

This category includes interests in businesses, subsidiaries, associates and joint ventures and other assets and liabilities, and subsidiaries that are acquired exclusively with a view to sale or distribute (disposal group) for which their carrying amount will be recovered principally through a sale or distribution transaction rather than continuing use. These assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and it is highly probable that it will be sold or distributed within 12 months. Where there is a planned partial disposal of a subsidiary resulting in loss of control, but the Consolidated Entity retains an interest in the disposed subsidiary, the entire carrying value of the subsidiary's assets and liabilities are classified as held for sale.

Non-current assets and liabilities of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Equity accounting and depreciation are suspended when the held for sale criteria is satisfied.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell and is recognised in the income statement. A gain is recognised for any subsequent increase in fair value less costs to sell, limited to 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.

Financial assets and liabilities that are classified as held for sale are measured in accordance with the Consolidated Entity's financial instruments policies.

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Life investment linked assets and liabilities

Life investment policies consist of two components: a financial instrument (deposit component) and an investment management fee. The investment management fee is recognised in the income statement over the period for which the service is provided.

The deposit component of the financial instrument is designated at fair value through profit or loss to eliminate the accounting mismatch created by the Life investment linked assets, which are managed on a fair value basis and measured at FVTPL. Life investment contract liabilities 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.

Employee benefit provisions

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 2019 continued

Note 1

Summary of significant accounting policies continued

(xix) Bank borrowings

Bank borrowings includes loans and other payables due to banks and financial institutions. These balances are subsequently measured at amortised cost using the EIR method.

(xx) Due to/from related body corporate entities and subsidiaries

Transactions between the Company and its subsidiaries principally arise from granting of loans and funding and are measured at amortised cost and at fair value for FVTPL items.

(xxi) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at amortised cost using the EIR method and at fair value for DFVTPL items.

(xxii) Loan Capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under Australian Prudential Regulatory Authority (APRA) 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 is thereafter measured at amortised cost using the EIR method), with the residual being accounted for within the Consolidated Entity's equity.

Capital instruments with conversion features, such as Common Equity Capital Trigger Events or Non-Viability Trigger Events, are assessed as to whether they contain embedded derivatives and, where applicable, changes in the fair value of the embedded derivative are recognised as part of net trading income in the income statement to the extent the derivative is not considered closely related to the capital instrument.

(xxiii) Impairment

Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts. The Consolidated Entity applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward-looking or macro-economic information (FLI). 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 calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer Note 12 *Expected credit loss* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage I – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition (or for those financial assets for which the credit risk is considered to be low), ECL is determined based on the PD over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

Interest income is determined by applying the financial asset's EIR to the financial asset's gross carrying amount.

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

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for FLI. The Consolidated Entity assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable FLI that includes significant management judgement.

Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based upon the contractual maturity of the financial asset. For revolving facilities, the Consolidated Entity exercises judgement based on the behavioural, rather than contractual characteristics of the facility type.

Interest income is determined by applying the financial asset's EIR to the financial asset's gross carrying amount.

(iii) Stage III – Lifetime ECL credit-impaired

Financial assets are classified as stage III where they are determined to be credit impaired, which generally matches the APRA definition of default. This includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the 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 FLI.

Interest income is determined by applying the financial asset's EIR to the financial asset's amortised cost carrying value, being the gross carrying value after the ECL provision.

Note 1

Summary of significant accounting policies continued

(xxiii) Impairment continued

(iv) Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired (POCI) financial assets are initially recognised at fair value with interest income subsequently determined using a credit-adjusted EIR. The credit-adjusted EIR is the EIR adjusted for expected credit losses on initial recognition.

The ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for FLI or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit-adjusted EIR, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in income statement as either an impairment gain or loss.

The loss allowances for ECL are presented in the statement of financial position as follows:

- (i) Loan assets, loans to related body corporate entities and subsidiaries, associates and joint ventures measured at amortised cost – as a deduction to the gross carrying amount
- (ii) Loan assets, loan to associates and joint ventures, and debt financial investments measured at fair value through OCI – as a reduction in the OCI reserve account under equity. The carrying amount of the asset is not adjusted as it is recognised at fair value
- (iii) Lease receivables, contract receivables and other assets measured at amortised cost – as a deduction to the gross carrying amount
- (iv) Undrawn credit commitments – as a provision included in other liabilities.

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from the financial asset, and all possible collateral has been realised, the financial asset 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.

Prior to the adoption of AASB 9, credit impairment provisions were recognised on an incurred loss basis.

Key differences included:

- *an impairment loss was recorded where there was objective evidence of impairment as a result of one or more events (loss event) which had an impact on the estimated future cash flows of the financial asset that could be reliably estimated*
- *where the credit risk of an exposure had deteriorated but there was no objective evidence of impairment, no credit impairment was required to be recognised*
- *forward looking or macroeconomic information was not required to be incorporated into the determination of the credit impairment loss*
- *credit impairments were only required to be recognised for on-balance sheet exposures.*

Credit impairments were calculated on the basis of the difference between the exposure's carrying value and the present value of expected future cash flows, discounted using the original EIR.

For available for sale debt securities, where there was objective evidence of impairment and the fair value of the financial asset was less than its initial carrying amount then the cumulative loss was transferred from OCI to the income statement. Impairment losses recognised for debt investment securities classified as available for sale were subsequently reversed through the income statement if the fair value increased and the increase was objectively related to an event after the impairment loss was recognised in the income statement.

Impairment of 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 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. 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, being the 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.

Fair value less costs to sell is estimated using market based approaches using revenues, earnings and assets under management and multiples based on companies deemed comparable as well as other publicly available information relevant to the business.

Value in use is calculated using pre-tax cashflow projections of operating revenue and expenses. Forecasts are extrapolated using a growth rate and discounted using a discount rate incorporating market risk determinants, adjusted for specific risks related to the cash generating units, if any, and the environment in which it operates.

Impairment of investments in subsidiaries

Investments in subsidiaries in the Company's financial statements are reviewed annually for indicators of impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount, being 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 impairment.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 1

Summary of significant accounting policies continued (xxiii) Impairment continued

Impairment of goodwill, intangible assets and property, plant and equipment

Intangible assets with indefinite lives (goodwill and certain intangible assets) 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 and property, plant and equipment, an assessment is made at each reporting date for indications of impairment.

Impairment losses are recognised in other impairment charges as part of other operating income and charges 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) for which an impairment loss has been recognised 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.

(xxiv) Performance based remuneration

Share-based payments

The Consolidated Entity operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 30 *Employee equity participation*. The Consolidated Entity accounts for its share based payments as follows:

- **Equity settled awards:** The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with a corresponding increase in equity with reference to the vesting period of those awards. Performance hurdles attached to Performance Share Units (PSUs) under the MEREP are not taken into account when determining the fair value of the PSUs at the grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest. On vesting, the amount recognised in the share based payment reserve is transferred to contributed equity.

- **Cash settled awards:** The liability of the awards is measured with reference to the number of awards and the fair value of those awards at each reporting date. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. Changes in the value of the liability are recognised in employment expenses.

Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash with reference to the performance period to which the profit share relates.

(xxv) Leases

Determine whether an arrangement contains a lease

At inception of an arrangement, the Consolidated Entity determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Consolidated Entity separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Arrangement where the Consolidated Entity is the lessor

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 classified as operating leases.

Finance lease

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.

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 EIR method, which reflects a constant rate of return.

Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 2 to 50 years (Note 1(xv) *Property, plant and equipment*). 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.

Arrangement where the Consolidated Entity is the lessee

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. The difference between the cumulative expense recognised and cash paid is recorded on the balance sheet.

Note 1

Summary of significant accounting policies continued

(xxvi) Contributed equity

Ordinary shares and other similar instruments 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.

(xxvii) Fiduciary assets

The Consolidated Entity engages in trust, fund or other fiduciary activities that result in the holding or placing of assets on behalf of third parties. These assets and the income arising directly thereon are excluded from the Consolidated Entity's financial statements as they are not assets of the Consolidated Entity. However, fee income earned, and fee expenses incurred by the Consolidated Entity relating to its responsibilities from fiduciary activities are recognised in its income statement.

(xxviii) Cash and cash equivalents

Cash and cash equivalents comprise of:

- cash and bank balance
- certain trading assets and liquid financial investments with an original contractual maturity of three months or less.

(xxix) 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 other income as part of other operating income and charges.

(xxx) Comparatives

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

(xxxi) Rounding of amounts

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

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 2				
Operating profit before income tax				
Net interest income/(expense)				
Interest and similar income				
Effective interest method ⁽¹⁾	4,611	4,477	766	479
Others	744	466	–	–
Interest and similar expense ⁽²⁾	(3,595)	(2,957)	(836)	(521)
Net interest income/(expense)	1,760	1,986	(70)	(42)
Fee and commission income				
Base fees	1,815	1,632	–	–
Performance fees	859	595	–	–
Mergers and acquisitions, advisory and underwriting fees	1,006	920	–	–
Brokerage and commissions	804	774	–	–
Other fee and commission income	1,042	749	10	10
Total fee and commission income ⁽³⁾	5,526	4,670	10	10
Net trading income/(expense)⁽⁴⁾				
Equities	594	566	–	–
Commodities ⁽⁵⁾	1,982	1,132	–	–
Credit, interest rate and foreign exchange products	215	259	144	(39)
Net trading income/(expense)	2,791	1,957	144	(39)
Net operating lease income				
Rental income ⁽⁶⁾	2,290	1,901	–	–
Depreciation on operating lease assets (Note 13)	(1,340)	(966)	–	–
Net operating lease income	950	935	–	–
Share of net (losses)/profits of associates and joint ventures	(56)	241	–	–

(1) Includes interest income calculated using effective interest method of \$4,379 million (2018: \$4,309 million) in the Consolidated Entity and \$766 million (2018: \$479 million) in the Company that are measured at amortised cost and \$232 million (2018: \$168 million) in the Consolidated Entity on financial assets measured at FVOCI.

(2) Includes interest expense of \$3,395 million (2018: \$2,870 million) in the Consolidated Entity and \$836 million (2018: \$521 million) in the Company on financial liabilities measured at amortised cost.

(3) On adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of \$143 million and certain recoverable costs of \$119 million previously recognised net of associated revenue, have been reclassified to fee and commission expenses. Prior period comparatives were not reclassified.

(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk. Refer Note 1(xi) *Derivative instruments*.

(5) Includes \$419 million (2018: \$411 million) of transportation, and certain other trading related costs.

(6) Includes \$131 million (2018: \$155 million) of net supplemental rent on aircraft.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 2				
Operating profit before income tax continued				
Credit and other impairment (charges)/reversal				
Credit impairment (charges)/reversal⁽¹⁾				
Loan assets and due from subsidiaries	(173)	(88)	(10)	–
Loan to associates and joint ventures	(89)	(17)	–	–
Other assets	(39)	(53)	–	–
Financial investments	(35)	–	–	–
Undrawn commitments and financial guarantees	2	–	2	–
Recovery of exposures previously written off	14	78	–	–
Total credit impairment charge	(320)	(80)	(8)	–
Other impairment (charges)/reversal				
Equity investment securities available for sale	–	(25)	–	–
Interests in associates and joint ventures	(207)	(184)	–	–
Intangible assets and other non-financial assets	(25)	(77)	–	–
Investment in subsidiaries (Note 16)	–	–	3,350	2,700
Total other impairment (charges)/reversal	(232)	(286)	3,350	2,700
Total credit and other impairment (charges)/reversal	(552)	(366)	3,342	2,700
Other operating income and charges				
Investment income				
Net gain on equity investments ⁽²⁾	161	193	–	–
Net gain on debt investments ⁽³⁾	17	48	–	–
Net gain on interests in associates and joint ventures	1,097	224	–	–
Net gain on sale of businesses and subsidiaries held for sale	624	211	–	–
Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale ⁽³⁾	203	557	–	–
Dividends/distributions from Subsidiaries (Note 28)	–	–	1,758	1,730
Total investment income	2,102	1,233	1,758	1,730
Other income ⁽⁴⁾	233	264	41	–
Total other operating income and charges	2,335	1,497	1,799	1,730
Net operating income	12,754	10,920	5,225	4,359

(1) The change in ECL relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for March 2018 remain in accordance with AASB 139 and have not been restated.

(2) The current period includes fair value gains and losses and dividend income from investments that have been classified as at FVTPL. Prior financial year includes fair value gains and losses on DFVTPL equity investments (2018: \$67 million gain) and gains and losses on sale of and dividend income from available for sale investments (2018: \$126 million gain).

(3) Prior financial year primarily includes gain on sale of DFVTPL debt investments of \$46 million.

(4) Includes \$31 million (2018: \$22 million) of loss on derecognition of loans at amortised cost and \$34 million (2018: \$Nil) of fair value losses on loans measured at FVTPL.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 2				
Operating profit before income tax continued				
Employment expenses				
Salary and related costs including commissions, superannuation and performance-related profit share	(4,357)	(3,798)	(5)	(4)
Share-based payments ⁽¹⁾	(522)	(410)	–	–
Provision for long service leave and annual leave	(12)	(13)	–	–
Total compensation expenses	(4,891)	(4,221)	(5)	(4)
Other employment expenses including on-costs, staff procurement and staff training	(326)	(272)	–	–
Total employment expenses	(5,217)	(4,493)	(5)	(4)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	(698)	(661)	–	–
Other fee and commission expenses ⁽²⁾	(442)	(169)	–	–
Total brokerage, commission and trading-related expenses	(1,140)	(830)	–	–
Occupancy expenses				
Operating lease rentals	(256)	(224)	–	–
Depreciation: buildings, furniture, fittings and leasehold improvements	(77)	(75)	–	–
Other occupancy expenses	(108)	(103)	–	–
Total occupancy expenses	(441)	(402)	–	–
Non-salary technology expenses				
Information services	(207)	(181)	–	–
Depreciation: equipment (Note 13)	(23)	(24)	–	–
Service provider and other non-salary technology expenses	(454)	(399)	–	–
Total non-salary technology expenses	(684)	(604)	–	–
Other operating expenses				
Professional fees	(478)	(411)	–	–
Travel and entertainment expenses	(186)	(163)	–	–
Advertising and promotional expenses	(92)	(83)	–	–
Auditor's remuneration (Note 40)	(38)	(35)	–	–
Amortisation of intangible assets	(47)	(41)	–	–
Communication expenses	(27)	(31)	–	–
Depreciation: infrastructure assets	(31)	(26)	–	–
Other expenses	(506)	(337)	(56)	(1)
Total other operating expenses	(1,405)	(1,127)	(56)	(1)
Total operating expenses	(8,887)	(7,456)	(61)	(5)
Operating profit before income tax	3,867	3,464	5,164	4,354

(1) Includes \$29 million (2018: \$26 million) of share-based payments expense for cash settled awards.

(2) On adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of \$143 million and certain recoverable costs of \$119 million, previously recognised net of associated revenue, have been reclassified to fee and commission expenses. Prior financial year comparatives were not reclassified.

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Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 3

Segment reporting

(i) Operating segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into five Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure, real estate, agriculture, equities, fixed income, private credit, liquid alternatives and multi-asset solutions
- **CAF** consists of an Asset Finance business and a Principal Finance business. Asset Finance delivers a range of tailored finance solutions globally across a variety of industries and asset classes. Principal Finance provides flexible primary financing solutions and engages in secondary market investing, across the capital structure. It operates globally in the corporate, transportation and real estate sectors
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities
- **Macquarie Capital** has global capability in advisory and capital raising services. It provides clients with specialist expertise, innovative advice and flexible capital solutions across a range of products and sectors including infrastructure, green and conventional energy. It invests alongside partners and clients, utilising balance sheet to construct assets, build businesses and create platforms across development, construction and operational phases.

In the second half, certain businesses were reorganised between Operating Groups to better align businesses with a shared focus on particular customer segments and geographies.

- Macquarie's Australian vehicles finance business moved from CAF into BFS
- MAM's MSIS business moved into CAF
- Macquarie Capital's global real estate business moved into MAM and merged with MIRA Real Estate.

Comparatives have been restated to reflect this reorganisation between Operating Groups.

The **Corporate** segment, which is not considered an Operating Group, comprises head office and central service groups, including Group Treasury, and certain investments that are neither core for strategic reasons nor aligned to an Operating Group.

Items of income and expense within the Corporate segment include the net result of managing Macquarie's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions for which hedge accounting has been achieved as well as accounting volatility for other economically hedge positions for which hedge accounting is not able to be achieved. Other items of income and expenses include earnings from investments, central overlay on credit and other impairments 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 Macquarie Income Securities (MIS).

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

Internal funding arrangements

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

Generally, Operating Groups may only source funding directly from external sources 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 Segments

Operating Segments that enter into arrangements with other Operating Segments 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 and eliminated on aggregation/consolidation as appropriate.

Note 3

Segment reporting continued

(i) Operating segments continued

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 measured at fair value.

This volatility is recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of CAF and BFS with changes in fair value recognised within Corporate, managed via the application of hedge accounting.

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

Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (MEREP) is recognised in the Corporate segment and not allocated to Operating Groups.

Income tax

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

Presentation of segment income statements

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

Reportable segment assets

Segment assets are the external operating assets that are employed by a segment in its operating activities.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	Macquarie Asset Management \$m	Corporate and Asset Finance \$m	Banking and Financial Services \$m	Annuity-style businesses \$m
Note 3				
Segment reporting continued				
(i) Operating segments continued				
The following is an analysis of the Consolidated Entity's revenue and results by reportable segments:				
Net interest and trading (expense)/income	(185)	36	1,678	1,529
Fee and commission income/(expense)	2,787	97	476	3,360
Net operating lease income	–	947	–	947
Share of net profits/(losses) of associates and joint ventures	115	5	8	128
Credit and other impairment charges	(86)	(26)	(82)	(194)
Other operating income and charges	146	495	21	662
Internal management revenue/(charge)	67	77	2	146
Net operating income	2,844	1,631	2,103	6,578
Total operating expenses	(1,339)	(600)	(1,347)	(3,286)
Operating profit/(loss) before income tax	1,505	1,031	756	3,292
Income tax expense	–	–	–	–
(Profit)/loss attributable to non-controlling interests	(2)	(3)	–	(5)
Net profit/(loss) attributable to ordinary equity holders	1,503	1,028	756	3,287
Reportable segment assets	6,470	22,839	63,893	93,202
Net interest and trading (expense)/income	(168)	289	1,584	1,705
Fee and commission income/(expense)	2,375	80	492	2,947
Net operating lease income	–	932	–	932
Share of net profits/(losses) of associates and joint ventures	171	(3)	3	171
Credit and other impairment charges	(181)	34	(75)	(222)
Other operating income and charges	332	427	19	778
Internal management revenue/(charge)	33	11	3	47
Net operating income	2,562	1,770	2,026	6,358
Total operating expenses	(1,003)	(626)	(1,289)	(2,918)
Operating profit/(loss) before income tax	1,559	1,144	737	3,440
Income tax expense	–	–	–	–
Profit attributable to non-controlling interests	(1)	(4)	–	(5)
Net profit/(loss) attributable to ordinary equity holders	1,558	1,140	737	3,435
Reportable segment assets	6,120	23,900	58,516	88,536

Commodities and Global Markets \$m	Macquarie Capital \$m	Markets-facing businesses \$m	Corporate \$m	Total \$m
CONSOLIDATED 2019				
2,789	(82)	2,707	315	4,551
1,160	1,031	2,191	(25)	5,526
–	–	–	3	950
20	(197)	(177)	(7)	(56)
(151)	(182)	(333)	(25)	(552)
73	1,659	1,732	(59)	2,335
(8)	8	–	(146)	–
3,883	2,237	6,120	56	12,754
(2,378)	(898)	(3,276)	(2,325)	(8,887)
1,505	1,339	2,844	(2,269)	3,867
–	–	–	(879)	(879)
–	14	14	(15)	(6)
1,505	1,353	2,858	(3,163)	2,982
94,928	4,484	99,412	10,568	203,182
CONSOLIDATED 2018				
1,960	(65)	1,895	343	3,943
893	845	1,738	(15)	4,670
–	–	–	3	935
21	48	69	1	241
(88)	(56)	(144)	–	(366)
109	666	775	(56)	1,497
12	22	34	(81)	–
2,907	1,460	4,367	195	10,920
(1,997)	(739)	(2,736)	(1,802)	(7,456)
910	721	1,631	(1,607)	3,464
–	–	–	(883)	(883)
–	(5)	(5)	(14)	(24)
910	716	1,626	(2,504)	2,557
89,644	4,703	94,347	8,442	191,325

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 3

Segment reporting continued

(ii) Fee and commission income relating to contracts with customers

The below table represents the fee and commission income by operating segments:

	Macquarie Asset Management \$m	Corporate and Asset Finance \$m	Banking and Financial Services \$m	Annuity-style businesses \$m	Commodities and Global Market \$m	Macquarie Capital \$m	Markets-facing businesses \$m	Corporate \$m	Total \$m
Fee and commission income/(expense)	CONSOLIDATED 2019								
Base fees	1,738	47	28	1,813	2	–	2	–	1,815
Performance fees	765	–	–	765	–	94	94	–	859
Mergers and acquisitions, advisory and underwriting fees	35	(6)	–	29	71	910	981	(4)	1,006
Brokerage and commission	8	(2)	67	73	731	–	731	–	804
Other fee and commission income	241	58	381	680	356	27	383	(21)	1,042
Total fee and commission income/(expense)	2,787	97	476	3,360	1,160	1,031	2,191	(25)	5,526
Fee and commission income/(expense)	CONSOLIDATED 2018								
Base fees	1,568	40	22	1,630	2	–	2	–	1,632
Performance fees	595	–	–	595	–	–	–	–	595
Mergers and acquisitions, advisory and underwriting fees	34	(1)	1	34	68	818	886	–	920
Brokerage and commission	3	(2)	82	83	686	5	691	–	774
Other fee and commission income	175	43	387	605	137	22	159	(15)	749
Total fee and commission income/(expense)	2,375	80	492	2,947	893	845	1,738	(15)	4,670

Note 3

Segment reporting continued

(iii) 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, equities, currency, commodities and derivative products
- **Asset and Wealth Management:** investment management, manufacture and distribution of fund management products
- **Capital Markets:** advisory, underwriting, facilitation, broking, principal investments and real estate/property development.

	CONSOLIDATED	
	2019 \$m	2018 \$m
Revenue from external customers		
Lending	6,774	6,069
Financial Markets	5,107	3,859
Asset and Wealth Management	3,174	2,851
Capital Markets	3,619	2,814
Total revenue from external customers⁽¹⁾	18,674	15,593

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

(iv) Geographical areas

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

	CONSOLIDATED 2019		CONSOLIDATED 2018	
	Revenue from external customers \$m	Non-current assets ⁽¹⁾ \$m	Revenue from external customers \$m	Non-current assets ⁽¹⁾ \$m
Australia	7,133	2,730	5,953	2,518
Europe, Middle East and Africa ⁽²⁾	5,063	4,291	4,557	10,938
Americas ⁽³⁾	5,398	3,618	3,875	2,845
Asia Pacific	1,080	357	1,208	215
Total	18,674	10,996	15,593	16,516

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

(2) Includes revenue generated in the United Kingdom of \$3,481 million (2018: \$3,722 million).

(3) Includes revenue generated in the United States of America of \$5,229 million (2018: \$3,658 million).

(v) Major customers

The Consolidated Entity does not rely on any major customers.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Note 4				
Income tax expense				
(i) Income tax (expense)/benefit				
Current tax (expense)/benefit	(1,236)	(581)	(42)	9
Deferred tax benefit/(expense)	357	(302)	3	(6)
Total income tax (expense)/benefit	(879)	(883)	(39)	3
(ii) Reconciliation of income tax (expense)/benefit to <i>prima facie</i> tax payable				
<i>Prima facie</i> income tax expense on operating profit ⁽¹⁾	(1,160)	(1,039)	(1,549)	(1,306)
Tax effect of amounts which are non-assessable/(non deductible) in calculating taxable income:				
Rate differential on offshore income	289	173	9	6
Impairment reversal on subsidiaries	–	–	1,006	810
Intra-group dividend	–	–	527	519
Other items	(8)	(17)	(32)	(26)
Total income tax (expense)/benefit	(879)	(883)	(39)	3
(iii) Tax benefit/(expense) relating to items of other comprehensive income				
Available for sale reserve ⁽²⁾	–	144	–	–
FVOCI reserve ⁽²⁾	9	–	–	–
Own credit risk	(3)	(3)	–	–
Cash flow hedge reserve	11	(13)	–	–
Foreign currency translation reserve	1	–	–	–
Share of other comprehensive expense/(income) of associates and joint ventures	13	(1)	–	–
Total tax benefit relating to items of other comprehensive income	31	127	–	–
(iv) Deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)				
Property, plant and equipment	16	(25)	–	–
Intangible assets	17	37	–	–
Financial investments and interests in associates and joint ventures	(41)	23	–	–
Tax losses	35	(18)	–	–
Operating and finance lease assets	55	35	–	–
Loan assets and derivatives	(9)	21	–	–
Other assets and liabilities	284	(375)	3	(6)
Total deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)	357	(302)	3	(6)

(1) *Prima facie* income tax on operating profit is calculated at the Australian statutory corporate tax rate of 30% (2018: 30%).

(2) Includes transition impact on adoption of AASB 9 as disclosed in Note 1.

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 external advice where appropriate, and considers that it holds appropriate provisions.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 5				
Dividends paid or provided for				
(i) Dividends paid				
Ordinary share capital and exchangeable shares				
Final dividend paid (2018: \$3.20 (2017: \$2.80) per share)	1,089	952	1,080	944
Interim dividend paid (2019: \$2.15 (2018: \$2.05) per share)	730	697	725	691
Total dividends paid (Note 26) ⁽¹⁾	1,819	1,649	1,805	1,635

(1) Includes \$14 million (2018: \$14 million) of dividend equivalent amount paid to Deferred Share Unit (DSU) holders as described in Note 30 *Employee equity participation*.

The 2018 final and 2019 interim dividends paid during the period were franked at 45% based on tax paid at 30% (2017 final dividend franked at 45% based on tax paid at 30%; 2018 interim dividend franked at 45% based on tax paid at 30%). The dividends paid to the holders of the exchangeable shares were not franked (refer Note 25 *Contributed equity* for information on exchange shares).

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in Note 25 *Contributed equity*.

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

Since the end of the period, the Directors have resolved to pay a 2019 final dividend of \$3.60 per fully paid ordinary share, 45% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 3 July 2019 from retained profits, but not recognised as a liability at the end of the period is \$1,225 million (net of \$1 million to be received on treasury shares (refer to Note 25 *Contributed equity* for further details of these instruments). This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 31 March 2019.

	CONSOLIDATED		COMPANY	
	2019	2018	2019	2018
Cash dividend per ordinary share (distribution of current year profits) (\$ per share)	5.75	5.25	5.75	5.25
Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2018: 30%) (\$m)	198	117	198	117

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

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

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 6

Earnings per share

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

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

	CONSOLIDATED	
	2019	2018
	CENTS PER SHARE	
Basic earnings per share	883.3	758.2
Diluted earnings per share	868.1	743.5
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	\$m	\$m
Profit after income tax	2,988	2,581
(Profit)/loss attributable to non-controlling interests:		
Macquarie Income Securities	(15)	(14)
Other non-controlling interests	9	(10)
Total profit attributable to ordinary equity holders of MGL	2,982	2,557
Less: profit attributable to participating unvested MEREP awards ⁽¹⁾	(120)	(112)
Total earnings used in the calculation of basic earnings per share	2,862	2,445
Add back:		
Profit attributable to dilutive participating unvested MEREP awards	82	75
Interest expense on loan capital, net of tax (where applicable)		
Macquarie Group Capital Notes (MCN)	6	32
Macquarie Bank Capital Notes (BCN)	21	20
Macquarie Group Capital Notes 2 (MCN2)	34	33
Macquarie Group Capital Notes 3 (MCN3)	43	–
Macquarie Group Capital Notes 4 (MCN4)	1	–
Exchangeable Capital Securities	–	5
Total earnings used in the calculation of diluted earnings per share	3,049	2,610
	NUMBER OF SHARES	
Total weighted average number of equity shares (net of treasury shares) used in the calculation of basic earnings per share adjusted for participating unvested MEREP awards	324,004,686	322,475,660
Weighted average number of equity shares used in the calculation of diluted earnings per share:		
Weighted average fully paid equity shares (net of treasury shares)	324,004,686	322,475,660
Potential equity shares:		
Weighted average unvested MEREP awards	12,077,131	12,625,725
Weighted average MCN	989,050	5,800,733
Weighted average BCN	3,397,148	4,151,492
Weighted average MCN2	4,200,780	5,133,572
Weighted average MCN3	6,459,001	–
Weighted average MCN4	98,130	–
Weighted average Exchangeable Capital Securities	–	869,567
Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share	351,225,926	351,056,749

(1) For details of MEREP awards, refer to Note 30 *Employee equity participation*.

Note 6

Earnings per share continued

The table below describes treatment of capital instruments with conditional payment obligations issued by the Consolidated Entity and the Company for earnings per share calculation purposes. For further details of loan capital, refer to Note 24 *Loan capital*.

Issuer	Macquarie Group Limited	Macquarie Bank Limited	Macquarie Bank Limited
Instrument type	Macquarie Group Capital Notes	Macquarie Bank Capital Notes	Macquarie Additional Capital Securities
Issuances	MCN, MCN2, MCN3, MCN4	BCN	MACS
Diluted earnings per share treatment	MCN has been included in diluted earnings per share to the extent of the conversion features measured as if 7 June 2018, being the date of redemption was the conversion date. MCN2, MCN3 and MCN4 have been included in diluted earnings per share to the extent of the conversion features measured as if 31 March 2019 was the conversion date.	BCN has been included in diluted earnings per share to the extent to which they are dilutive and to the extent of conversion features measured as if 31 March 2019 was the conversion date.	MACS has not been included in diluted earnings per share as these are perpetual securities without a mandatory conversion at a fixed date.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 7				
Trading assets				
Equities				
Listed	8,287	4,494	–	–
Unlisted	1	17	–	–
Debt securities				
Commonwealth and foreign government securities	4,762	5,846	–	–
Corporate loans and securities	1,931	851	–	–
Treasury notes	783	611	–	–
Other debt securities	36	699	–	–
Commodities	2,870	2,823	–	–
Total trading assets	18,670	15,341	–	–

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

Note 8

Margin money and settlement assets

Margin placed	7,060	8,182	–	–
Security settlements	7,330	7,232	–	–
Commodity settlements	4,721	2,784	–	–
Total margin money and settlement assets	19,111	18,198	–	–

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

Note 9

Financial investments

Equities				
Listed	260	157	–	–
Unlisted	1,051	1,123	–	–
Debt securities ⁽¹⁾				
Bonds and NCDs	5,100	5,160	–	–
Corporate loans and securities	166	235	–	–
Other debt securities	584	485	–	–
Total financial investments	7,161	7,160	–	–

(1) Balance as at 31 March 2019 includes \$633 million of debt securities measured at FVTPL which are not subject to impairment under AASB 9. This also includes \$5,217 million of debt securities measured at FVOCI on which an impairment of \$91 million has been recognised in OCI and is not included in the carrying value above.

Of the above amounts, \$2,740 million (2018: \$3,129 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 10				
Held for sale and other assets				
Held for sale assets				
Assets of disposal groups and interests in associates held for sale ^{(1),(2)}	9,023	3,341	–	–
Other assets				
Debtors and prepayments ⁽³⁾	3,888	3,771	16	4
Income tax receivable	397	376	25	8
Life investment linked contracts and other unitholder assets	381	647	–	–
Other	503	362	–	–
Total other assets	5,169	5,156	41	12

(1) Current year includes assets of \$7,995 million relating to the Consolidated Entity's interest in the Macquarie Air Finance (MAF) that was classified as held for sale. These assets primarily relate to aviation assets under operating lease. Refer to Note 42 *Events after the reporting date* for further information.

(2) Previous year includes \$1,855 million relating to an indirect investment in a gas distribution network in the United Kingdom acquired during the financial year 31 March 2017 exclusively with an intention to sell. The investment was held in a consortium vehicle that formed part of the Consolidated Entity. The investment was deconsolidated during the period due to loss of control. Non-controlling interest for the amounts contributed by external investors to the consortium vehicle of \$Nil (2018: \$1,254 million) are included in Note 26 *Reserves, retained earnings and non-controlling interests*.

(3) Includes \$681 million (2018: \$514 million) of fee and commission receivables and \$1,201 million (2018: \$675 million) of fee related contract assets.

Of the above amounts, \$13,552 million (2018: \$8,146 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$38 million (2018: \$12 million) by the Company.

	CONSOLIDATED 2019			CONSOLIDATED 2018		
	Gross \$m	ECL allowance ⁽¹⁾ \$m	Net \$m	Gross \$m	Individually assessed provision for impairment ⁽¹⁾ \$m	Net \$m
Note 11						
Loan assets						
Mortgages ⁽²⁾	43,056	(60)	42,996	36,937	(3)	36,934
Asset financing ⁽²⁾	18,667	(244)	18,423	19,307	(41)	19,266
Corporate, commercial and other lending	15,330	(233)	15,097	15,568	(133)	15,435
Investment lending	1,961	(3)	1,958	2,167	–	2,167
Total	79,014	(540)	78,474	73,979	(177)	73,802
Less: collective allowance for credit losses ⁽¹⁾			–			(293)
Total loan assets⁽³⁾			78,474			73,509

(1) The ECL relating to loan assets under AASB 9 are recorded under ECL allowance. As the prior year has not been restated for AASB 9, individually assessed provisions and collective allowance for credit losses provided for as at 31 March 2018 remain in accordance with AASB 139, accordingly the amounts are not necessarily comparable.

(2) Includes \$10,753 million (2018: \$11,560 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(3) Gross balance as at 31 March 2019 includes \$374 million of loans measured at FVTPL and \$190 million of loans measured at DFVTPL which are not subject to ECL allowance under AASB 9. This also includes \$568 million of loans measured at FVOCI on which an ECL allowance of \$78 million has been recognised in OCI and is hence not included in the carrying value above.

Of the above amount \$23,332 million (2018: \$23,765 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 11

Loan assets continued

Repossessed collateral

During the financial year, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of \$32 million (2018: \$66 million) for cases of corporate, commercial and other lending where its customer defaulted on facilities.

The table below represents the movements in individually assessed provisions and collective allowance for credit losses for the year ended 31 March 2018. Refer to Note 12 *Expected credit losses*, for the reconciliation of ECL on loan assets for the year ended 31 March 2019.

	CONSOLIDATED 2018
	\$m
Individually assessed provisions for impairment	
Balance at the beginning of the financial year	417
Provided for during the financial year	105
Loan assets written off or sold, previously provided for	(325)
Recovery of loans previously provided for	(27)
Net transfer from collective provisions	7
Balance at the end of the financial year	177
Individually assessed provisions as a percentage of total gross loan assets	0.24%
Collective allowance for credit losses	
Balance at the beginning of the financial year	457
Reversed during the financial year	(151)
Disposal during the financial year	(9)
Net transfer to individually assessed provisions	(7)
Foreign exchange movements	3
Balance at the end of the financial year	293

Finance lease receivables

Finance lease receivables are included within loan assets. 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 do not include retail products such as hire purchase, mortgages related to movable property and consumer loans.

	CONSOLIDATED 2019			CONSOLIDATED 2018		
	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m
Not later than one year	2,170	(214)	1,956	1,991	(206)	1,785
Later than one year and not later than five years	4,017	(410)	3,607	4,121	(419)	3,702
Later than five years	62	(2)	60	92	(16)	76
Total	6,249	(626)	5,623	6,204	(641)	5,563

Note 12

Expected credit losses

At the reporting date the Consolidated Entity has presented the ECL allowances in its statement of financial position as follows:

- Financial assets measured at amortised cost: Deduction against the gross carrying amount.
- Debt investments measured at FVOCI: Included in OCI since the asset's carrying value is measured at fair value.
- Undrawn credit commitments, financial guarantee contracts and letters of credit: Recognised as a provision and included in other liabilities.
- Purchased or originated credit-impaired financial assets: Recognised as part of the net carrying value of the asset.

Transition impact

On transition to AASB 9 on 1 April 2018 the Consolidated Entity's total credit impairment allowances increased by \$219 million as a result of the following principle differences between AASB 139's incurred credit loss requirements and AASB 9's ECL impairment requirements:

- *Forward looking information (FLI)*: AASB 9 requires the calculation of the ECL to include FLI, which incorporates macro-economic information. Previously AASB 139 required the consideration of historical information that was updated to reflect current conditions at the balance sheet date.
- *A 12-month minimum ECL requirement (stage I)*: AASB 9 requires a 12-month ECL impairment allowance to be held on all exposures, unless the contractual period is shorter.
- *Significant increase in credit risk (SICR) (stage II)*: AASB 9 requires the Consolidated Entity to determine whether there has been a SICR since initial recognition, and in such instances, to classify the exposure as stage II and recognise a lifetime expected credit loss.
- *Off balance sheet exposures*: AASB 9's scope includes certain off balance sheet exposures such as undrawn credit commitments, financial guarantee contracts and letters of credit for which an ECL is required to be recognised. No impairment allowance was specifically required to be recognised under AASB 139.

Model inputs

The Consolidated Entity models the ECL for on-balance sheet financial assets measured at amortised cost or FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees and letters of credit. Macquarie segments its credit portfolio between retail and wholesale exposures, and further splits these portfolios into representative groupings which are typically based on shared risk characteristics. These groupings are subject to review to ensure that the portfolios remain homogeneous.

For retail portfolios, behavioural variables are also considered in the determination of inputs for ECL modelling.

The key model inputs used in measuring the ECL include:

- *Exposure at default (EAD)*: The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default.

- *Probability of default (PD)*: The calculation of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. In calculating the PD, credit performance information for each portfolio is gathered and statistically analysed to determine a point in time PD. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for both retail and wholesale portfolios are also adjusted for FLI.
- *Loss given default (LGD)*: The LGD associated with PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, seniority, industry, recovery costs and the structure of the facility. LGD estimates are also adjusted for FLI.

Method of determining significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Quantitative factors are described below for the Consolidated Entity's material retail and wholesale portfolios. Qualitative factors include, but are not limited to, whether an exposure has been identified and placed on CreditWatch. Where there is a deteriorating credit risk profile, the exposures are monitored through the CreditWatch reports. The business remains responsible for management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. All exposures on CreditWatch are classified as stage II or, if defaulted, as stage III.

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposure's credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other exposures that are classified as stage I. Accordingly, while increases in the quantum of stage II exposures will suggest an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

Retail exposures

Exposures are assigned a behavioural score which considers the exposure's lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposure's behaviour.

The score includes factors such as limit utilisation, payment history (including delinquency) and product specific features (for example cash advances for credit cards or changes in novation status for selected car leases).

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 12

Expected credit losses continued

SICR thresholds referencing the movement between origination and reporting date behavioural score movements have been established that, where exceeded, result in the exposure being categorised as stage II. Where the behavioural score subsequently improves such that the change since origination is back within the SICR threshold, the exposure is assessed for categorisation back to stage I. The pre-defined SICR thresholds are periodically reviewed and calibrated based on historical default experience.

Wholesale exposures

The Consolidated Entity assigns an internal credit rating to each exposure at origination based on information available at that date. These internal ratings are broadly aligned to external credit rating agencies such as Standard & Poor's and Moody's. The internal ratings for each exposure are reviewed at least once a year, or more frequently if necessary, to ensure any deterioration is identified and reflected in an adjustment to their rating. Furthermore, other indicators of deterioration in credit quality are regularly monitored, such as payment history, credit limit utilisation, requests to modify the debt for forbearance, changes in the exposure's business, external data from credit reference agencies, media reports, external credit ratings, external quoted bonds and credit default swap prices.

Where an exposure's assigned credit rating deteriorates beyond pre-defined thresholds, the exposure is categorised as stage II. If the exposure's rating subsequently improves so that it does not exceed the threshold, the exposure is assessed for reclassification to stage I. The methodology has been calibrated so that a larger change in rating is required for higher quality credit rated exposures than for lower quality credit rated exposures to be classified as stage II. The rating methodology is periodically reviewed and calibrated based on historical default experience.

For both retail and wholesale portfolios

- The AASB 9 'low credit risk' exemption is not applied by the Consolidated Entity to material portfolios.
- For material retail portfolios the credit risk for an exposure or portfolio is generally deemed to have increased significantly if the exposure is more than 30 days past due, unless there are product specific characteristics that indicate that this threshold should be rebutted.

Definition of default

The Consolidated Entity's definition of default determines the reference point for the calculation of the ECL components, and in particular the PD. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full, without recourse by the Consolidated Entity to the realisation of collateral; or the borrower is 90 days or more past due. The Consolidated Entity periodically monitors its exposures for potential indicators of default such as significant financial difficulty of the borrower including breaches of lending covenants; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Retail and wholesale exposures that are identified as in default can be reclassified from stage III following a pre-defined period over which the exposure demonstrates that it has returned to a performing status and, in the case of wholesale exposures, based on an individual assessment of the exposure.

Forward looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The Consolidated Entity has identified a number of key indicators that are used in modelling the ECL, the most significant of which are gross domestic product (GDP), the unemployment rate and the level of house prices, interest rates, equity indices and commodity prices. The predicted relationships between these key indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the development of internal models, and the calibration and validation process. These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial year.

The Consolidated Entity's Risk Management Group, which consults with a range of internal specialists, is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, four possible economic scenarios have been developed, being one upside case, two downside cases (of varying severity given that impairment losses will not react linearly to economic downturn scenarios) as well as a base case scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposure's PDs and LGDs. The scenarios and the assigned probabilities are updated semi-annually or more frequently if a material disruption event were to occur.

The scenarios, including its underlying indicators, are developed using a combination of publicly available data, internal forecasts and third party information to form the initial baseline. Internal specialists within the Consolidated Entity are consulted to assist in refining and challenging the baseline. The upside and downside scenarios are created through a process that initially anchors them to a certain degree of deviation in GDP growth from the baseline. The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks. Assigning probabilities to these scenarios requires professional judgement which draws on internal risk and economics specialist input and comparison to general market outlooks and publicly-available market commentary.

The scenarios and the associated probabilities are ultimately approved by senior risk and finance executives.

Note 12

Expected credit losses continued

The Consolidated Entity reviews and, where appropriate, updates its FLI, which includes the scenarios and related probabilities, on a semi-annual basis. There have been some changes in the scenarios and the probabilities assigned thereto from the date of transition to AASB 9 to 31 March 2019. The key elements for each of the key regions where Macquarie's ECL is derived have been set-out below:

Scenario	Weighting	Expectation
Baseline	Probable	Global: The baseline scenario assumes global economic performance is relatively stable throughout most of the forecast period. Australia: GDP growth is forecast to slow down significantly during the first half of 2019 and recover to a moderate pace after 2020, house prices continue to decline in 2019 and recover thereafter, the unemployment rate initially rises and then remains stable, and the Reserve Bank of Australia (RBA) cuts its cash rate in 2019 and resumes hikes in 2021. United States: Growth is forecast to decelerate through mid-2020 and remain stable through to the end of the forecast period, while 10-year government bond yields are expected to rise by 2020 and the unemployment rate is expected to remain stable at low levels. Europe: Moderate to low growth forecasted for the forecast period, 10-year government bond yields increasing from late 2020 and levels of unemployment slowly falling.
Upside	Possible	Global: Marginally higher growth in GDP over the baseline scenario during the forecast period. Australia: Marginally higher GDP over the baseline scenario during the forecast period. Following the RBA increasing the cash rate in 2019, house prices decline but recover during 2020 and end higher than current peak price levels. United States: Marginally higher GDP over the baseline during the forecast period with a peak early in 2019 and moderating thereafter. 10-year government bond yields peak higher than the baseline in 2021 and the unemployment rate falling further than the forecasts in the baseline scenario. Europe: Marginally higher GDP over the baseline during the forecast period. 10-year government bond yields peak higher than the baseline in 2022 and the unemployment rate falling further than the forecasts in the baseline scenario.
Downside	Possible	Globally: Marginally lower growth in GDP against the baseline through to 2022. Australia: GDP growth falls in 2019 and marginally recovers after 2021. House prices decline further than the forecasts in the baseline scenario to 2019 but are expected to recover to current levels by 2021. During 2020 the level of unemployment rate peaks and the RBA cuts interest rates. United States: GDP growth reduces and gradually recovers after 2021, 10-year government bond yields fall through to 2020 and remain at those levels and the unemployment rate rises from current levels through to 2022. Europe: Low levels of GDP growth through to 2022, 10-year government bond yields remaining low and rising unemployment rates.
More Severe Downside	Unlikely	Globally: A recession from 2019–2020 following a marked retraction in GDP growth before recovering in 2021. Australia: GDP growth contracts through mid-2020 and recovers above existing levels by end 2021. House prices register a significant decline from current levels to mid-2020 and the RBA cuts interest rates in 2019 and they remain low through most of the forecast period. United States: GDP contracts through mid-2020 and stages a strong recovery to current levels by mid-2021. 10-year government bond rates drop to reach a trough by 2020 and recover gradually over the forecast period. Unemployment peaks before declining again in mid-2021. Europe: Growth contracts through 1Q2020 and recovers to current levels by end 2021. 10-year government bond yields fall and rise marginally through to 2021. Unemployment levels peak in 2021 before moderating towards the end of the forecast period but still above that of the baseline.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 12

Expected credit losses continued

The table below presents the gross exposure and related ECL allowance for assets measured at amortised cost or FVOCI and off balance sheet exposures subject to impairment requirements of AASB 9^{(1),(2)}.

	AS AT 31 MAR 19		AS AT 1 APR 18	
	Gross exposure ⁽²⁾ \$m	ECL allowance \$m	Gross exposure ⁽²⁾ \$m	ECL allowance \$m
CONSOLIDATED				
Cash and bank balances ⁽³⁾	9,787	–	9,722	–
Cash collateral on securities borrowed and reverse repurchase agreements ⁽³⁾	10,201	–	12,754	–
Margin money and settlement assets ⁽³⁾	15,364	–	18,198	–
Financial investments	5,310	91	5,310	52
Other assets ⁽⁴⁾	4,075	102	3,341	128
Loan assets ⁽⁵⁾	78,505	618	72,660	572
Interests in associates and joint ventures – loans	609	119	419	31
Undrawn credit commitments and financial guarantees ⁽⁶⁾	6,834	29	7,959	33
Total	130,685	959	130,363	816

(1) The Consolidated Entity has not restated its comparative information for 31 March 2018 on adoption of AASB 9. Amounts as at 1 April 2018 represent amounts as at the transition date.

(2) Gross exposure of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

(3) Consists of short-term, fully collateralised or high quality assets with minimal historical losses.

(4) Includes contract assets of \$1,201 million (1 April 2018: \$675 million).

(5) Includes ECL allowance of \$540 million (1 April 2018: \$501 million) on loan assets carried at amortised cost and \$78 million (1 April 2018: \$71 million) on loan assets measured at FVOCI.

(6) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

The table below represents the reconciliation from the opening balance to the closing balance of ECL allowances:

	Financial investments \$m	Other assets \$m	Loan assets \$m	Interests in associates and joint ventures – loans \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
CONSOLIDATED						
Balance as at 31 Mar 18	–	108	470	19	–	597
Change on initial application of AASB 9	52	20	102	12	33	219
Balance as at 1 Apr 18	52	128	572	31	33	816
Impairment charge/(reversal) (Note 2)	35	39	173	89	(2)	334
Amounts written off, previously provided for	–	(63)	(129)	–	–	(192)
Foreign exchange and other movements	4	(2)	2	(1)	(2)	1
Balance as at 31 Mar 19	91	102	618	119	29	959

The ECL allowance on Interest in associates and joint ventures – loans increased primarily driven by the migration of exposures into stage III due to deterioration in credit quality.

Note 12

Expected credit losses continued

The tables below represent the reconciliation from the opening balance to the closing balance of the ECL allowance on loan assets to which the impairment requirements under AASB 9 are applied.

ECL on loan assets

	LIFETIME ECL					
	Stage I 12 month ECL \$m	Stage II Not credit impaired \$m	Stage III Credit impaired \$m	Collective allowance for credit losses \$m	Individually assessed provisions \$m	Total \$m
	CONSOLIDATED					
Balance as at 31 Mar 18	–	–	–	293	177	470
Change on initial application of AASB 9	147	239	186	(293)	(177)	102
Balance as at 1 Apr 18	147	239	186	–	–	572
Transfers during the period:						
To 12 month ECL	69	(66)	(3)	–	–	–
To lifetime ECL not credit impaired	(14)	45	(31)	–	–	–
To lifetime ECL credit impaired	–	(39)	39	–	–	–
Impairment (reversal)/charge (Note 2)	(44)	17	200	–	–	173
Amounts written off, previously provided for	–	–	(129)	–	–	(129)
Foreign exchange and other movement	–	3	(1)	–	–	2
Balance as at 31 Mar 19	158	199	261	–	–	618

The net movement in ECL allowance for loan assets is primarily due to change in forward looking information considering noticeable changes in macro-economic variables and re-weighting of scenarios and deterioration in the credit quality. Amounts written off primarily relate to stage III Asset Financing and other Corporate Commercial Lending credit impaired exposures.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED 2019			CONSOLIDATED 2018		
	Cost \$m	Accumulated depreciation and impairment \$m	Written down value \$m	Cost \$m	Accumulated depreciation and impairment \$m	Written down value \$m
Note 13						
Property, plant and equipment						
Assets for own use						
Land and buildings	326	(21)	305	279	(19)	260
Furniture, fittings and leasehold improvements	719	(564)	155	684	(498)	186
Equipment	149	(110)	39	127	(95)	32
Infrastructure assets	224	(59)	165	768	(71)	697
Total assets for own use	1,418	(754)	664	1,858	(683)	1,175
Assets under operating lease						
Aviation	1,114	(87)	1,027	9,938	(2,437)	7,501
Meters	1,912	(664)	1,248	1,629	(541)	1,088
Telecommunications	1,588	(622)	966	963	(255)	708
Rail cars	805	(193)	612	862	(176)	686
Others	305	(121)	184	445	(177)	268
Total assets under operating lease	5,724	(1,687)	4,037	13,837	(3,586)	10,251
Total property, plant and equipment	7,142	(2,441)	4,701	15,695	(4,269)	11,426

The majority of the above amounts have expected useful lives longer than 12 months after the balance date.

Note 13

Property, plant and equipment continued

The movement in the Consolidated Entity's property, plant and equipment at their net carrying value:

	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
Assets for own use					
Balance as at 1 Apr 17	265	212	33	533	1,043
Acquisitions/additions	7	53	23	153	236
Disposals	(1)	(10)	(1)	(12)	(24)
Reclassification and other adjustments	(5)	(1)	–	17	11
Impairments	–	–	–	(21)	(21)
Foreign exchange movements	–	4	1	55	60
Depreciation expense	(6)	(72)	(24)	(28)	(130)
Balance as at 31 Mar 18	260	186	32	697	1,175
Acquisitions/additions	69	79	29	470	647
Disposals	(18)	(7)	(1)	(689)	(715)
Reclassification and other adjustments	(2)	(32)	1	(304)	(337)
Impairments	–	–	–	(1)	(1)
Foreign exchange movements	1	4	1	26	32
Depreciation expense	(5)	(75)	(23)	(34)	(137)
Balance as at 31 Mar 19	305	155	39	165	664

	Aviation \$m	Meters \$m	Telecom- munications \$m	Rail cars \$m	Others \$m	Total \$m
Assets under operating lease						
Balance as at 1 Apr 17	8,171	735	188	633	239	9,966
Acquisitions/additions	7	438	847	–	110	1,402
Disposals	(104)	–	(65)	–	(14)	(183)
Reclassification and other adjustments	(42)	(48)	–	–	(1)	(91)
Impairments	(12)	–	–	–	–	(12)
Foreign exchange movements	(42)	94	–	82	1	135
Depreciation expense (Note 2)	(477)	(131)	(262)	(29)	(67)	(966)
Balance as at 31 Mar 18	7,501	1,088	708	686	268	10,251
Acquisitions/additions	710	415	1,105	–	62	2,292
Disposals	(151)	(31)	(272)	(41)	(100)	(595)
Reclassification and other adjustments ⁽¹⁾	(7,139)	(46)	–	–	–	(7,185)
Impairments	(8)	–	(4)	–	–	(12)
Foreign exchange movements	613	6	–	(4)	11	626
Depreciation expense (Note 2)	(499)	(184)	(571)	(29)	(57)	(1,340)
Balance as at 31 Mar 19	1,027	1,248	966	612	184	4,037

(1) Reclassification of \$7,139 million relates to MAF assets that have been reclassified as held for sale. Refer to Note 42 *Events after the reporting date* for further information and Note 10 for disclosure of the held for sales assets.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 13

Property, plant and equipment continued

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

	CONSOLIDATED	
	2019 \$m	2018 \$m
Assets under operating lease		
Not later than one year	818	1,455
Later than one year and not later than five years	553	2,336
Later than five years	19	314
Total future minimum lease payments receivable⁽¹⁾	1,390	4,105

(1) Excludes lease receivables relating to aviation assets of MAF that have been classified as held for sale.

Note 14

Interests in associates and joint ventures

Equity investments with no provisions for impairment	2,748	3,088
Equity investments with provisions for impairment		
Gross carrying value	1,423	869
Less: provisions for impairment	(483)	(316)
Equity investments with provisions for impairment	940	553
Total equity investments in associates and joint ventures	3,688	3,641
Loans to associates and joint ventures	600	433
Less: credit impairment charges ⁽¹⁾	(69)	(19)
Total loans to associates and joint ventures⁽²⁾	531	414
Total interests in associates and joint ventures^{(3),(4)}	4,219	4,055

(1) The current year allowance has been calculated under AASB 9 while prior year was calculated under AASB 139. The ECL relating to loans to associates under AASB 9 is recorded under credit impairment charges.

(2) Balance as at 31 March 2019 includes \$35 million of loans measured at FVTPL which are not subject to impairment under AASB 9. This also includes \$173 million of loans measured at FVOCI on which an impairment of \$50 million has been recognised in OCI and is hence not included in the carrying value above.

(3) Includes \$2,948 million (31 March 2018: \$2,854 million) relating to interests in associates and \$1,271 million (31 March 2018: \$1,201 million) relating to interests in joint ventures.

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

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

	CONSOLIDATED 2019			CONSOLIDATED 2018		
	Cost \$m	Accumulated amortisation and impairment \$m	Written down value \$m	Cost \$m	Accumulated amortisation and impairment \$m	Written down value \$m
Note 15						
Intangible assets						
Goodwill	1,260	(228)	1,032	685	(216)	469
Intangible assets with indefinite lives	291	–	291	269	–	269
Customer and servicing contracts	191	(166)	25	180	(140)	40
Other identifiable intangible assets	1,044	(361)	683	499	(284)	215
Total intangible assets	2,786	(755)	2,031	1,633	(640)	993

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

The movement in Consolidated Entity's intangible assets at their written down value:

	Goodwill \$m	Intangible assets with indefinite lives \$m	Customer and servicing contracts \$m	Other identifiable intangible assets \$m	Total \$m
Balance as at 1 Apr 17	442	270	52	245	1,009
Acquisitions	81	–	7	131	219
Disposals, reclassifications and other adjustments	(19)	–	(1)	(100)	(120)
Impairment	(39)	–	–	(5)	(44)
Amortisation ⁽¹⁾	–	–	(16)	(61)	(77)
Foreign exchange movements	4	(1)	(2)	5	6
Balance as at 31 Mar 18	469	269	40	215	993
Acquisitions	536	–	–	572	1,108
Disposals, reclassifications and other adjustments	(1)	–	(1)	(19)	(21)
Impairment	(1)	–	–	(11)	(12)
Amortisation ⁽¹⁾	–	–	(15)	(65)	(80)
Foreign exchange movements	29	22	1	(9)	43
Balance as at 31 Mar 19	1,032	291	25	683	2,031

(1) Includes amortisation of \$2 million (2018: \$36 million) which is included in Net trading income, and \$31 million (2018: \$Nil) in Other income.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	COMPANY	
	2019 \$m	2018 \$m
Note 16		
Investments in subsidiaries		
Investments at cost with no provisions for impairment ⁽¹⁾	11,346	13,384
Investment at cost with provisions for impairment	19,515	17,209
Less: provisions for impairment ⁽²⁾	(1,896)	(5,246)
Investment with provisions for impairment	17,619	11,963
Total investments in subsidiaries	28,965	25,347

(1) As part of an internal restructuring, Macquarie Bank Limited (MBL) and its subsidiaries transferred the CAF Principal Finance and Transportation businesses to Macquarie Financial Holdings Pty Limited (MFHPL) and its subsidiaries. Macquarie B.H. Pty Limited, the parent of MBL repaid capital of \$2,040 million to the Company and the Company invested \$2,340 million in MFHPL.

(2) During the financial year the Company recognised an impairment reversal of \$3,350 million (2018: \$2,700 million) as a consequence of the continued improvement in the performance of its subsidiary, MFHPL. The recoverable value, which has been determined as the investment's fair value less costs to sell, is classified as Level 3 in the fair value hierarchy (as defined in Note 38 *Fair value of financial assets and financial liabilities*). This valuation has been determined by means of a valuation technique whose most significant variables are MFHPL's consolidated maintainable earnings, incorporating long-term growth rate, and a weighted average earnings' multiple.

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

Note 16

Investments in subsidiaries continued

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

- Macquarie (UK) Group Services Limited (United Kingdom)
- Macquarie Agricultural Funds Management Limited (Australia)
- Macquarie B.H. Pty Limited (Australia)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited (Australia)
- Macquarie Capital (Australia) Limited (Australia)
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Capital (Ireland) Designated Activity Company (Ireland)
- Macquarie Capital (Singapore) Pte. Limited (Singapore)
- Macquarie Capital (USA) Inc. (United States)
- Macquarie Capital Limited (Hong Kong)
- Macquarie Capital Markets Canada Limited (Canada)
- Macquarie Capital Securities (India) Private Limited (India)
- Macquarie Capital Securities (Singapore) Pte. Limited (Singapore)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Commodities Brazil S.A. (Brazil)
- Macquarie Commodities Trading S.A. (Switzerland)
- Macquarie Corporate and Asset Finance 1 Limited (United Kingdom)
- Macquarie Corporate and Asset Finance 2 Limited (United Kingdom)
- Macquarie Corporate Holdings Pty Limited (Australia)
- Macquarie Emerging Markets Asian Trading Pte. Limited (Singapore)
- Macquarie Energy Canada Limited (Canada)
- Macquarie Energy LLC (United States)
- Macquarie Equipment Finance Designated Activity Company (Ireland)
- Macquarie Equipment Funding Limited (Ireland)
- Macquarie Equities Limited (Australia)
- Macquarie Euro Limited (United Kingdom)
- Macquarie European Investment Holdings Limited (United Kingdom)
- Macquarie Finance Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Holdings Pty Limited (Australia)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Futures USA LLC (United States)
- Macquarie Group Investments (UK) No.2 Limited (United Kingdom)
- Macquarie Group Services Australia Pty Ltd (Australia)
- Macquarie Holdings (USA) Inc. (United States)
- Macquarie Inc (United States)
- Macquarie Infrastructure and Real Assets (Europe) Limited (United Kingdom)
- Macquarie International Finance Limited (Australia)
- Macquarie International Investments Limited (United Kingdom)
- Macquarie Investment Management Australia Limited (Australia)
- Macquarie Investment Management Europe Limited (United Kingdom)
- Macquarie Investment Management Global Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Management Holdings Inc. (United States)
- Macquarie Physical Metals (USA) Inc. (United States)
- Macquarie Principal Finance Pty Limited (Australia)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Securities (Australia) Limited (Australia)
- Macquarie Securities (NZ) Limited (New Zealand)
- Macquarie Securities (Thailand) Limited (Thailand)
- Macquarie Securities Korea Limited (Korea)
- Macquarie Securities South Africa Limited (South Africa)
- Macquarie Securitisation Limited (Australia)
- Macquarie Specialised Asset Management Limited (Australia)
- Macquarie Transportation Holdings Limited (United Kingdom)

The country of incorporation has been stated in brackets.

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 16-0119, 15-0518, 08-00792, 18-0441, 18-0476 and 09-00871 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:

- Comercializadora Energia de la Reforma S. de R.L. de C.V
- Macquarie Commodities Trading (Shanghai) Co. Limited
- Macquarie Energy Mexico, S. de R.L. de C.V. (formerly Macquarie Gas De Sonora S. de R.L de C.V.)
- Macquarie Holdings (Mexico), S.A. De C.V.
- Macquarie Infrastructure and Real Assets México, S.A. De C.V.
- Macquarie Investment Advisory (Beijing) Co Limited
- Macquarie Investment Consulting (Shanghai) Co. Limited
- Macquarie Leasing (China) Co. Limited
- Macquarie Services (Mexico), S.A. De C.V.
- Taurus Aerospace Group Inc.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 17				
Deferred tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Other assets and liabilities	981	810	14	–
Tax losses ⁽¹⁾	276	403	–	24
Financial investments and interests in associates and joint ventures	101	121	–	–
Property, plant and equipment	84	66	–	–
Loan assets and derivatives	2	37	–	–
Intangible assets	65	108	–	–
Set-off of deferred tax liabilities	(478)	(895)	(6)	(5)
Net deferred tax assets	1,031	650	8	19
Operating and finance lease assets ⁽¹⁾	(460)	(981)	–	–
Loan and derivative assets	(12)	(101)	–	–
Other assets and liabilities	(310)	(432)	(6)	(5)
Intangible assets	(87)	(77)	–	–
Financial investments and interests in associates and joint ventures	(34)	(33)	–	–
Property, plant and equipment	–	(20)	–	–
Set-off of deferred tax assets	478	895	6	5
Net deferred tax liabilities	(425)	(749)	–	–

(1) \$162 million of deferred tax assets on tax losses and (\$466 million) of deferred tax liabilities on Operating and finance leases have been reclassified as held for sale assets and liabilities.

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 \$348 million (2018: \$312 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 that the realisation of the tax assets is probable. Included in this amount are gross losses of \$37 million (2018: \$32 million) that will expire within 2 years, \$71 million (2018: \$95 million) that will expire in 2–5 years, \$46 million (2018: \$50 million) that will expire in 5–10 years and \$474 million (2018: \$231 million) that will expire in 10–20 years. \$1,169 million (2018: \$918 million) do not expire and can be carried forward indefinitely.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 18				
Trading liabilities				
Equity securities				
Listed	8,088	7,663	–	–
Debt Securities				
Foreign government securities	20	328	–	–
Corporate loans and securities	–	70	–	–
Total trading liabilities	8,108	8,061	–	–

Note 19				
Margin money and settlement liabilities				
Margin money	12,733	12,066	–	–
Security settlements	7,066	6,950	–	–
Commodity settlements	2,777	1,862	–	–
Total margin money and settlement liabilities	22,576	20,878	–	–

Note 20				
Deposits				
Interest bearing deposits				
Call	40,434	38,606	–	–
Term	11,843	7,133	49	24
Non-interest bearing call deposits	3,914	2,656	–	–
Total deposits	56,191	48,395	49	24

Note 21				
Held for sale and other liabilities				
Held for sale liabilities				
Liabilities of disposal groups classified as held for sale ⁽¹⁾	6,809	523	–	–
Other liabilities				
Accrued charges, income received in advance and other liabilities ⁽²⁾	3,943	3,493	93	70
Creditors	1,745	1,511	7	14
Income tax payable	413	262	286	112
Life investment linked contracts and other unitholder liabilities	377	640	–	–
Aircraft and rail maintenance liabilities	108	846	–	–
Others	150	153	–	–
Total other liabilities	6,736	6,905	386	196

(1) Includes liabilities of \$6,643 million relating to the Consolidated Entity's interest in the Macquarie Air Finance (MAF) that was classified as held for sale. These liabilities primarily relate to bank borrowings and maintenance liabilities. Refer to Note 42 for further information.

(2) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current year in each of these matters did not have and is not currently expected to have a material impact on the Consolidated Entity.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 22				
Debt issued				
Bonds, negotiable certificates of deposit and commercial paper ⁽¹⁾	47,924	53,850	13,006	12,177
Structured notes ⁽²⁾	2,264	2,077	30	–
Total debt issued^{(3),(4)}	50,188	55,927	13,036	12,177

(1) Includes \$7,855 million (2018: \$8,979 million) payable to note holders and debt holders for which loan assets are held by consolidated SPEs and are available as security.

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

(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued measured at DFVTPL (Refer Note 36 *Measurement categories of financial instruments*) is \$3,246 million (2018: \$3,040 million) for the Consolidated Entity and \$28 million (2018: \$Nil) for the Company. This amount is based on the final notional amount rather than the fair value.

(4) Includes cumulative fair value gain of \$31 million (31 March 2018: \$25 million) due to changes in own credit risk on DFVTPL debt liabilities.

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.

Reconciliation of debt issued by major currency

(In Australian dollar equivalent)

United States dollar	30,756	32,608	10,666	9,922
Australian dollar	10,722	13,164	1,012	1,011
Euro	4,877	5,742	800	797
Swiss franc	1,058	1,487	–	–
Japanese yen	1,079	1,029	491	447
Great British pound	783	727	–	–
South African rand	288	371	–	–
Yuan renminbi	168	246	–	–
Norwegian krone	164	163	–	–
Hong Kong dollar	148	152	36	–
Korean won	114	112	–	–
Canadian dollar	–	126	–	–
Others	31	–	31	–
Total	50,188	55,927	13,036	12,177

Note 23

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A wholly owned subsidiary of the Company, MBL, is accredited by APRA to apply the Basel III Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management and non-financial operations. Level 3 consists of the Level 2 group, other bank entities excluded from Level 2 plus the non-bank group.

As an APRA authorised and regulated Non-Operating Holding Company (NOHC), the Company is required to maintain minimum regulatory capital calculated as the sum of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWA plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
- the Non-Bank Group capital requirement, using the Consolidated Entity's ECAM. Transactions internal to the Consolidated Entity are eliminated. The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity has satisfied all internally and externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the financial year.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 24

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.

The table below highlights key capital instruments with conditional payment obligations issued by the Consolidated Entity and the Company included in these accounts:

Contract feature	Macquarie Group Capital Notes	Macquarie Group Capital Notes 2	Macquarie Group Capital Notes 3
Code	MCN	MCN2	MCN3
Issuer	Macquarie Group Limited	Macquarie Group Limited	Macquarie Group Limited
Par value	\$100	\$100	\$100
Currency	AUD	AUD	AUD
Carrying value at the reporting date	\$Nil ⁽¹⁾	\$531 million	\$1,000 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost
Issue date	7 June 2013	18 December 2015	7 June 2018
Interest rate	180-day BBSW plus a fixed margin of 4% per annum, adjusted for franking credits	180-day BBSW plus a fixed margin of 5.15% per annum, adjusted for franking credits	90-day BBSW plus a fixed margin of 4.00% per annum, adjusted for franking credits
Interest payment frequency	Semi-annually in arrears	Semi-annually in arrears	Quarterly in arrears
Mandatory interest payment	Yes	Yes	Yes
Dividend stopper	Yes	Yes	Yes
Outstanding notes at reporting date	\$Nil ⁽¹⁾	5.3 million	10 million
Maturity	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument.	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument.	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument.
Convertible into shares	Yes	Yes	Yes
Convertible in issuer shares	MGL	MGL	MGL
Mandatory conversion date	7 June 2021	18 March 2024	15 December 2027
Maximum number of shares on conversion	n/a ⁽¹⁾	32,644,295	43,798,178
Optional exchange dates	– 7 June 2018 – 7 December 2018 – 7 June 2019	– 17 March 2021 – 17 September 2021 – 17 March 2022	– 16 December 2024 – 16 June 2025 – 15 December 2025
Other exchange events	– Acquisition date (where a party acquires control of MGL) – where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	– Acquisition date (where a party acquires control of MGL) – where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	– Acquisition date (where a party acquires control of MGL) – where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)
Capital treatment	Eligible hybrid capital	Eligible hybrid capital	Eligible hybrid capital

(1) On 7 June 2018, MGL redeemed the MCN. No MCN were exchanged during the period before their redemption.

Macquarie Group Capital Notes 4	Macquarie Bank Capital Notes	Macquarie Additional Capital Securities
MCN4	BCN	MACS
Macquarie Group Limited	Macquarie Bank Limited	Macquarie Bank Limited
\$100	\$100	N/A
AUD	AUD	USD
\$905 million	\$429 million	USD 750 million
Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost
27 March 2019	8 October 2014	8 March 2017
90-day BBSW plus a fixed margin of 4.15% per annum, adjusted for franking credits	180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits	6.125% per annum
Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Yes	Yes	Yes
Yes	Yes	Yes
9.05 million	4.3 million	
Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument.	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument.	Perpetual, redeemable subject to APRA's written approval, and at the discretion of MBL in limited circumstances.
Yes	Yes	Yes
MGL	MGL	MGL
10 September 2029	24 March 2023	n/a
35,439,961	37,056,481	56,947,286
– 10 September 2026 – 10 March 2027 – 10 September 2027 – earlier in specified circumstances at the discretion of MGL, subject to APRA approval.	– 24 March 2020 – 24 September 2020 – 24 March 2021 – earlier in specified circumstances at the discretion of MBL subject to APRA approval.	n/a
– Acquisition date (where a party acquires control of MGL) – where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	– Acquisition date (where a party acquires control of MBL) – where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) – where MBL's common equity Tier 1 Capital ratio falls below 5.125%	– Acquisition date (where a party acquires control of MBL or MGL) – where MBL's common equity Tier 1 capital ratio falls below 5.125% – where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)
Eligible hybrid capital	Additional tier 1 capital	Additional tier 1 capital

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 24

Loan capital continued

The Consolidated Entity has also issued subordinated debt denominated in Euros and United States dollars which is eligible Tier 2 capital under APRA's Capital standards (including transitional Based III rules).

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Original contractual maturity of Loan capital:				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	83	86	3	11
Subordinate debt instruments with fixed repayment obligations:				
30 May 2019	–	1	–	–
21 Sep 2020	746	773	–	–
7 Apr 2021	1,191	1,088	–	–
10 Jun 2025	1,056	930	–	–
Instruments with conditional repayment obligations:				
MCN	–	600	–	600
MCN2	531	531	531	531
MCN3	1,000	–	1,000	–
MCN4	905	–	905	–
BCN	430	430	–	–
MACS	1,062	976	–	–
	7,004	5,415	2,439	1,142
Less: directly attributable issue costs	(41)	(23)	(30)	(7)
Total loan capital⁽¹⁾	6,963	5,392	2,409	1,135

Reconciliation of loan capital by major currency:

(In Australian dollar equivalent)

United States dollar	3,366	3,047	–	–
Australian dollar	2,869	1,572	2,439	1,142
Euro	769	796	–	–
	7,004	5,415	2,439	1,142
Less: directly attributable issue costs	(41)	(23)	(30)	(7)
Total loan capital⁽¹⁾	6,963	5,392	2,409	1,135

(1) 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.

	Notes	2019 Number of shares	2018 Number of shares	2019 \$m	2018 \$m
Note 25					
Contributed equity					
(i) Ordinary share capital⁽¹⁾					
			CONSOLIDATED		
Opening balance of fully paid ordinary shares		340,364,820	340,351,731	7,498	7,467
Issue of shares on retraction of exchangeable shares ⁽³⁾		17,918	13,089	2	1
For employee MEREP awards:					
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	26	–	–	370	293
Transfer of additional deferred tax benefit on MEREP expense from share based payments reserve on vesting of MEREP awards	26	–	–	23	40
Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity		–	–	2	–
Transfer from treasury shares for awards withdrawn/exercised on vesting for cash settled MEREP awards settled through equity		–	–	(2)	–
Transfer from treasury shares for awards withdrawn/exercised		–	–	(344)	(296)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	26	–	–	(3)	(7)
Closing balance of fully paid ordinary shares		340,382,738	340,364,820	7,546	7,498
(ii) Treasury shares⁽²⁾					
Opening balance		(17,840,115)	(19,300,529)	(1,264)	(1,187)
Purchase of shares for employee MEREP awards		(3,990,786)	(4,182,548)	(454)	(373)
Transfer to ordinary share capital for awards withdrawn/exercised		5,386,083	5,642,962	344	296
Transfer to ordinary share capital for cash settled awards settled through equity		11,397	–	2	–
Purchase of shares for allocation under DRP scheme		(955,464)	(1,501,424)	(110)	(140)
Allocation of shares under DRP scheme		955,464	1,501,424	110	140
Purchase of shares for allocation under ESP scheme		(13,040)	(11,090)	(1)	(1)
Allocation of shares under ESP scheme		13,040	11,090	1	1
Closing balance of treasury shares		(16,433,421)	(17,840,115)	(1,372)	(1,264)
(iii) Exchangeable shares⁽³⁾					
Opening balance		124,968	138,835	9	10
Retraction of exchangeable shares		(18,984)	(13,867)	(2)	(1)
Closing balance of exchangeable shares		105,984	124,968	7	9
Contributed equity					
Ordinary share capital				7,546	7,498
Treasury shares				(1,372)	(1,264)
Exchangeable shares				7	9
Total contributed equity				6,181	6,243

(1) Ordinary shares have no par value.

(2) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares. The Consolidated Entity has resolved to purchase additional Treasury shares to satisfy MEREP requirements of approximately \$590 million commencing on 13 May 2019. Ordinary shares will be issued if purchasing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 30 *Employee equity participation*.

(3) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity. As per the terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in the Company (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to the Company's dividends during their legal life. However, subsequent to the approval of consolidation of the Company's ordinary shares by the Company's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in the Company.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	Notes	2019 Number of shares	2018 Number of shares	2019 \$m	2018 \$m
Note 25					
Contributed equity continued					
(i) Ordinary share capital⁽¹⁾					
				COMPANY	
Opening balance of fully paid ordinary shares		340,364,820	340,351,731	10,113	10,120
Issue of shares on retraction of exchangeable shares		17,918	13,089	2	1
For employee MEREP awards:					
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	26	–	–	370	293
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	26	–	–	1	2
Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity		–	–	2	–
Transfer from treasury shares for awards withdrawn/exercised on vesting for cash settled MEREP awards settled through equity		–	–	(2)	–
Transfer from treasury shares for awards withdrawn/exercised		–	–	(344)	(296)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	26	–	–	(3)	(7)
Closing balance of fully paid ordinary shares		340,382,738	340,364,820	10,139	10,113
(ii) Treasury shares⁽²⁾					
Opening balance		(17,840,115)	(19,300,529)	(1,264)	(1,187)
Purchase of shares for employee MEREP awards		(3,990,786)	(4,182,548)	(454)	(373)
Transfer to ordinary share capital for awards withdrawn/exercised		5,386,083	5,642,962	344	296
Transfer to ordinary share capital for cash settled awards settled through equity		11,397	–	2	–
Closing balance of treasury shares		(16,433,421)	(17,840,115)	(1,372)	(1,264)
Contributed equity					
Ordinary share capital				10,139	10,113
Treasury shares				(1,372)	(1,264)
Total contributed equity				8,767	8,849

(1) Ordinary shares have no par value.

(2) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares. The Consolidated Entity has resolved to purchase additional Treasury shares to satisfy MEREP requirements of approximately \$590 million commencing on 13 May 2019. Ordinary shares will be issued if purchasing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 30 *Employee equity participation*.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 26				
Reserves, retained earnings and non-controlling interests				
(i) Reserves				
Foreign currency translation and net investment hedge reserve				
Balance at the beginning of the financial year	375	248	–	–
Exchange differences on translation of foreign operations, net of hedge and tax	449	127	–	–
Balance at the end of the financial year	824	375	–	–
FVOCI reserve⁽¹⁾				
Balance at the beginning of the financial year	17	393	–	–
Change on initial application of AASB 9, net of tax (Note 1)	54	–	–	–
Restated balance as at 1 Apr 18	71	393	–	–
Revaluation losses recognised in OCI, net of tax	(114)	(129)	–	–
Changes in allowance for ECL, net of tax	52	–	–	–
Transfer to income statement on:				
Impairment, net of tax	–	16	–	–
Sale or reclassification, net of tax	–	(263)	–	–
Balance at the end of the financial year	9	17	–	–
Share-based payments reserve				
Balance at the beginning of the financial year	964	877	914	823
MEREP expense for the financial year	491	383	–	–
Additional deferred tax benefit on MEREP expense	24	37	1	3
MEREP issued to employees of subsidiaries (Note 30)	–	–	491	383
Transfer to ordinary share capital on vesting of MEREP awards	(370)	(293)	(370)	(293)
Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards	(23)	(40)	(1)	(2)
Balance at the end of the financial year	1,086	964	1,035	914
Share-based payments capital reduction reserve				
Balance at the beginning of the financial year	(12)	(19)	(12)	(19)
Transfer to ordinary share capital on vested and forfeited awards	3	7	3	7
Balance at the end of the financial year	(9)	(12)	(9)	(12)
Cash flow hedging reserve				
Balance at the beginning of the financial year	(49)	(103)	–	–
Revaluation movement for the financial year, net of tax	(83)	21	–	–
Transferred to income statement, net of tax	25	33	–	–
Balance at the end of the financial year⁽²⁾	(107)	(49)	–	–
Share of reserves of interests in associates and joint ventures				
Balance at the beginning of the financial year	2	–	–	–
Share of other comprehensive (loss)/income of associates and joint ventures during the year, net of tax	(32)	2	–	–
Balance at the end of the financial year	(30)	2	–	–
Total reserves at the end of the financial year	1,773	1,297	1,026	902

(1) Represents the available for sale reserve for financial year prior to adoption of AASB 9 on 1 April 2018.

(2) Includes \$5 million (2018: \$5 million) relating to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m

Note 26

Reserves, retained earnings and non-controlling interests continued

(ii) Retained earnings

Balance at the beginning of the financial year	8,817	7,877	15,329	12,607
Change on initial application of AASB 9 (Note 1)	(166)	–	(20)	–
Restated balance as at 1 Apr 18	8,651	7,877	15,309	12,607
Profit attributable to ordinary equity holders of MGL	2,982	2,557	5,125	4,357
Dividends paid on ordinary share capital (Note 5)	(1,819)	(1,649)	(1,805)	(1,635)
Loss on change in ownership interest	(13)	(5)	–	–
Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax	6	37	–	–
Balance at the end of the financial year	9,807	8,817	18,629	15,329

(iii) Non-controlling interests

Macquarie Income Securities⁽¹⁾

4,000,000 MIS of \$100 each	400	400	–	–
Less: transaction costs for original placement	(9)	(9)	–	–
Total Macquarie Income Securities	391	391	–	–

Other non-controlling interests^{(2),(3)}

Share capital and partnership interests	205	1,352	–	–
Reserves ⁽⁴⁾	56	124	–	–
Accumulated losses	(49)	(44)	–	–
Total other non-controlling interests	212	1,432	–	–
Total non-controlling interests	603	1,823	–	–

- (1) The MIS issued by MBL, a subsidiary, were listed for trading on the Australian Securities Exchange (ASX) on 19 October 1999. While the MIS is a perpetual investment with no conversion rights, it became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7% per annum. Payment of interest to holders is subject to certain conditions, including the profitability of MBL.
- (2) Other non-controlling interests represents equity in subsidiaries 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.
- (3) Previous financial year includes non-controlling interest of \$1,254 million representing amounts contributed by external investors to a consortium vehicle that formed part of the Consolidated Entity. During the financial year ended 31 March 2019, the investment was deconsolidated due to the loss of control.
- (4) Current financial year primarily represents employee share option reserve of \$49 million (2018: \$Nil) related to share options issued by a subsidiary. Previous financial year primarily includes foreign currency translations reserve attributable to the non-controlling interest.

Distributions to Macquarie Income Securities⁽¹⁾

Macquarie Income Securities

Distributions paid (net of distributions previously provided for)	12	11	–	–
Distributions provided for	3	3	–	–
Total distributions paid or provided for	15	14	–	–

- (1) The distributions are reflected as 'Profit attributable to non-controlling interests' in the consolidated income statement and as 'Dividends and distributions paid or provided for' in the consolidated statement of changes in equity.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 27				
Notes to the statements of cash flows				
(i) 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:				
Cash and bank balances ⁽¹⁾	9,488	9,381	–	–
Trading assets ⁽²⁾	784	612	–	–
Financial investments ⁽³⁾	1,818	1,197	–	–
Margin money and settlement assets ⁽⁴⁾	2,816	1,815	–	–
Other assets	248	–	–	–
Cash and cash equivalents at the end of the financial year⁽⁵⁾	15,154	13,005	–	–
(ii) Reconciliation of profit after income tax to net cash flows generated from operating activities				
Profit after income tax	2,988	2,581	5,125	4,357
Adjustments to profit after income tax:				
Depreciation and amortisation	1,520	1,172	(2)	–
Unrealised foreign exchange and fair value movement on financial assets and liabilities	1,074	(32)	(3)	(118)
Impairment charges	559	408	10	–
Reversal of impairment investment in subsidiary	–	–	(3,350)	(2,700)
Investment income and gain on sale of operating lease assets and other non-financial assets	(2,089)	(1,122)	(30)	–
Share-based payments expense	491	383	–	–
Share of net profit of associates and joint ventures	56	(241)	–	–
Changes in assets and liabilities:				
Change in carrying values of associates due to dividends received	219	175	–	–
Change in net interest payable and receivable	55	(18)	6	29
Change in fees and non-interest income receivable	(556)	(459)	–	–
Change in fees and commissions payable	50	(47)	–	–
Change in tax balances	(282)	401	(435)	(188)
Change in debtors, prepayments, accrued charges and creditors	1,531	259	26	–
Change in net trading assets and liabilities and net derivative financial instruments ⁽²⁾	(2,855)	2,704	(5)	26
Change in other assets and liabilities	(126)	68	–	–
Change in loan assets	(4,205)	(3,720)	(6,035)	(6,712)
Change in operating lease assets	(1,673)	(1,202)	–	–
Change in deposits	7,717	665	23	13
Change in bank borrowings	4,675	131	4,279	854
Change in debt issued	(8,385)	2,344	1,634	6,447
Net cash flows generated from operating activities	764	4,450	1,243	2,008

(1) The March 2019 financial results reflect the adoption of AASB 9 on 1 April 2018. As permitted by AASB 9, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Prior comparative financial year has been reclassified to conform to current year presentation. Refer to Note 1 for the impact from initial adoption of AASB 9.

(2) 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

For the financial year ended 31 March 2019 continued

Note 27

Notes to the statements of cash flows continued

(iii) Cash flows from liabilities arising from financing activities

During the year, the Consolidated Entity raised \$1,000 million through the issue of MCN3 and \$905 million through the issue of MCN4 to replace the \$600 million MCN that the Consolidated Entity redeemed on 7 June 2018. The statement of cash flow excludes a non-cash movement of \$330 million relating to MCN3 issued on exercise of the option by MCN holders to reinvest in MCN3.

Note 28

Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms.

All transactions undertaken 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 may arise from lending and borrowing activities between the Company and its subsidiaries, which are either repayable on demand or may be extended on a term basis and where appropriate may be either subordinated or collateralised.

A list of material subsidiaries is set out in Note 16 *Investments in subsidiaries*.

The Company, as the ultimate parent entity of the Consolidated Entity, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in Note 1(vii) *Taxation*. Due from subsidiaries in the Company's separate statement of financial position includes the amount of current tax asset assumed by the company as the head entity and amount receivable by the Company under the tax funding agreement of the tax consolidated group.

	COMPANY	
	2019 \$'000	2018 \$'000
The following income/(expense) resulted from transactions with subsidiaries during the financial year:		
Interest income	766,266	479,042
Interest expense	(45,103)	(52,391)
Fee and commission income	9,790	9,359
Other operating income and charges	27,000	–
Other operating expense	38,164	–
Dividends and distributions (Note 2)	1,758,000	1,730,000
Share based payments (Note 26)	491,398	383,243
The following balances with subsidiaries were outstanding as at financial year end ⁽¹⁾ :		
Amounts receivable	23,378,627	17,269,299
Amounts payable	(958,513)	(843,162)
Guarantees ⁽²⁾	4,505,269	3,551,096

(1) The Company has a liability as at 31 March 2019 of \$408,815 thousand (2018: \$418,599 thousand) for amounts received in advance as at 31 March 2019 from subsidiaries for MEREP offered to their employees' net of share-based payment expense recognised by the subsidiary. The liability is recorded on the basis of grant date fair value and number of instruments expected to vest. To the extent that the awards vest in shares, this amount will be retained by the Company as compensation for issuing and releasing the shares to the employees of the subsidiaries.

(2) Includes transactions where the Company has contractually guaranteed the performance and other obligations of its subsidiaries.

Note 28

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services.

Balances may arise from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures which are generally extended on a term basis and where appropriate may be either subordinated or collateralised.

During the financial year, the following amounts of income/(expense) resulted from transactions with associates and joint ventures:

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
Interest income	75,692	146,136
Fee and commission income ⁽¹⁾	1,189,304	1,003,976
Brokerage, commission and trading-related expenses	(15,274)	(10,410)
Other expense	(1,353)	(12,321)

(1) Includes \$460,781 thousand (2018: \$449,250 thousand) of performance fees earned.

Dividends and distributions of \$209,000 thousand (2018: \$181,000 thousand) received from associates were 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 ⁽¹⁾	1,321,668	854,947
Amounts payable	(55,767)	(32,268)
Undrawn Commitments ⁽²⁾	(886,247)	(681,371)

(1) Includes \$1,079,818 thousand (2018: \$652,199 thousand) of fee related contract assets.

(2) Undrawn commitments are included in Note 31 *Contingent liabilities and commitments*.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 29

Key Management Personnel disclosure

Key Management Personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2019 and 31 March 2018, unless indicated otherwise.

Executive Voting Directors

S.R. Wikramanayake ⁽¹⁾	CEO (appointed as CEO effective 1 December 2018)
N.W. Moore	Former CEO (retired as CEO on 30 November 2018)

Non-Executive Directors

P.H. Warne	Chairman
G.R. Banks AO	
G.M. Cairns	
M.J. Coleman	
D.J. Grady AM	
M.J. Hawker AM	
G.R. Stevens AC	(appointed effective 1 November 2017)
N.M. Wakefield Evans	
J. R. Broadbent AC	(appointed effective 5 November 2018)
P.M. Coffey	(appointed effective 28 August 2018)

Former Non-Executive Directors

P.A. Cross	(retired effective 26 July 2018)
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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 MGL during the financial years ended 31 March 2019 and 31 March 2018, unless indicated otherwise.

Current Executives⁽²⁾

T.C. Bishop	Head of Macquarie Capital
G.A. Farrell	Co-Head of CAF
A.H. Harvey	CFO, Head of FMG (appointed effective 1 January 2018)
N. O'Kane ⁽³⁾	Head of CMF (appointed effective 15 June 2017)
M.J. Reemst	Macquarie Bank CEO
F. Herold	Co-Head of CAF (appointed effective 1 December 2018)
N. Sorbara	COO, Head of COG
P.C. Upfold	CRO, Head of RMG
G.C. Ward	Deputy Managing Director and Head of BFS
M.S.W. Stanley	Head of MAM (appointed effective 1 December 2018)

Former Executives

N.W. Moore	Former CEO (ceased to be a member of the Executive Committee on 30 November 2018)
B.A. Brazil	Former Co-Head of CAF (ceased to be a member of the Executive Committee on 30 November 2018)
A.J. Downe	Former Head of CGM (retired as a member of the Executive Committee on 31 March 2019)
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)

The remuneration arrangements for all of the persons listed above are described on pages 62 to 99 of the Remuneration Report, contained in the Directors' Report.

(1) Ms Wikramanayake, formerly Head of MAM, was appointed to the Board on 28 August 2018 and as CEO on 1 December 2018.

(2) Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 3 May 2019.

(3) Mr O'Kane was Head of Commodity Markets and Finance for the full year to 31 March 2019 and has succeeded Mr Downe as Head of CGM effective 1 April 2019.

Note 29

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS				LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		
	Salary and fees (including superannuation) \$	Performance related remuneration ⁽¹⁾ \$	Other benefits \$	Total short-term Employee Benefits \$	Restricted profit share including earnings on restricted profit share ⁽²⁾ \$	Equity awards including shares ⁽³⁾ \$	PSUs ⁽⁴⁾ \$	Total remuneration \$
Executive Remuneration								
2019	9,357,610	47,538,973	–	56,896,583	17,847,619	64,968,981	23,108,534	162,821,717
2018	9,152,206	40,246,664	–	49,398,870	18,440,174	46,507,506	22,134,653	136,481,203
Non-Executive Remuneration								
2019	3,955,224	–	18,000	3,973,224	–	–	–	3,973,224
2018	3,618,083	–	–	3,618,083	–	–	–	3,618,083

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

(2) The amount of retained profit share held via the Post-2009 DPS plan including earnings on notional investments from retained profit share in prior financial years.

(3) The current year amortisation for all equity awards calculated as described in Note 1(xxiv) *Performance based remuneration*.

(4) The current year amortisation for PSUs calculated as described in Note 1(xxiv) *Performance based remuneration*. Adjustments were made during the previous financial years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

Equity holdings of KMP and their related parties

The following tables set out details of MGL ordinary shares held during the financial year by KMP including their related parties, on a Consolidated Entity basis.

	Number of shares held by current KMPs at 1 Apr	Number of shares held by new KMPs at appointment date (After 1 Apr)	Shares received on withdrawal from MEREP	Other changes ⁽¹⁾	Number of shares held by retired KMP at date of resignation/retirement (prior to 31 Mar)	Number of shares held as at 31 Mar
2019	3,397,237	53,600	1,000,761	(800,407)	(2,515,224)	1,135,967
2018	3,014,420	4,840	1,092,765	(714,788)	–	3,397,237

(1) Includes on-market acquisitions and disposals.

MEREP RSU Awards of KMP and their related parties⁽¹⁾

The following tables set out details of the MEREP RSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 93 to 98. Further details in relation to the MEREP RSU awards are disclosed in Note 30 *Employee equity participation*

	Number of RSU awards held by current KMPs at 1 Apr	Number of RSU awards held by new KMP at appointment date (After 1 Apr)	RSU awards granted during the financial year ⁽¹⁾	Vested RSU awards transferred to the KMP's shareholding during the financial year	Number of RSU awards held by retired KMP at the date of resignation/retirement (prior to 31 Mar)	Number of RSU awards held as at 31 Mar
2019	3,178,712	–	573,870	(632,914)	(1,128,587)	1,991,081
2018	2,903,611	433,732	680,830	(615,747)	(223,714)	3,178,712

(1) RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above for 2019 relate to the Consolidated Entity's performance in 2018.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 29

Key Management Personnel disclosure continued

MEREP DSU Awards of KMP and their related parties⁽¹⁾

The following tables set out details of the MEREP DSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 93 to 98. Further details in relation to the MEREP DSU awards are disclosed in Note 30 *Employee equity participation*.

	Number of DSU awards held by current KMPs at 1 Apr	Number of DSU awards held by new KMPs at appointment date	DSU awards granted during the financial year ⁽¹⁾	Vested DSU awards transferred to the KMP's shareholding during the financial year	Number of DSU awards held by retired KMP at the date of resignation/retirement	Number of DSU awards held as at 31 Mar
2019	–	251,081	–	–	–	251,081
2018	–	–	–	–	–	–

(1) DSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates.

MEREP PSU Awards of KMP and their related parties⁽¹⁾

The following tables set out details of MEREP PSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report on page 93 to 98. Further details in relation to the MEREP PSU awards are disclosed in Note 30 *Employee equity participation*.

	Number of PSU awards held by current KMP at 1 Apr	Number of PSU awards held by new KMPs at appointment date	PSU awards granted during the financial year ⁽¹⁾	Vested PSU awards transferred to KMP shareholding during the financial year	PSU awards for which performance hurdles were not met	Number of PSU awards held by retired KMP at date of resignation/retirement	Number of PSU awards held as at 31 Mar ⁽²⁾
2019	1,208,351	–	263,243	(367,357)	–	(275,849)	828,388
2018	1,477,248	–	338,550	(476,769)	–	(130,678)	1,208,351

(1) PSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates. PSUs disclosed as granted above for 2019 relate to the Consolidated Entity's performance in 2018.

(2) PSU awards vested and not exercised as at 31 March 2019: \$Nil (2018: \$Nil).

Note 29

Key Management Personnel disclosure continued

Details of share-based payment grant dates affecting compensation for the financial years ended 31 March 2019 and 31 March 2018.

Financial year grant relates to	Type of grant	GRANT DATE	
		Managing Director	All other KMP
2008	Transition awards	3 March 2010	3 March 2010
	Retained DPS	3 March 2010	3 March 2010
2009	Retained DPS	3 March 2010	3 March 2010
	PSUs	3 March 2010	3 March 2010
2010	Retained DPS	13 August 2010	30 June 2010
	PSUs	13 August 2010	13 August 2010
2011	Retained DPS	15 August 2011	15 February 2011
			15 April 2011
			20 June 2011
	PSUs	15 August 2011	15 August 2011
2012	Retained DPS	15 August 2012	7 June 2012
	PSUs	15 August 2012	15 August 2012
2013	Retained DPS	15 August 2013	25 June 2013
	PSUs	15 August 2013	15 August 2013
2014	Retained DPS	15 August 2014	25 June 2014
	PSUs	15 August 2014	15 August 2014
2015	Retained DPS	17 August 2015	6 July 2015
	PSUs	17 August 2015	17 August 2015
2016	Retained DPS	15 August 2016	17 June 2016
	PSUs	15 August 2016	15 August 2016
2017	Retained DPS	15 August 2017	22 June 2017
	PSUs	15 August 2017	15 August 2017
2018	Retained DPS	15 August 2018	21 June 2018
	PSUs	15 August 2018	15 August 2018

Loans to Key Management Personnel and their related parties

Details of loans provided by the Consolidated Entity to KMP and their related parties are disclosed in aggregate in the following tables:

Total for Key Management Personnel and their relates parties	Balance as at 1 Apr \$'000	Additions during the year \$'000	Interest charged \$'000	Repayments during the year \$'000	Write-downs \$'000	Closing balance as at 31 Mar \$'000 ⁽¹⁾
2019	464	1,031	35	(47)	–	1,483
2018	–	461	3	–	–	464

(1) Number of persons included in the aggregate as at 31 March 2019: 4 (2018: 1).

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 30

Employee equity participation

MEREP

The Consolidated Entity continues to operate the MEREP in conjunction with other remuneration arrangements.

Award Types under the MEREP

Restricted Share Units (RSUs)

A RSU is a beneficial interest in a MGL ordinary share held on behalf of a MEREP participant by the plan trustee (Trustee). The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights of the share. The participant also has the right to request the release of the share from the MEREP Trust, subject to the vesting and forfeiture provisions of the MEREP.

	Number of RSU Awards 2019	Number of RSU Awards 2018
RSUs on issue at the beginning of the financial year	14,831,335	15,857,964
Granted during the financial year	3,489,378	3,874,717
Vested RSUs withdrawn or sold from the MEREP during the financial year	(4,477,846)	(4,453,864)
Forfeited during the financial year	(363,917)	(447,482)
RSUs on issue at the end of the financial year	13,478,950	14,831,335
RSUs vested and not withdrawn from the MEREP at the end of the financial year	33,065	28,660

The weighted average fair value of the RSU awards granted during the financial year was \$119.81 (2018: \$90.20).

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by the Company in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. The Company may issue shares to the Trustee or direct the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs.

Generally, where permitted by 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 the Company in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of the Company's shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights with respect to any underlying MGL ordinary shares.

DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs). DSUs have been granted with an expiry period of up to nine years.

	Number of DSU Awards 2019	Number of DSU Awards 2018
DSUs on issue at the beginning of the financial year	2,994,969	3,003,035
Granted during the financial year	760,874	876,982
Exercised during the financial year	(612,817)	(798,552)
Forfeited during the financial year	(67,201)	(86,496)
DSUs on issue at the end of the financial year	3,075,825	2,994,969
DSUs exercisable at the end of the financial year	822,111	572,456

The weighted average fair value of the DSU awards granted during the financial year was \$112.99 (2018: \$90.31).

Note 30

Employee equity participation continued

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest.

	Number of PSU Awards 2019	Number of PSU Awards 2018
PSUs on issue at the beginning of the financial year	1,408,846	1,589,479
Granted during the financial year	263,243	346,006
Exercised during the financial year	(442,736)	(526,639)
Expired during the financial year	–	–
PSUs on issue at the end of the financial year	1,229,353	1,408,846
PSUs exercisable at the end of the financial year	–	–

The weighted average fair value of the PSU awards granted during the financial year was \$102.06 (2018: \$73.00).

Restricted Shares

A Restricted Share is a MGL ordinary share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on, and to exercise the voting rights of, the Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

	Number of Restricted Share Awards 2019	Number of Restricted Share Awards 2018
Restricted shares on issue at the beginning of the financial year	26,171	54,650
Granted during the financial year	–	14,358
Forfeited during the financial year	–	–
Released during the financial year	(12,389)	(42,837)
Restricted shares on issue at the end of the financial year	13,782	26,171

The weighted average fair value of the Restricted Shares granted during the financial year was \$Nil (2018: \$87.29).

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

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

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 30

Employee equity participation continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3 rd in the 2 nd , 3 rd and 4 th year following the year of grant ⁽¹⁾
Retained DPS Awards representing 2009 retention	Executive Director	1/5 th in the 3 rd , 4 th , 5 th , 6 th and 7 th year following the year of grant ⁽²⁾
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5 th in the 3 rd , 4 th , 5 th , 6 th and 7 th year following the year of grant ⁽²⁾
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3 rd in the 3 rd , 4 th and 5 th year following the year of grant ⁽¹⁾
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50% three and four years after the year of grant ⁽³⁾
Commission Awards	Below Executive Director	1/3 rd in the 2 nd , 3 rd and 4 th year following the year of grant ⁽¹⁾
Incentive Awards	All Macquarie Group staff	1/3 rd on each first day of a staff trading window on or after the 2 nd , 3 rd and 4 th anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3 rd on each first day of a staff trading window on or after the 2 nd , 3 rd and 4 th anniversaries of the date of allocation

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

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

(3) Subject to achieving certain performance hurdles – refer below.

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

For Retained Profit Share awards representing 2018 retention, the allocation price was the weighted average price of the shares acquired for the 2018 purchase period, which was 14 May 2018 to 21 June 2018. That price was calculated to be \$113.76 (2017 retention: \$89.25).

Performance Share Units (PSUs)

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically reviewed by the Board Remuneration Committee (BRC) to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for this financial year.

Note 30

Employee equity participation continued

The hurdles are outlined below.

Performance hurdle 1

Hurdle	REFERENCE GROUP	
	Granted after 31 Mar 13	Granted on or before 31 Mar 13
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 to 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 50 th percentile and 100% vesting at the 75 th percentile.		

Performance hurdle 2

Hurdle	REQUIRED RESULT	
	Granted after 31 Mar 13	Granted on or before 31 Mar 13
50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9% and 100% at EPS CAGR of 13%. For example, if EPS CAGR were 11%, 75% of the relevant awards would become exercisable.

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a \$Nil benefit to Executive Committee members.

RSUs and DSUs are measured at their grant dates based on their fair value⁽¹⁾ and for each PSU, the awards expected to vest are measured basis below assumptions. This amount is recognised as an expense evenly over the respective vesting periods

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of the 2018 performance. The fair value of each of these grants is estimated using the Company's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 2.58% per annum
- expected vesting dates of PSUs: 1 July 2021 and 1 July 2022
- dividend yield: 4.96% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members) for the FY2019 performance will be granted during FY2020, the Consolidated Entity began recognising an expense for these awards (based on an initial estimate) from 1 April 2018. The expense is estimated using the price of MGL ordinary shares as at 31 March 2019 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 1.95% per annum, expected vesting dates of PSUs of 1 July 2022 and 1 July 2023, and a dividend yield of 5.08% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this valuation for recognising the expense over the remaining vesting period.

The Consolidated Entity annually reviews 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 employment expenses in the income statement, with a corresponding adjustment to equity (for equity settled awards), or a corresponding adjustment to liabilities (for cash settled awards).

For the financial year ended 31 March 2019, compensation expense relating to the MEREP totalled \$520,506 thousand (2018: \$404,714 thousand).

For the equity settled awards, the estimated future withholding tax outflow is \$315,399 thousand (2018: \$267,262 thousand).

(1) For employees categorized as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV remuneration requirements, the fair value of the awards granted for performance periods after 1 April 2018 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 2019 continued

Note 30

Employee equity participation continued

Other arrangements

There are certain arrangements with employees which take the form of a share-based payment, but which are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however, the arrangements have the same economic benefits as those held in MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2019 was \$19 thousand (2018: \$262 thousand).

Employee Share Plan

The Consolidated Entity continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to \$1,000 worth of fully paid MGL ordinary shares for no cash consideration.

Shares allocated under the ESP cannot be sold until the earlier of three years after allocation or the time when the participant is no longer employed by the Consolidated Entity. In all other respects, shares allocated rank equally with all other fully paid ordinary shares then on issue.

The latest offer under the ESP was made during November 2018. A total of 1,630 (2018: 1,109) staff participated in this offer. On 30 November 2018, the participants were each allocated 8 (2018:10) fully paid ordinary shares based on the offer amount of \$1,000 at the then calculated average market share price of \$114.36 (2018: \$99.33); resulting in a total of 13,040 (2018: 11,090) shares being 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 2019, compensation expense relating to the ESP totalled \$1,493 thousand (2018: \$1,097 thousand).

Historical Share and Option Plans

Shares are no longer being issued under the Staff Share Acquisition Plan or the Non-Executive Director Share Acquisition plan. However, employees and Non-Executive Directors still hold shares issued in previous years.

Options over fully paid unissued ordinary shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

Other plans

The Consolidated Entity operates other local share-based compensation plans, none of which, individually or in aggregate are material.

Shares purchased on-market for the purpose of an employee incentive scheme

During the financial year ended 31 March 2019, the Consolidated Entity purchased 789,310 shares on-market (2018: 1,257,791 shares) and 3,201,476 shares via off-market transfer from its employees during the Staff Trading window (2018: 2,924,757 shares) for MEREP. A further 13,040 shares were purchased on-market for the ESP (2018: 11,090 shares). The average price of all share purchases during the financial year was \$113.76 (2018: \$89.28) and the average price of the purchases made on-market was \$118.15 (2018: \$89.81).

CONSOLIDATED

COMPANY

2019
\$m2018
\$m2019
\$m2018
\$m

Note 31

Contingent liabilities and commitments

Contingent liabilities exist in respect of:

Letters of credit	1,085	838	–	–
Indemnities	469	152	–	–
Performance related contingents	291	237	–	–
Guarantees	213	312	4,505	3,589
Total contingent liabilities ^{(1),(2)}	2,058	1,539	4,505	3,589

Commitments exist in respect of:

Undrawn credit facilities and securities commitments ^{(3),(4),(6)}	10,518	10,510	–	–
Property, plant and equipment and other asset developments ^{(5),(7)}	3,472	1,371	1,954	–
Total commitments	13,990	11,881	1,954	–
Total contingent liabilities and commitments	16,048	13,420	6,459	3,589

- (1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised, and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity and the Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.
- (2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
- (3) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.
- (4) Includes \$815 million (2018: \$637 million) in undrawn facilities that will be assigned to a third party post drawdown.
- (5) Includes \$1,475 million of commitments for the purchase of assets relating to the MAF that was classified as held for sale. Refer to Note 42 *Events after the reporting date* for further information.
- (6) Includes \$1,038 million (2018: \$1,434 million) for certain contractual irrevocable mortgage related facilities which have been reassessed during the year.
- (7) Includes asset development commitments to third parties of \$1,954 million that will be fulfilled by certain subsidiaries of the Company.

Note 32

Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	266	213	–	–
Later than one year and not later than five years	654	523	–	–
Later than five years	198	97	–	–
Total operating lease commitments	1,118	833	–	–

Operating leases relate to commercial buildings, oil storage and leases of land. The future lease commitments disclosed are net of any rental incentives received.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 33

Structured entities

The Consolidated Entity engages with structured entities (SEs) for securitisation, asset backed financing and other businesses in order to diversify its sources of funding for asset origination and capital efficiency purposes. SEs are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements. 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, and credit card receivables of the Consolidated Entity or of its clients.

The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual income units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Asset-backed financing

Asset-backed vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders. The Consolidated Entity engages in raising finance for assets such as vessels, electronic and IT equipment.

Other

Others include structured entities established to raise financing and fulfil obligations for prepaid commodity delivery contracts. Macquarie has contractually guaranteed the performance obligation under these arrangements.

Consolidated Structured Entities

The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual income units or guarantor.

SEs are consolidated when they meet the criteria described in Note 1(ii) *Principles of consolidation*.

The Consolidated Entity has contractually guaranteed the performance obligations of a consolidated SE that has borrowings from third parties. The notional value of the guarantee is \$2,052 million (2018: \$1,926 million), which is included in amounts of MGL guarantees disclosed in Note 31 *Contingent liabilities and commitments*. For the Consolidated Entity, this contingent liability is replaced with the SE's borrowing of \$1,977 million (2018: \$1,860 million) owing to third parties, included in Note 22 *Debt issued*.

Interests held in unconsolidated structured entities

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

- (i) creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)
- (ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs
- (iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the table that follows.

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.

Note 33

Structured entities continued

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 2019			CONSOLIDATED 2018	
	Securitisations \$m	Asset-backed financing \$m	Other ⁽⁴⁾ \$m	Securitisations \$m	Asset-backed financing \$m
Carrying value of assets					
Trading assets	368	72	–	128	189
Derivative assets	163	–	–	110	–
Financial investments ⁽¹⁾	1,735	153	–	1,366	215
Loan assets	549	756	–	254	800
Total carrying value of assets ⁽²⁾	2,815	981	–	1,858	1,204
Maximum exposure to loss⁽³⁾					
Debt, equity and derivatives held	2,815	981	–	1,858	1,204
Undrawn commitments ⁽⁴⁾	–	–	49	–	7
Total maximum exposure to loss	2,815	981	49	1,858	1,211

(1) Securitisations includes \$1,248 million (2018: \$1,158 million) of investments that are managed by the Consolidated Entity under the liquid assets holdings policy described in Note 35.2 *Liquidity risk*.

(2) Includes \$1,045 million (2018: \$1,010 million) in subordinated interests, of which \$182 million (2018: \$47 million) is included in securitisation activities and \$863 million (2018: \$965 million) included in asset backed financing activities. Of the subordinated interests, the potential loss borne by others whose interests rank lower is \$565 million (2018: \$825 million).

(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.

(4) Excludes \$1,171 million (2018: \$Nil) of guarantees provided by the Company to a subsidiary to fulfil its obligations for prepaid commodity contracts towards an unconsolidated structured entity which gets replaced by the borrowing of the Consolidated Entity.

The Consolidated Entity's exposure in subordinated securitisation entities includes trading positions that are typically managed under market risk described in Note 35.3 *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 Consolidated Entity's exposure in subordinated asset backed financing entities are included in loan assets and the total size of the unconsolidated SEs is \$4,182 million (2018: \$4,174 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 2019 continued

Note 34

Hedge accounting

Hedging strategy

The use of derivative and other hedging instruments to hedge non-traded positions potentially gives rise to income statement volatility as a result of mismatches in the accounting treatment between the derivative and other hedging instruments and the related exposure. The Consolidated Entity's objective is to reduce the risk of volatility in earnings. This volatility may be managed by allowing hedges to naturally offset one another or, where the earnings volatility exceeds pre-defined limits, is considered for designation in a hedge accounting relationship to reduce earnings volatility.

Hedging instruments

The following table details the hedging instruments, nature of hedged risks, as well as the notional and the carrying amount of derivative financial instruments and, in the case of net investment hedges, the notional of foreign denominated debt issued, for each type of hedge relationship. The maturity profile for the hedging instruments' notional amounts are reported based on their contractual maturity. Dual designations of cross-currency swaps for interest rate risk and foreign exchange risk are included as a single notional amount per derivative. Increases in notional profiles of hedging instruments are presented as negative figures, with decreases and maturities presented as positive figures.

Note 34

Hedge accounting continued

		Risk	NOTIONAL				CARRYING AMOUNT ⁽¹⁾	
Hedging instruments			Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m	Total \$m
Hedging instruments – assets			CONSOLIDATED 2019					
Cash flow hedges	Cross currency swaps	Foreign exchange	(44)	342	487	1,330	2,115	220
	Interest rate swaps	Interest	138	180	1,319	110	1,747	11
Fair value hedges	Interest rate swaps	Interest	1,409	3,485	8,003	6,661	19,558	454
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	45	476	1,152	74	1,747	131
Net investment hedges ⁽²⁾	Foreign exchange contracts	Foreign exchange	2,975	2,072	1,038	17	6,102	126
Hedging instruments – liabilities								
Cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	126	–	–	126	8
	Interest rate swaps	Interest	(16)	195	494	1,235	1,908	109
	Crude oil futures	Commodity price	14	29	–	–	43	15
Fair value hedges	Interest rate swaps	Interest	52	2,163	8,632	1,086	11,933	216
	Physical forward with basis swap	Commodity price	28	45	29	–	102	57
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	–	743	163	906	58
Net investment hedges ⁽²⁾	Debt issued	Foreign exchange	2,182	2,049	8,554	5,001	17,786	17,866
	Foreign exchange contracts	Foreign exchange	1,239	1,211	562	–	3,012	45
Hedging instruments – assets			CONSOLIDATED 2018					
Cash flow hedges	Cross currency swaps	Foreign exchange	(66)	90	566	1,807	2,397	181
	Cross currency swaps	Interest and foreign exchange	–	–	125	–	125	–
	Interest rate swaps	Interest	295	245	1,508	357	2,405	42
Fair value hedges	Interest rate swaps	Interest	300	2,387	10,025	1,808	14,520	187
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	–	1,487	324	1,811	94
Net investment hedges ⁽²⁾	Foreign exchange contracts	Foreign exchange	890	463	284	7	1,644	46
Hedging instruments – liabilities								
Cash flow hedges	Cross currency swaps	Foreign exchange	8	3	–	–	11	1
	Interest rate swaps	Interest	(72)	(206)	769	849	1,340	59
	Crude oil futures	Commodity price	10	37	39	–	86	26
Fair value hedges	Interest rate swaps	Interest	125	2,107	9,413	4,539	16,184	250
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	75	600	215	575	1,465	57
Net investment hedges ⁽²⁾	Debt issued	Foreign exchange	360	3,938	9,780	3,436	17,514	17,616
	Foreign exchange contracts	Foreign exchange	1,865	1,846	778	38	4,527	239

(1) The carrying amounts represent balances in the statement of financial position at balance date and includes accrued interest where applicable.

(2) In order to hedge the currency exposure of certain of the Consolidated Entity's net investment in foreign operations, the Consolidated Entity jointly designates both forward exchange derivative contracts (the currency of the underlying foreign operation and USD) and foreign denominated debt issued (for USD to AUD). As a result, the notional value of hedging instruments presented in the table above of \$26,900 million as at March 2019 represents the notional of both the derivative hedging instruments and the debt issued and hence exceeds the \$16,400 million notional of the underlying net investment in foreign operations.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 34

Hedge accounting continued

Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments that have been designated in cash flow hedges and net investment hedges⁽¹⁾ that are in place at the balance date. Executed rates for fair value hedges of interest rate risk and commodity price risk have not been shown below as these would represent the market reference rates at the time of designation which are primarily 1m, 3m or 6m USD LIBOR, GBP LIBOR, AUD BBSW, EUR EURIBOR and JPY LIBOR.

			CONSOLIDATED	
	Hedging instruments	Currency/currency pair	2019	2018
Cash flow hedges	Interest rate swaps	AUD	2.03–2.42%	1.77–2.42%
		GBP	0.40–2.49%	0.40–2.13%
		USD	2.02%	2.02%
Cash flow hedges	Cross currency swaps	USD/CHF	0.92–0.93	0.92–0.93
		AUD/EUR	0.64–0.69	0.64–0.69
		AUD/USD	0.76–0.78	0.72–0.78
Cash flow hedges	Crude oil futures	USD per barrel	49.7	49.7
Net investment hedges	Foreign exchange contracts	USD/GBP	0.65–0.78	0.64–0.81
		USD/KRW	1,054–1,132	1,032–1,183
		USD/SGD	1.35–1.39	1.31–1.39
		AUD/GBP	0.53–0.56	0.56
		AUD/KRW	783–809	844
		AUD/SGD	1.04	1.01–1.04

(1) United States dollar (USD) denominated debt issued has been paired with foreign exchange contracts to hedge some of the Consolidated Entity's net investment in foreign operations back to Australian dollars (AUD). The executed rate on the issued debt has not been included in the above table as they reflect the spot rate at reporting date, this being the AUD/USD exchange rate of \$0.71 (2018: \$0.77).

Hedging relationships

Cash flows hedges

The cash flow hedge reserve, representing the effective portion of the movements in the hedging instrument, is disclosed in Note 26(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's statement of other comprehensive income. The cumulative amount of fair value adjustments remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur of \$7 million (2018: \$23 million). This amount will be transferred to the income statement as a loss as and when the hedged item affects the income statement.

Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives and foreign denominated borrowings. Refer to Note 35.3 *Financial risk management: Non-traded market risk* for further information on the Consolidated Entity's risk management strategy.

In order to reflect the Consolidated Entity's risk management strategy, hedge accounting is applied where changes in the derivatives and foreign denominated borrowings are recognised, together with the related foreign currency translation reserve, in the Consolidated Entity's other comprehensive income and is subsequently released to the income statement when the foreign operation is disposed of. Hedge ineffectiveness is recognised in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

Note 34

Hedge accounting continued

Fair value hedges

The following table shows the carrying value of hedged items designated in fair value hedge accounting relationships and the cumulative fair value hedge accounting adjustment that has been recognised as part of that carrying value. These balances are being amortised to the income statement on an effective yield basis. The Consolidated Entity does not hedge its entire exposure to a class of financial instruments, nor does it apply hedge accounting in all instances, therefore the carrying amounts below will not equal the total carrying amounts disclosed in other notes to these financial statements. As noted in the Consolidated Entity's accounting policies, since the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is a balance of \$20 million (2018: \$53 million) for the Consolidated Entity. This amount will be amortised to the income statement as a gain on an effective interest rate basis.

	CONSOLIDATED 2019		CONSOLIDATED 2018	
	Carrying amount ⁽¹⁾	Fair value hedge adjustments Debit/(Credit)	Carrying amount ⁽¹⁾	Fair value hedge adjustments Debit/(Credit)
	\$m	\$m	\$m	\$m
Assets				
Financial investments	104	4	188	8
Loan assets	9,449	80	8,614	(17)
Non-financial contracts	55	55	–	–
Liabilities				
Debt issued	22,713	(230)	21,193	182
Loan capital	4,041	(48)	3,771	(18)

(1) The carrying amounts in the table above exclude accrued interest from the carrying amount of hedged items.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 34

Hedge accounting continued

Hedge ineffectiveness

Hedge ineffectiveness, in the case of a fair value hedge, is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item, and in the case of cash flow and net investment hedge relationships, the extent to which the change in the hedging instrument exceeds that of the hedged item. Sources of hedge ineffectiveness primarily arise from basis and timing differences between the hedged items and hedging instruments.

The following table contains the hedge ineffectiveness associated with cash flow hedge and fair value hedge relationships during the period, as reported in trading income in the income statement:

			Gains/(losses) on hedging instruments \$m	Gains/(losses) on hedged items attributable to the hedged risk \$m	Hedge ineffectiveness recognised in the income statement \$m
Hedging instruments		Risk			
CONSOLIDATED 2019					
Cash flow hedges	Cross currency swaps	Interest and foreign exchange	1	(1)	–
Cash flow hedges	Interest rate swaps	Interest	(71)	84	13
Cash flow hedges	Crude oil futures	Commodity price	11	(11)	–
Fair value hedges	Interest rate swaps	Interest	392	(406)	(14)
Fair value hedges	Physical forward with basis swap	Commodity price	(57)	55	(2)
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	23	(22)	1
Total			299	(301)	(2)
CONSOLIDATED 2018					
Cash flow hedges	Cross currency swaps	Foreign exchange	20	(20)	–
Cash flow hedges	Cross currency swaps	Interest and foreign exchange	2	(2)	–
Cash flow hedges	Interest rate swaps	Interest	61	(48)	13
Cash flow hedges	Crude oil futures	Commodity price	(26)	26	–
Fair value hedges	Interest rate swaps	Interest	(275)	258	(17)
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	(15)	16	1
Total			(233)	230	(3)

A gain of \$2 million (2018: \$1 million gain) for the Consolidated Entity was recognised in the income statement related to hedge ineffectiveness from net investment hedge relationships.

Note 35

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 strategic, reputation, conduct, credit, equity, asset, liquidity, market, compliance, operational, legal and tax.

The primary responsibility for risk management lies at the business level. Part of the role of all staff 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 independently assesses and accepts all material risks and sets prudential limits, consistent with the Board approved Risk Appetite Statement. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee. Further details on the Risk Management Framework in the Consolidated Entity can be found in the Risk Management Report of this Annual Report.

Note 35.1

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 or financial obligation 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

Refer to Note 12 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

Wholesale rating:

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-
Non-Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

Retail rating:

Retail pools are mapped to the credit quality grades based on their PDs.

Mapping retail portfolios to the credit grades has been done for comparability of the overall presentation and does not reflect the distribution of risk in the portfolio. Management reviews a range of information, including past due status for the portfolio, to assess the credit quality of these assets.

Under AASB 139, credit quality of retail lending exposures was disclosed based on regulatory PDs (through-the-cycle PDs) and considered the credit rating of the insurance provider for insured mortgages.

Due from subsidiaries/due from related body corporate entities

Balances with subsidiaries and related body corporate entities are mapped to the rating grades assigned internally to these counterparties for the pricing of internal funding arrangements on an arm's length basis.

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 2019 continued

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I ⁽¹⁾ \$m	Stage II ⁽¹⁾ \$m	Stage III ⁽¹⁾ \$m	Total \$m
CONSOLIDATED 2019				
Investment grade				
Cash and bank balances	9,567	–	–	9,567
Cash collateral on securities borrowed and reverse repurchase agreements	8,628	–	–	8,628
Margin money and settlement assets	11,532	–	–	11,532
Financial investments	4,868	–	–	4,868
Other assets	1,335	–	–	1,335
Loan assets	35,913	411	–	36,324
Interest in associates and joint ventures – loans	4	–	–	4
Undrawn credit commitments and financial guarantees	2,598	–	–	2,598
Total investment grade	74,445	411	–	74,856
Non-Investment Grade				
Cash and bank balances	220	–	–	220
Cash collateral on securities borrowed and reverse repurchase agreements	1,573	–	–	1,573
Margin money and settlement assets	3,657	160	–	3,817
Financial investments	208	–	–	208
Other assets	2,621	25	–	2,646
Loan assets	29,382	10,864	–	40,246
Interest in associates and joint ventures – loans	442	–	–	442
Undrawn credit commitments and financial guarantees	3,990	239	–	4,229
Total non-Investment Grade	42,093	11,288	–	53,381
Default				
Margin money and settlement assets	–	–	15	15
Financial investments	–	–	234	234
Other assets	–	–	94	94
Loan assets	–	–	1,935	1,935
Interest in associates and joint ventures – loans	–	–	163	163
Undrawn credit commitments and financial guarantees	–	–	7	7
Total default	–	–	2,448	2,448
Total⁽²⁾	116,538	11,699	2,448	130,685
Financial assets by ECL stage				
Cash and bank balances	9,787	–	–	9,787
Cash collateral on securities borrowed and reverse repurchase agreements	10,201	–	–	10,201
Margin money and settlement assets	15,189	160	15	15,364
Financial investments	5,076	–	234	5,310
Other assets	3,956	25	94	4,075
Loan assets	65,295	11,275	1,935	78,505
Interest in associates and joint ventures – loans	446	–	163	609
Undrawn credit commitments and financial guarantees	6,588	239	7	6,834
Total financial assets by ECL stage⁽²⁾	116,538	11,699	2,448	130,685

(1) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

Further analysis of credit risk for loan assets being the Consolidated Entity's most material credit exposure is presented below:

	Investment Grade \$m	Non- Investment Grade \$m	Total other than default \$m	OF WHICH PAST DUE			Default \$m	Total \$m
				Up to 30 days \$m	31 to <90 days \$m	Total past due but not default \$m		
CONSOLIDATED 2019								
Mortgages ⁽¹⁾	27,010	15,325	42,335	534	342	876	721	43,056
Asset financing	3,347	14,764	18,111	746	102	848	556	18,667
Corporate, commercial and other lending	4,485	9,814	14,299	114	42	156	658	14,957
Investment lending	1,482	343	1,825	–	–	–	–	1,825
Total⁽²⁾	36,324	40,246	76,570	1,394	486	1,880	1,935	78,505

(1) Includes \$16,457 million Mortgages for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another \$18,802 million Mortgages where the Consolidated Entity has bought risk protection from a panel of investment grade companies via an excess of loss structure.

(2) The credit quality is based on the counterparties credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

The following table below discloses, by credit rating grades, the gross carrying amount of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Company subject to the impairment requirements of AASB 9.

	Stage I \$m	Total \$m
COMPANY 2019		
Investment grade		
Other assets	7	7
Due from subsidiaries	22,277	22,277
Undrawn commitments and financial guarantees	4,505	4,505
Total investment grade	26,789	26,789

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration of credit risk by significant geographical locations and counterparty type of the Consolidated Entity's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements \$m	Margin money and settlement assets \$m	Financial investments \$m	Other assets \$m	Loan assets ⁽¹⁾ \$m	Interests in associate and joint ventures – loans \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
Australia	CONSOLIDATED 2019								
Governments	–	–	–	–	20	69	–	–	89
Financial institutions	2,644	2,527	1,401	3,398	261	2,359	39	372	13,001
Other	–	–	1,703	818	1,173	62,942	1	2,464	69,101
Total Australia	2,644	2,527	3,104	4,216	1,454	65,370	40	2,836	82,191
Asia Pacific									
Governments	–	–	258	–	–	–	–	6	264
Financial institutions	2,382	2,438	1,056	500	83	2	1	–	6,462
Other	–	–	1,486	–	307	1,197	100	197	3,287
Total Asia Pacific	2,382	2,438	2,800	500	390	1,199	101	203	10,013
Europe, Middle East and Africa									
Governments	550	–	148	–	152	2	–	34	886
Financial institutions	603	2,467	2,481	162	1,132	713	–	312	7,870
Other	–	–	2,115	–	255	3,966	203	1,041	7,580
Total Europe, Middle East and Africa	1,153	2,467	4,744	162	1,539	4,681	203	1,387	16,336
Americas									
Governments	–	–	28	–	1	93	–	6	128
Financial institutions	3,608	2,769	2,228	320	168	2,828	–	215	12,136
Other	–	–	2,460	112	523	4,334	265	2,187	9,881
Total Americas	3,608	2,769	4,716	432	692	7,255	265	2,408	22,145
Total gross credit risk⁽²⁾	9,787	10,201	15,364	5,310	4,075	78,505	609	6,834	130,685

(1) Loan assets in the Australia region includes Mortgages \$41,965 million, Asset financing \$16,228 million, Corporate, commercial and other lending \$6,967 million and Investment lending \$210 million.

(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

	Due from subsidiaries \$m	Other assets \$m	Undrawn commitments and financial guarantees \$m	Total \$m
COMPANY 2019				
Australia				
Financial institutions	21,693	–	–	21,693
Other	565	7	307	879
Total Australia	22,258	7	307	22,572
Asia Pacific				
Financial institutions	–	–	–	–
Other	5	–	420	425
Total Asia Pacific	5	–	420	425
Europe, Middle East and Africa				
Financial institutions	–	–	–	–
Other	–	–	364	364
Total Europe, Middle East and Africa	–	–	364	364
Americas				
Financial institutions	–	–	144	144
Other	14	–	3,270	3,284
Total Americas	14	–	3,414	3,428
Total gross credit risk	22,277	7	4,505	26,789

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 since they're measured at fair value through profit and loss. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements \$m	Trading assets	Margin money and settlement assets \$m	Derivative assets	Financial investments \$m	Other assets \$m	Loan assets \$m	Interests in associate and joint ventures – loans \$m	Total \$m
Australia	CONSOLIDATED 2019								
Governments	–	4,243	–	18	–	–	–	–	4,261
Financial institutions	702	125	5	1,467	–	–	–	11	2,310
Other	–	–	–	1,243	–	–	140	24	1,407
Total Australia	702	4,368	5	2,728	–	–	140	35	7,978
Asia Pacific									
Governments	–	237	–	4	–	–	–	–	241
Financial institutions	514	633	–	184	79	–	2	–	1,412
Other	–	106	485	677	6	78	41	–	1,393
Total Asia Pacific	514	976	485	865	85	78	43	–	3,046
Europe, Middle East and Africa									
Governments	–	80	–	7	–	–	7	–	94
Financial institutions	5,464	255	–	3,303	320	–	22	–	9,364
Other	–	2	1,411	3,132	–	–	207	–	4,752
Total Europe, Middle East and Africa	5,464	337	1,411	6,442	320	–	236	–	14,210
Americas									
Governments	8	1,001	–	36	–	–	–	–	1,045
Financial institutions	12,459	94	1,554	2,341	183	–	51	–	16,682
Other	–	736	292	2,045	45	61	94	–	3,273
Total Americas	12,467	1,831	1,846	4,422	228	61	145	–	21,000
Total gross credit risk	19,147	7,512	3,747	14,457	633	139	564	35	46,234

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

	Due from subsidiaries \$m	Total \$m
COMPANY 2019		
Australia		
Financial institutions	1,102	1,102
Total Australia	1,102	1,102
Total gross credit risk	1,102	1,102

Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet (refer Note 36 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount and is disclosed in Note 12 *Expected credit losses*.

Prior year comparative credit risk disclosures

The credit risk disclosures that follow were included in the 2018 annual report and do not reflect the adoption of AASB 9, principally because the analysis includes the consideration of credit rating of the insurance provider to insure mortgages. Whilst, these tables are accordingly not directly comparable to that provided under AASB 9, these disclosures have been restated for balance sheet presentation changes (Refer Note 1 *Summary of significant accounting policies*). The balances disclosed in the credit risk tables that follow exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities or bank notes and coins.

Credit quality of financial assets

The table that follows details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements except as otherwise indicated (refer to section on collateral and credit enhancements).

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

	Investment Grade \$m	Non-Investment Grade \$m	Past due but not individually impaired ⁽⁴⁾ \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2018					
Cash and bank balances					9,722
Financial institutions	9,359	363	–	–	9,722
Cash collateral on securities borrowed and reverse repurchase agreements⁽¹⁾					28,837
Financial institutions	24,597	4,240	–	–	28,837
Trading assets					8,007
Governments	6,515	86	–	–	6,601
Financial institutions	947	34	–	–	981
Other	158	234	33	–	425
Derivative assets					12,937
Governments	521	–	–	–	521
Financial institutions	6,254	647	–	–	6,901
Other	3,104	2,411	–	–	5,515
Margin money and settlement assets					18,198
Governments	433	–	51	–	484
Financial institutions	8,148	1,518	19	–	9,685
Other	6,754	1,204	67	4	8,029
Other assets⁽²⁾					2,519
Governments	82	34	–	–	116
Financial institutions	68	988	–	–	1,056
Other	196	1,096	52	3	1,347
Financial investments					5,880
Governments	599	–	–	–	599
Financial institutions	4,748	263	–	–	5,011
Other	5	265	–	–	270
Loan assets⁽³⁾					73,509
Governments	128	39	–	–	167
Financial institutions	3,187	1,439	1	–	4,627
Other	28,391	37,700	2,271	353	68,715
Total	104,194	52,561	2,494	360	159,609

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$4,893 million and Life Investment Linked contracts and other unitholder assets \$647 million which are included in Note 10 *Held for sale and other assets*.

(3) Mortgages are classified as investment grade when the Consolidated Entity has taken insurance from investment grade LMI counterparties and classified as non-investment grade based on probability of default rating either when not insured or the Consolidated Entity bears the first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

The table below details the credit quality of the Company's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer to section on collateral and credit enhancements).

	Investment grade \$m	Total \$m
COMPANY 2018		
Due from subsidiaries		
Financial institutions	3,430	3,430
Other	13,839	13,839
Total	17,269	17,269

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

	PAST DUE BUT NOT INDIVIDUALLY IMPAIRED						
	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							
Trading assets							
Other	–	–	–	33	33	–	33
Margin money and settlement assets							
Government	26	3	2	20	51	–	51
Financial institutions	6	2	1	10	19	–	19
Other	38	10	6	13	67	4	71
Other assets							
Other	32	10	1	9	52	3	55
Loan assets							
Financial institutions	1	–	–	–	1	–	1
Other	1,333	358	136	444	2,271	353	2,624
Total	1,436	383	146	529	2494	360	2,854

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in Note 1(xxiii) *Impairment*.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

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.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements ⁽¹⁾ \$m	Trading assets \$m	Derivative assets \$m	Margin money and settlement assets \$m	Other financial assets ⁽²⁾ \$m	Financial investments \$m	Loan assets \$m	Credit commitments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2018										
Australia										
Governments	–	–	4,416	357	–	5	362	66	–	5,206
Financial institutions	3,921	3,084	533	1,009	618	627	3,879	2,100	119	15,890
Other	–	–	1	759	1,213	150	42	56,460	2,698	61,323
Total Australia	3,921	3,084	4,950	2,125	1,831	782	4,283	58,626	2,817	82,419
Asia Pacific										
Governments	–	–	1,191	7	398	28	235	3	–	1,862
Financial institutions	1,414	5,054	377	296	1,325	105	450	220	5	9,246
Other	–	–	48	385	1,184	152	13	1,015	359	3,156
Total Asia Pacific	1,414	5,054	1,616	688	2,907	285	698	1,238	364	14,264
Europe, Middle East and Africa										
Governments	–	–	130	2	61	75	2	16	13	299
Financial institutions	1,242	13,396	32	3,160	4,574	100	224	594	225	23,547
Other	–	–	68	1,311	2,000	238	101	5,605	3,845	13,168
Total Europe, Middle East and Africa	1,242	13,396	230	4,473	6,635	413	327	6,215	4,083	37,014
Americas										
Governments	–	–	865	155	25	7	–	82	6	1,140
Financial institutions	3,145	7,303	38	2,436	3,168	225	458	1,713	1,125	19,611
Other	–	–	308	3,060	3,632	807	114	5,635	3,203	16,759
Total Americas	3,145	7,303	1,211	5,651	6,825	1,039	572	7,430	4,334	37,510
Total gross credit risk	9,722	28,837	8,007	12,937	18,198	2,519	5,880	73,509	11,598	171,207

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

(2) This balance excludes other non-financial assets of \$4,893 million and Life Investment Linked contracts and other unitholder assets of \$647 million which are included in Note 10 *Held for sale and other assets*.

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

Maximum exposure to credit risk

	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
COMPANY 2018			
Australia			
Financial institutions	3,430	–	3,430
Other	13,783	388	14,171
Total Australia	17,213	388	17,601
Asia Pacific			
Other	23	430	453
Total Asia Pacific	23	430	453
Europe, Middle East and Africa			
Financial institutions	–	38	38
Other	3	497	500
Total Europe, Middle East and Africa	3	535	538
Americas			
Other	30	2,236	2,266
Total Americas	30	2,236	2,266
Total gross credit risk	17,269	3,589	20,858

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 35

Financial risk management continued

Note 35.1 Credit risk continued

Collateral and credit enhancements held

Cash collateral on securities borrowed and reverse repurchase agreements

The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. 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.

The fair value of collateral held not recognised in the statement of financial positions as at 31 March 2019 is \$29,502 million (2018: \$28,671 million). The Consolidated Entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is \$7,448 million (2018: \$11,750 million).

Loan assets

Mortgage loans

Mortgages are secured by fixed charges over a borrower's property. Prior to April 2017 the Consolidated Entity obtained LMI from an investment grade counterparty, to cover a substantial portion of the mortgage portfolio against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Since April 2017, the Consolidated Entity has purchased risk protection from a panel of investment grade counterparties via an excess of loss structure.

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.

	2019			2018		
	Australia \$m	EMEA \$m	Total \$m	Australia \$m	EMEA \$m	Total \$m
Fully collateralised						CONSOLIDATED
Loan to value ratio						
<=25%	1,440	12	1,452	1,255	11	1,266
>25% to 50%	7,683	119	7,802	5,942	125	6,067
>50% to 70%	15,655	420	16,075	11,730	461	12,191
>70% to 80%	13,194	297	13,491	12,190	315	12,505
>80% to 90%	3,457	54	3,511	3,961	75	4,036
>90% to 100%	574	11	585	804	19	823
Partly collateralised	73	7	80	40	6	46
Total mortgages	42,076	920	42,996	35,922	1,012	36,934

Note 35

Financial risk management continued

Note 35.1 Credit risk 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. Of the asset finance portfolio of \$18,423 million (2018: \$19,266 million), the credit exposure after considering the depreciated value of collateral is \$8,195 million (2018: \$8,570 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. Of the term lending of \$15,097 million (2018: \$15,435 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$3,295 million (2018: \$3,678 million).

Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral or holds security by way of a registered pledge over the underlying investment. Of the investment lending portfolio of \$1,958 million (2018: \$2,167 million), \$1,958 million (2018: \$2,167 million) is fully collateralised.

Additional collateral

The Consolidated Entity also holds other types of collateral, such as unsupported guarantees. While such mitigants have value as a credit risk mitigant, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

The loan balance includes \$10,753 million (2018: \$11,560 million) which has been securitised by consolidated SPEs.

Derivative instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over the Counter (OTC) derivatives. The Consolidated Entity's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

Exchange traded and OTC cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house except for the cases where it is trading through another clearing house member. The clearing house is responsible for managing the risk associated with the process on behalf of their members and providing a high level of confidence that adequate resources exist 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 of the underlying derivatives. 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 2019 of \$822 million (2018: \$669 million).

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

As at 31 March 2019, the Consolidated Entity held OTC contracts with a positive replacement value of \$13,635 million (2018: \$12,268 million). The credit risk of these contracts has been reduced due to master netting agreements covering negative OTC contracts of \$7,496 million (2018: \$6,697 million) and margins held (excluding the impact of over-collateralisation) of \$2,121 million (2018: \$1,400 million).

Financial investments

This classification mainly includes debt securities held by the Consolidated Entity primarily in the nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities for liquidity management purposes and other securities for short-term gains.

The Consolidated Entity utilises Credit Default Swaps (CDS), guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to this credit risk.

Margin money and settlement assets

Security settlements of \$7,330 million (2018: \$7,232 million) included in margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). These assets are collateralised with the underlying equity securities or cash held by the Consolidated Entity until the date of settlement.

Credit commitments

Undrawn facilities and lending commitments of \$4,700 million (2018: \$6,178 million) are secured through collateral and credit enhancement out of the total undrawn facilities and lending commitments of \$10,518 million (2018: \$10,510 million).

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 35

Financial risk management continued

Note 35.2 Liquidity risk

Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

Liquidity policy and risk appetite

The *MGL and MBL Liquidity Policy* is designed so that each of Macquarie, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due. MGL provides funding predominantly to the Non-Bank Group. As such, the *MGL and MBL Liquidity Policy* outlines the liquidity requirements for the Non-Bank Group. Macquarie's liquidity risk appetite is intended to ensure that Macquarie is able to meet all of its liquidity obligations during a period of liquidity stress being: a twelve month period with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie's franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MBL is an Authorised deposit taking institution and is funded mainly with capital, long-term liabilities and deposits.

Liquidity contingency plan

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

Specifically, the plan details:

- factors that may constitute a crisis
- the officer responsible for enacting the contingency management
- a committee of senior executives responsible for managing a crisis
- the information required to effectively manage a crisis;
- a communications strategy
- a high level checklist of possible actions to conserve or raise additional liquidity
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

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

The *Liquidity Contingency Plan* is subject to regular review by both Group Treasury and RMG. It is submitted to the ALCO and MGL and MBL Boards for approval.

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the *Liquidity Contingency Plan* contains a supplement providing the specific information required for those branches or subsidiaries.

Funding strategy

Macquarie prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth.

The *Funding Strategy* is reviewed by the ALCO and approved by the respective Boards.

Scenario analysis

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

A range of assumptions Macquarie intends to be conservative are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie name-specific crisis over a twelve month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade items of Macquarie's liquidity risk management. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets which are intended 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.

Note 35

Financial risk management continued

Note 35.2 Liquidity risk continued

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 are held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for Macquarie as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

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 basis and hence would vary from the carrying value as at the balance sheet date. 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 since the deposits are reported at their contractual maturity – the table does not reflect the behaviour expected cash flows indicated by the Consolidated Entity's deposit retention history.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 35

Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
CONSOLIDATED 2019							
Cash collateral on securities lent and repurchase agreements	4,838	1,840	2,552	37	–	411	4,840
Trading liabilities ⁽¹⁾	8,108	–	8,108	–	–	–	8,108
Margin money and settlement liabilities	22,576	12,733	9,843	–	–	–	22,576
Derivative liabilities (trading) ⁽¹⁾	12,167	–	12,167	–	–	–	12,167
Derivative liabilities (hedging relationship) ⁽²⁾	499	–	–	–	–	–	–
Contractual amounts payable	–	–	896	768	1,162	265	3,091
Contractual amounts receivable	–	–	(785)	(646)	(832)	(210)	(2,473)
Deposits	56,191	44,299	7,500	4,231	248	3	56,281
Held for sale and other liabilities ^{(3),(4)}	7,439	377	1,855	317	2,802	2,159	7,510
Bank borrowings	9,318	889	326	400	5,859	2,956	10,430
Debt issued ⁽⁵⁾	50,188	–	8,564	11,536	19,358	18,810	58,268
Loan capital ⁽⁶⁾	6,963	–	151	802	3,406	4,423	8,782
Total	178,287	60,138	51,177	17,445	32,003	28,817	189,580
Contingent liabilities	–	–	2,058	–	–	–	2,058
Commitments	–	4,925	2,805	567	4,520	1,173	13,990
Total undiscounted contingent liabilities and commitments⁽⁷⁾	–	4,925	4,863	567	4,520	1,173	16,048

- (1) Derivative liabilities (other than those designated in a hedging relationship) and trading liabilities are included in the 0 to 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.
- (2) 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 and for the disclosures requirement.
- (3) Excludes non-contractual accruals and provisions.
- (4) Includes liabilities of \$5,042 million which relate to the Consolidated Entity's interest in MAF that was classified as held for sale and disclosed based on contractual maturity.
- (5) Includes \$9,617 million payables to SPE note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets.
- (6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer Note 24 *Loan capital*.
- (7) 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' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35

Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
CONSOLIDATED 2018							
Cash collateral on securities lent and repurchase agreements	5,383	1,737	3,013	224	–	412	5,385
Trading liabilities ⁽¹⁾	8,061	–	8,061	–	–	–	8,061
Margin money and settlement liabilities	20,878	12,066	8,812	–	–	–	20,878
Derivative liabilities (trading) ⁽¹⁾	11,326	–	11,326	–	–	–	11,326
Derivative liabilities (hedging relationship) ⁽²⁾	599	–	–	–	–	–	–
Contractual amounts payable	–	–	1,133	1,430	1,147	140	3,850
Contractual amounts receivable	–	–	(1,014)	(1,263)	(858)	(18)	(3,153)
Deposits	48,395	41,132	4,188	2,715	366	48	48,449
Held for sale and other liabilities ⁽³⁾	1,828	653	1,080	92	3	–	1,828
Bank borrowings ⁽⁴⁾	9,007	1,744	793	387	5,320	1,342	9,586
Debt issued ⁽⁵⁾	55,927	–	7,756	11,495	23,705	21,856	64,811
Loan capital ⁽⁶⁾	5,392	–	748	307	3,557	2,301	6,913
Total	166,796	57,332	45,896	15,387	33,240	26,080	177,935
Contingent liabilities	–	–	1,539	–	–	–	1,539
Commitments	–	2,506	2,268	1,353	3,460	2,293	11,881
Total undiscounted contingent liabilities and commitments⁽⁷⁾	–	2,506	3,807	1,353	3,460	2,293	13,420

(1) Derivative Liabilities (other than those designated in a hedging relationship) and trading liabilities are included in the 0 to 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.

(2) 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.

(3) Excludes non-contractual accruals and provisions.

(4) Subsequent to 31 March 2018, as part of refinancing, contractual maturities for \$820 million primarily in the 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.

(5) Includes \$12,335 million payables to SPE note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets.

(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer Note 24 *Loan capital*.

(7) 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 2019 continued

Note 35

Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position Carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
COMPANY 2019							
Derivative liabilities (Trading) ⁽¹⁾	1	–	1	–	–	–	1
Deposits	49	–	–	–	54	–	54
Other liabilities ⁽²⁾	10	–	10	–	–	–	10
Bank borrowings	7,131	–	13	154	5,090	2,912	8,169
Due to subsidiaries	959	–	547	–	–	–	547
Debt issued	13,036	–	186	2,538	7,926	5,103	15,753
Loan capital ⁽³⁾	2,409	–	22	102	939	2,056	3,119
Total	23,595	–	779	2,794	14,009	10,071	27,653
Contingent liabilities		–	4,505	–	–	–	4,505
Commitments		–	34	154	1,766	–	1,954
Total undiscounted contingent liabilities and commitments⁽⁴⁾		–	4,539	154	1,766	–	6,459
COMPANY 2018							
Deposits	24	–	–	–	27	–	27
Bank borrowings	3,191	–	25	75	3,501	–	3,601
Due to subsidiaries ⁽²⁾	843	–	511	–	–	–	511
Debt issued at amortised cost	12,177	–	158	1,724	5,170	6,963	14,015
Loan capital ⁽³⁾	1,135	–	615	32	596	–	1,243
Total	17,370	–	1,309	1,831	9,294	6,963	19,397
Contingent liabilities		–	3,589	–	–	–	3,589
Total undiscounted contingent liabilities⁽⁴⁾		–	3,589	–	–	–	3,589

(1) Derivative liabilities are included in the 0 to 3 months' column at their fair value.

(2) Excludes items that are non-contractual accruals and provisions.

(3) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer Note 24 *Loan capital*.

(4) Cash flows on contingent liabilities are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35

Financial risk management continued

Note 35.3 Market risk

Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading positions as a result of changes in market conditions. The Consolidated Entity is exposed to the following risks:

- **Price:** The risk of loss due to changes in price of a risk factor (Interest rates, foreign exchange, commodities etc.)
- **Volatility:** The risk of loss due to changes in the volatility of a risk factor
- **Basis:** Risk of imperfect correlation between offsetting investments in a hedging strategy
- **Correlation:** Risk that the actual correlation between two assets or variables is different from the assumed correlation;
- **Illiquid market:** Risk of inability to sell assets or close out positions in thinly-traded markets at close to the last market prices
- **Concentration:** Risk of over concentration of trading exposures in certain markets and products
- **Valuation adjustments (XVA):** Risk of actual valuation adjustments to derivative positions; specifically Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA), Funding Valuation Adjustment (FVA) and Collateral Valuation Adjustment (CoVA).

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.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than that which 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.

Notes to the financial statements

For the financial year ended 31 March 2019 *continued*

Note 35

Financial risk management *continued*

Note 35.3 Market risk *continued*

Value-at-Risk figures (1-day, 99% confidence level)

The table below shows the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2019			2018		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
Equities	5.28	8.16	2.74	7.23	11.00	2.62
Interest rates	2.82	3.45	2.25	4.10	8.13	2.66
Foreign exchange and bullion	2.06	5.17	1.06	1.73	3.40	0.70
Commodities	25.13	54.32	14.33	8.79	13.94	3.40
Aggregate	24.89	52.56	14.34	11.75	15.18	7.94

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99% level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Non-traded market risk

The Consolidated Entity has exposure to non-traded market risks arising from transactions entered into during its normal course of business and as a result of its investments in foreign operations. These risks include:

- Interest rate: changes in the level, shape and volatility of yield curves, and/or client behaviour given these changes
- Foreign exchange: changes in the spot exchange rates.

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the Non-traded market risk 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 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.

Accounting considerations arising from hedging activities

The use of derivative and other financial 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 as set out in Note 1(xi) *Derivative instruments* and Note 34 *Hedge accounting*.

Note 35

Financial risk management continued

Note 35.3 Market risk continued

Foreign currency risk

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies as at 31 March. The Consolidated Entity is active in various currencies globally. Those with the most impact on the sensitivity analysis are United States dollar, Great British pound, Euro and Canadian dollar as shown below:

	2019		2018	
	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	(551)	+10	(486)
Great British pound	+10	(92)	+10	(102)
Euro	+10	(37)	+10	(38)
Canadian dollar	+10	(18)	+10	(17)
Total		(698)		(643)
United States dollar	-10	674	-10	594
Great British pound	-10	112	-10	125
Euro	-10	46	-10	46
Canadian dollar	-10	22	-10	21
Total		854		786

Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure as at 31 March on its non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic region	2019		2018		
	Movement in equity price %	Sensitivity of profit after tax \$m	Movement in equity price %	Sensitivity of profit after tax %	Sensitivity of equity after tax ⁽¹⁾ \$m
CONSOLIDATED					
Listed					
Australia	+10	3	+10	–	1
Americas	+10	14	+10	5	–
Europe, Middle East and Africa	+10	3	+10	–	2
Asia Pacific	+10	1	+10	–	–
Unlisted	+10	60	+10	25	33
Total		81		30	36
Listed					
Australia	-10	(3)	-10	–	(1)
Americas	-10	(14)	-10	(5)	–
Europe, Middle East and Africa	-10	(3)	-10	–	(2)
Asia Pacific	-10	(1)	-10	–	–
Unlisted	-10	(60)	-10	(25)	(33)
Total		(81)		(30)	(36)

(1) The effect on equity as at 31 March 2018 represents change in the fair value of equity instruments held as available for sale. On adoption of AASB 9 all equity financial investments have been categorised as financial investments at FVTPL and related sensitivity has been reported as part of profit after tax.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 36

Measurement categories of financial instruments

The following table contains information relating to the measurement categories of financial instruments under AASB 9 of the Consolidated Entity. The descriptions of measurement categories are included in Note 1(viii) *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 37 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS						FAIR VALUE OF FINANCIAL INSTRUMENTS AT		
	CARRIED AT FAIR VALUE				Amortised cost	Non-financial instruments	Total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
CONSOLIDATED 2019									
Assets									
Cash and bank balances	–	–	–	–	9,787	–	9,787	–	9,787
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	19,147	–	10,201	–	29,348	19,147	10,201
Trading assets	18,670	–	–	–	–	–	18,670	18,670	–
Margin money and settlement assets	–	–	3,747	–	15,364	–	19,111	3,747	15,364
Derivative assets ⁽¹⁾	14,457	–	–	–	–	–	14,457	14,457	–
Financial investments									
Equity	–	–	1,311	–	–	–	1,311	1,311	–
Debt ⁽³⁾	–	–	633	5,217	–	–	5,850	5,850	–
Held for sale and other assets ⁽²⁾	–	80	439	68	2,704	10,901	14,192	587	2,704
Loan assets ⁽³⁾	–	190	374	568	77,342	–	78,474	1,132	77,607
Property, plant and equipment	–	–	–	–	–	4,701	4,701	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	3,688	3,688	–	–
Loans to associates and joint ventures	–	–	35	173	323	–	531	208	323
Intangible assets	–	–	–	–	–	2,031	2,031	–	–
Deferred tax assets	–	–	–	–	–	1,031	1,031	–	–
Total assets	33,127	270	25,686	6,026	115,721	22,352	203,182	65,109	115,986
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,732	–	–	3,106	–	4,838	1,732	3,106
Trading liabilities	8,108	–	–	–	–	–	8,108	8,108	–
Margin money and settlement liabilities	–	–	–	–	22,576	–	22,576	–	22,576
Derivative liabilities ⁽¹⁾	12,666	–	–	–	–	–	12,666	12,666	–
Deposits	–	–	–	–	56,191	–	56,191	–	56,247
Held for sale and other liabilities ⁽⁴⁾	–	565	–	–	6,874	6,106	13,545	565	6,874
Bank borrowings	–	–	–	–	9,318	–	9,318	–	9,353
Debt issued ⁽³⁾	–	2,405	–	–	47,783	–	50,188	2,405	48,094
Deferred tax liabilities	–	–	–	–	–	425	425	–	–
Loan capital ⁽³⁾	–	–	–	–	6,963	–	6,963	–	7,094
Total liabilities	20,774	4,702	–	–	152,811	6,531	184,818	25,476	153,344

(1) All derivatives, including those held for hedging purposes, are classified as HFT.

(2) Non-financial assets primarily represents non-financial assets of disposal groups and equity interests in associates that have been classified as held for sale and prepayments.

(3) Items measured at amortised cost or FVOCI includes, where applicable, hedge accounting adjustments for the designated hedged risks.

(4) Non-financial liabilities primarily represents non-financial liabilities of disposal groups classified as held for sale, retained director profit share, aircraft and rail maintenance liabilities and income tax payable.

Note 36

Measurement categories of financial instruments continued

The following table summarises the categories of financial instruments under AASB 139 as at 31 March 2018:

	FINANCIAL INSTRUMENTS						FAIR VALUE OF FINANCIAL INSTRUMENTS AT		
	CARRIED AT FAIR VALUE						Total	Fair value	Amortised cost
	HFT \$m	DFVTPL \$m	FVTPL \$m	Available for sale \$m	Loans and receivables/ amortised cost \$m	Non-financial instruments \$m			
CONSOLIDATED 2018									
Assets									
Cash and bank balances	–	–	–	–	9,722	–	9,722	–	9,722
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	–	–	28,837	–	28,837	–	28,837
Trading assets	15,341	–	–	–	–	–	15,341	15,341	–
Margin money and settlement assets	–	–	–	–	18,198	–	18,198	–	18,198
Derivative assets ⁽¹⁾	12,937	–	–	–	–	–	12,937	12,937	–
Financial investments									–
Equity	–	762	–	518	–	–	1,280	1,280	–
Debt ⁽³⁾	–	232	–	5,648	–	–	5,880	5,880	–
Held for sale and other assets ⁽²⁾	–	143	647	–	2,814	4,893	8,497	790	2,814
Loan assets ⁽²⁾	–	297	244	–	72,968	–	73,509	541	73,256
Property, plant and equipment	–	–	–	–	–	11,426	11,426	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	3,641	3,641	–	–
Loans to associates and joint ventures	–	–	–	–	414	–	414	–	419
Intangible assets	–	–	–	–	–	993	993	–	–
Deferred tax assets	–	–	–	–	–	650	650	–	–
Total assets	28,278	1,434	891	6,166	132,953	21,603	191,325	36,769	133,246
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	–	–	–	5,383	–	5,383	–	5,383
Trading liabilities	8,061	–	–	–	–	–	8,061	8,061	–
Margin money and settlement liabilities	–	–	–	–	20,878	–	20,878	–	20,878
Derivative liabilities ⁽¹⁾	11,925	–	–	–	–	–	11,925	11,925	–
Deposits	–	–	–	–	48,395	–	48,395	–	48,412
Held for sale and other liabilities ⁽⁴⁾	–	793	–	–	1,036	5,599	7,428	793	1,036
Bank borrowings	–	–	–	–	9,007	–	9,007	–	9,052
Debt issued ⁽³⁾	–	2,210	–	–	53,717	–	55,927	2,210	54,157
Deferred tax liabilities	–	–	–	–	–	749	749	–	–
Loan capital ⁽³⁾	–	–	–	–	5,392	–	5,392	–	5,593
Total liabilities	19,986	3,003	–	–	143,808	6,348	173,145	22,989	144,511

(1) All derivatives, including those held for hedging purposes, are classified as HFT.

(2) Non-financial assets primarily represents non-financial assets of disposal groups and equity interests in associates that have been classified as held for sale and prepayments.

(3) Items measured at amortised cost or FVOCI includes, where applicable, hedge accounting adjustments for the designated hedged risks.

(4) Non-financial liabilities primarily represents aircraft and rail maintenance liabilities, tax payable and employee related provisions.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 36

Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories of financial instruments under AASB 9 of the Company:

	FINANCIAL INSTRUMENTS						FAIR VALUE OF FINANCIAL INSTRUMENTS AT		
	CARRIED AT FAIR VALUE					Non-financial instruments	Total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost				
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
COMPANY 2019									
Assets									
Other assets ⁽¹⁾	–	–	–	–	7	34	41	–	7
Due from subsidiaries	–	–	1,102	–	22,277	–	23,379	1,102	22,277
Investments in subsidiaries	–	–	–	–	–	28,965	28,965	–	–
Deferred tax assets	–	–	–	–	–	8	8	–	–
Total assets	–	–	1,102	–	22,284	29,007	52,393	1,102	22,284
Liabilities									
Derivative liabilities ⁽²⁾	1	–	–	–	–	–	1	1	–
Deposits	–	–	–	–	49	–	49	–	49
Other liabilities ⁽³⁾	–	–	–	–	10	376	386	–	9
Bank borrowings	–	–	–	–	7,131	–	7,131	–	7,150
Due to subsidiaries	–	–	–	–	959	–	959	–	959
Debt issued	–	30	–	–	13,006	–	13,036	30	13,187
Loan capital	–	–	–	–	2,409	–	2,409	–	2,510
Total liabilities	1	30	–	–	23,564	376	23,971	31	23,864

(1) Non-financial assets primarily represents tax receivables.

(2) All derivatives, including those held for hedging purposes, are classified as HFT.

(3) Non-financial liabilities primarily represents provisions for tax payable and MEREP offered to employees.

Note 36

Measurement categories of financial instruments continued

The following table summarises the categories of financial instruments under AASB 139 as at 31 March 2018 of the Company:

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE						FAIR VALUE OF FINANCIAL INSTRUMENTS AT		
	HFT \$m	DFVTPL \$m	FVTPL \$m	Available for sale \$m	Loans and receivables/ amortised cost \$m	Non-financial instruments \$m	Total \$m	Fair value \$m	Amortised cost \$m
COMPANY 2018									
Assets									
Other assets ⁽¹⁾	–	–	–	–	–	12	12	–	–
Due from subsidiaries	–	–	–	–	17,269	–	17,269	–	17,269
Investment in subsidiaries	–	–	–	–	–	25,347	25,347	–	–
Deferred tax assets	–	–	–	–	–	19	19	–	–
Total assets	–	–	–	–	17,269	25,378	42,647	–	17,269
Liabilities									
Derivative liabilities ⁽²⁾	1	–	–	–	–	–	1	1	–
Deposits	–	–	–	–	24	–	24	–	24
Other liabilities ⁽³⁾	–	–	–	–	–	196	196	–	–
Bank borrowings	–	–	–	–	3,191	–	3,191	–	3,191
Due to subsidiaries	–	–	–	–	843	–	843	–	843
Debt issued	–	–	–	–	12,177	–	12,177	–	12,177
Loan capital	–	–	–	–	1,135	–	1,135	–	1,135
Total liabilities	1	–	–	–	17,370	196	17,567	1	17,370

(1) Non-financial assets primarily represents prepayments and tax receivables.

(2) All derivatives, including those held for hedging purposes, are classified as HFT.

(3) Non-financial liabilities primarily represents provisions for tax payables and MEREP related liabilities.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

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 at the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair Value Measurement* requires use of the price within the bid-offer spread that is most representative of fair value.

Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on securities borrowed/cash collateral on securities lent and repurchase agreements over commodities approximates their carrying amounts. Fair values of all loan assets and debt liabilities carried at amortised cost, is determined with reference to changes in credit markets as well as interest rates

- the fair value of fixed rate loan assets and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower
- the fair value of debt issued, and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are measured at fair value:

- trading portfolio assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices where 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
- repurchase and reverse repurchase agreements being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing
- financial investments at FVOCI and FVTPL are measured at fair value by reference to active quoted market prices where 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. For FVOCI assets, unrealised gains and losses, excluding impairment write-downs on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans classified as at FVTPL and FVOCI and issued debt classified as DFVTPL 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
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

Note 37

Fair value of financial assets and financial liabilities continued

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

To the extent possible, models use only observable market data (for example for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument such as volatility and correlation.

The fair values calculated for financial instruments which are carried on the statement of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described earlier, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

Notes to the financial statements

For the financial year ended 31 March 2019 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
CONSOLIDATED 2019				
Assets				
Cash and bank balances	9,787	–	–	9,787
Cash collateral on securities borrowed and reverse repurchase agreements	–	10,201	–	10,201
Margin money and settlement assets	5,611	9,753	–	15,364
Held for sale and other assets	–	2,704	–	2,704
Loan assets	–	5,993	71,614	77,607
Interests in associates and joint ventures – loans	–	–	323	323
Total assets	15,398	28,651	71,937	115,986
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	3,106	–	3,106
Margin money and settlement liabilities	14,411	8,165	–	22,576
Deposits	42,910	13,337	–	56,247
Held for sale and other liabilities	–	1,365	5,509	6,874
Bank borrowings	625	8,322	406	9,353
Debt issued	–	43,098	4,996	48,094
Loan capital	2,944	4,150	–	7,094
Total liabilities	60,890	81,543	10,911	153,344
CONSOLIDATED 2018				
Assets				
Cash and bank balances	9,722	–	–	9,722
Cash collateral on securities borrowed and reverse repurchase agreements	–	28,837	–	28,837
Margin money and settlement assets	8,182	10,016	–	18,198
Held for sale and other assets	–	2,814	–	2,814
Loan assets	–	8,330	64,926	73,256
Interests in associates and joint ventures – loans	–	–	419	419
Total assets	17,904	49,997	65,345	133,246
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	5,383	–	5,383
Margin money and settlement liabilities	12,067	8,811	–	20,878
Deposits	40,616	7,796	–	48,412
Held for sale and other liabilities	–	1,036	–	1,036
Bank borrowings	1,056	5,726	2,270	9,052
Debt issued	–	49,218	4,939	54,157
Loan capital	1,595	3,998	–	5,593
Total liabilities	55,334	81,968	7,209	144,511

The financial assets and liabilities held at amortised cost in the Company as at 31 March 2019 and 31 March 2018 are predominantly classified as Level 2 in the fair value hierarchy except for 'Loan Capital' which is classified as Level 1.

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 2019				
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	19,147	–	19,147
Trading assets	13,045	5,400	225	18,670
Margin money and settlement assets	1,547	2,200	–	3,747
Derivative assets	248	13,638	571	14,457
Financial investments	3,515	2,144	1,502	7,161
Held for sale and other assets	9	481	97	587
Loan assets	–	511	621	1,132
Interests in associates and joint ventures – loans	–	–	208	208
Total assets	18,364	43,521	3,224	65,109
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	1,732	–	1,732
Trading liabilities	6,790	1,318	–	8,108
Derivative liabilities	329	12,004	333	12,666
Held for sale and other liabilities	41	524	–	565
Debt issued	–	2,405	–	2,405
Total liabilities	7,160	17,983	333	25,476
CONSOLIDATED 2018				
Assets				
Trading assets	10,079	5,049	213	15,341
Derivative assets	460	11,827	650	12,937
Financial investments	4,136	1,985	1,039	7,160
Held for sale and other assets	30	759	1	790
Loan assets	–	297	244	541
Total assets	14,705	19,917	2,147	36,769
Liabilities				
Trading liabilities	6,409	1,652	–	8,061
Derivative liabilities	633	10,943	349	11,925
Held for sale and other liabilities	–	792	1	793
Debt issued	–	2,204	6	2,210
Total liabilities	7,042	15,591	356	22,989

The Company does not hold financial instruments measured at fair value except for a subordinated loan \$1,102 million provided to its subsidiary which is a Level 3 asset. There are no movements in the loan balance during the year.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 37

Fair value of financial assets and financial liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table summarises the movements in Level 3 of the fair value hierarchy for the financial instruments measured at fair value for the Consolidated Entity:

	Trading assets \$m	Financial investment \$m	Held for sale and other assets \$m
Balance as at 1 Apr 17	353	1,324	7
Purchase, originations, issuances and other additions	104	286	–
Sales, settlements and repayments	(323)	(380)	(6)
Transfers into Level 3 ⁽³⁾	83	60	–
Transfers out of Level 3 ⁽³⁾	(4)	(150)	–
Fair value movements recognised in the income statement ⁽¹⁾	–	47	–
Fair value movements recognised in OCI ⁽¹⁾	–	(148)	–
Balance as at 31 Mar 18	213	1,039	1
Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽¹⁾	1	4	–
Balance as at 1 Apr 18	213	1,039	1
Change on initial application of AASB 9	–	–	172
Restated balance as at 1 Apr 18	213	1,039	173
Purchase, originations, issuances and other additions	84	661	83
Sales, settlements and repayments	(63)	(358)	(237)
Transfers into Level 3 ⁽³⁾	13	121	–
Transfers out of Level 3 ⁽³⁾	(14)	(51)	–
Fair value movements recognised in the income statement ⁽¹⁾	(8)	162	78
Fair value movements recognised in OCI ⁽¹⁾	–	(72)	–
Balance as at 31 Mar 19	225	1,502	97
Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽¹⁾	6	47	1

(1) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses of assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$571 million (2018: \$650 million) and derivative liabilities are \$333 million (2018: \$349 million).

(3) Assets and liabilities transferred in or out of Level 3 are presented as if those had been transferred at the beginning of the year.

Loan assets \$m	Interest in associates and joint Interest in associates and joint ventures – loans \$m	Held for sale and other liabilities \$m	Debt issued \$m	Derivative financial instruments (net replacement values) ⁽²⁾ \$m	Total \$m
CONSOLIDATED 2018					
61	–	(7)	(57)	146	1,827
247	–	–	–	180	817
(59)	–	6	46	(70)	(786)
–	–	–	–	6	149
–	–	–	–	(3)	(157)
(5)	–	–	5	42	89
–	–	–	–	–	(148)
244	–	(1)	(6)	301	1,791
(3)	–	–	–	(18)	(16)
CONSOLIDATED 2019					
244	–	(1)	(6)	301	1791
470	204	–	–	–	846
714	204	(1)	(6)	301	2,637
422	105	–	–	32	1,387
(486)	(50)	1	6	(75)	(1,262)
–	–	–	–	10	144
–	(36)	–	–	12	(89)
(18)	20	–	–	(42)	192
(11)	(35)	–	–	–	(118)
621	208	–	–	238	2,891
6	10	–	–	(42)	28

Notes to the financial statements

For the financial year ended 31 March 2019 continued

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 did not have significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year. Financial asset reclassified out of fair value hierarchy due to recognition and measurement category changes or due to significant influence or control are also presented as transfer out of Level 3.

Unrecognised gain

For financial instruments measured at FVTPL, the best evidence of 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 financial instrument is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit is deferred and is recognised in the income statement over the life of the transaction or when the inputs become observable.

The table below summarises the deferral and recognition of profit where a valuation technique has been applied for which not all inputs are observable in the market:

	CONSOLIDATED	
	2019 \$m	2018 \$m
Balance at the beginning of the financial year	178	185
Deferral on new transactions	71	47
Amounts recognised in the income statements during the financial year	(64)	(54)
Balance at the end of the financial year	185	178

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions, for Level 3 financial instruments whose fair values are determined in whole or in part using unobservable inputs, valuation techniques such as discounted cash flows based on assumptions by reference to historical company and industry experience.

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	OCI \$m	Profit or loss \$m	OCI \$m
CONSOLIDATED 2019				
Product type				
Equity and equity linked products	68	–	(71)	–
Commodities	107	–	(114)	–
Interest rate and other products	24	54	(24)	(54)
Total	199	54	(209)	(54)
CONSOLIDATED 2018				
Product type				
Equity and equity linked products	13	58	(13)	(55)
Commodities	57	–	(61)	–
Interest rate and other products	31	5	(31)	(5)
Total	101	63	(105)	(60)

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	
	Assets	Liabilities	Valuation technique(s)	Significant unobservable inputs	Minimum value	Maximum value
	\$m	\$m	\$m	\$m	\$m	\$m
CONSOLIDATED 2019						
Equity and equity linked products	728	2	Discounted cash flows	Discount rate	5.0%	11.0%
			Pricing model	Earnings multiple	1x	16x
			Market comparability	Price in % ⁽¹⁾		
Commodities	629	328	Pricing model	Volatility	0.0%	176.4%
Interest rate and other products	1,867	3	Discounted cash flows	Discount rate ⁽²⁾		
			Pricing model	Correlation	0%	100.0%
			Market comparability	Price in % ⁽¹⁾		
Total	3,224	333				
CONSOLIDATED 2018						
Equity and equity linked products	651	32	Discounted cash flows	Discount rate	5.0%	11.0%
			Pricing model	Earnings multiple	2.0x	13.9x
			Market comparability	Price in % ⁽¹⁾		
Commodities	635	322	Pricing model	Volatility	5.0%	178.3%
Interest rate and other products	861	2	Discounted cash flows	Discount rate ⁽²⁾	4.0%	10.0%
			Pricing model	Correlation	0.0%	100.0%
			Market comparability	Price in % ⁽¹⁾		
Total	2,147	356				

(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.

(2) The range of inputs relating to discounted cash flows is not disclosed as the diverse nature of the underlying products 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 rates and forecast earnings of the investee entities.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 38

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the statement of financial position when they meet the criteria described in Note 1(viii) *Financial instruments*. The following tables provide information on the impact of offsetting that has occurred in the statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity and Company's financial position in that circumstance is to settle as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity. Refer to Note 35.1 *Credit risk* for information on credit risk management.

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							Statement of financial position Total \$m
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET ⁽¹⁾				
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments ⁽²⁾ \$m	Cash and other financial collateral ⁽³⁾ \$m	Net amount \$m	Amount not subject to enforceable netting arrangements \$m	
CONSOLIDATED 2019								
Cash collateral on securities borrowed and reverse repurchase agreements	28,279	(682)	27,597	(585)	(26,810)	202	1,751	29,348
Margin money and settlement assets	6,206	(4,332)	1,874	(15)	–	1,859	17,237	19,111
Derivative assets	21,031	(7,365)	13,666	(7,496)	(2,943)	3,227	791	14,457
Total assets	55,516	(12,379)	43,137	(8,096)	(29,753)	5,288	19,779	62,916
Cash collateral on securities lent and repurchase agreements	(5,079)	682	(4,397)	585	3,665	(147)	(441)	(4,838)
Margin money and settlement liabilities	(6,008)	4,332	(1,676)	15	–	(1,661)	(20,900)	(22,576)
Derivative liabilities	(20,008)	7,365	(12,643)	7,496	1,636	(3,511)	(23)	(12,666)
Total liabilities	(31,095)	12,379	(18,716)	8,096	5,301	(5,319)	(21,364)	(40,080)

(1) 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.

(2) Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

Note 38

Offsetting financial assets and financial liabilities continued

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS						Amount not subject to enforceable netting arrangements \$m	Statement of financial position Total \$m
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET ⁽¹⁾				
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments ⁽²⁾ \$m	Cash and other financial collateral ⁽³⁾ \$m	Net amount \$m		
CONSOLIDATED 2018								
Cash collateral on securities borrowed and reverse repurchase agreements	29,062	(1,099)	27,963	(1,664)	(25,772)	527	874	28,837
Margin money and settlement assets	5,522	(3,601)	1,921	(17)	–	1,904	16,277	18,198
Derivative assets	18,103	(6,146)	11,957	(6,697)	(2,069)	3,191	980	12,937
Total assets	52,687	(10,846)	41,842	(8,378)	(27,841)	5,623	18,131	59,972
Cash collateral on securities lent and repurchase agreements	(6,464)	1,099	(5,365)	1,664	3,382	(319)	(18)	(5,383)
Margin money and settlement liabilities	(5,231)	3,601	(1,631)	17	–	(1,613)	(19,247)	(20,878)
Derivative liabilities	(17,348)	6,146	(11,202)	6,697	2,191	(2,314)	(723)	(11,925)
Total liabilities	(29,043)	10,846	(18,198)	8,378	5,573	(4,246)	(19,988)	(38,186)

(1) 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.

(2) Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

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 AMOUNT NOT OFFSET			Amount not subject to enforceable netting arrangement \$m	Statement of financial position Total \$m
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments \$m	Cash and other financial collateral \$m	Net amount \$m		
COMPANY 2019								
Due from subsidiaries	32,013	(8,685)	23,328	–	–	23,328	51	23,379
Due to subsidiaries	(9,575)	8,685	(890)	–	–	(890)	(69)	(959)
COMPANY 2018								
Due from subsidiaries	20,116	(2,875)	17,241	–	–	17,241	28	17,269
Due to subsidiaries	(3,687)	2,875	(812)	–	–	(812)	(31)	(843)

Intercompany balances with subsidiaries are presented on net basis in the statement of financial position where subsidiaries have signed master netting agreements. In cases where the subsidiary is not a party to the master netting agreement, related balances are presented on gross basis.

Note 39

Pledged assets and transfers of financial assets

Pledged assets

Assets pledged as security for liabilities include the following:

- securities included under trading assets provided as collateral for repurchase transactions, stock lending arrangements and arrangements relating to trading liabilities. These transactions are governed by standard industry agreements
- loan assets held by the Consolidated SPEs provided as collateral against debt issued
- property, plant and equipment, intangible assets, loan assets, financial investments, other assets and cash and bank balance provided as collateral for bank borrowings.

The table below represents assets presented within the statement of financial position that have been pledged as security for liabilities:

	CONSOLIDATED	
	2019 \$m	2018 \$m
Cash and bank balances	43	133
Trading assets ⁽¹⁾	1,537	2,837
Financial investments	188	522
Held for sale and other assets ⁽²⁾	6,359	510
Loan assets	11,200	12,332
Property, plant and equipment	155	2,815
Intangible assets	156	–
Total pledged assets ⁽³⁾	19,638	19,149

(1) For trading securities, the transferee has the right to sell or re-pledge the entire value of securities received.

(2) Includes \$6,061 million relating to Macquarie Air Finance (MAF) classified as held for sale.

(3) The fair value of collateral held not recognised in the statement of financial position as at 31 March 2019 is \$29,502 million (2018: \$28,671 million). The Consolidated Entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is \$7,448 million (2018: \$11,750 million).

Transfer 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(viii) *Financial instruments*, the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of its continuing involvement.

Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. For the years ending 31 March 2019 and 31 March 2018, there were no material transfers of financial assets where the Consolidated Entity or Company retained a continuing involvement in the transferred asset.

Transferred financial assets that are not derecognised

The Consolidated Entity did not derecognise any financial assets only to the extent of continuing involvement in the years ending 31 March 2019 and 31 March 2018. The following transactions typically result in the transferred assets continuing to be recognised in full.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold by the transferee, however the assets may be substituted if the required collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold by the transferee.

Other transfers

Includes loans and leases sold or lent to an external funder but the Consolidated Entity still has full economic exposure to them. In such instances the Consolidated Entity has an obligation to receive cash from fee lease and pay them to the external funder.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 39

Pledged assets and 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	Fair value \$m
CONSOLIDATED 2019					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	1,407	(1,385)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Trading assets	130	(130)	–	–	–
Financial investments	188	(178)	–	–	–
Other financial assets not derecognised:					
Loan assets	447	(460)	455	(463)	(7)
Total financial assets not derecognised	2,172	(2,153)	455	(463)	(7)
CONSOLIDATED 2018					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	2,690	(2,654)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	517	(485)	–	–	–
Other financial assets not derecognised:					
Loan assets	749	(762)	756	(768)	(12)
Total financial assets not derecognised	3,956	(3,901)	756	(768)	(12)

There were no material transfers of financial assets for the Company where the financial assets are not derecognised as at 31 March 2019 and 31 March 2018.

Note 40

Audit and other services provided by PricewaterhouseCoopers

During the financial year PricewaterhouseCoopers (PwC) and its network firms, the auditor of the Consolidated Entity and the Company, earned the following remuneration:

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
PwC – Australia		
Audit of the Group and controlled entities	16,045	13,283
Other assurance services ⁽¹⁾	3,481	5,548
Advisory services	270	483
Taxation	411	241
Total non-audit services	4,162	6,272
Total remuneration paid to PwC Australia	20,207	19,555
Network firms of PwC Australia		
Audit of the Group and controlled entities	12,855	12,260
Other assurance services ⁽¹⁾	1,281	1,190
Advisory services	220	668
Taxation	3,738	1,699
Total non-audit services	5,239	3,557
Total remuneration paid to network firms of PwC Australia	18,094	15,817
Total Audit Services remuneration paid to PwC	28,900	25,543
Total Non-Audit Services remuneration paid to PwC	9,401	9,829
Total remuneration paid to PwC (Note 2)	38,301	35,372

(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 Consolidated Entity's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects and all non-audit services provided by PwC have been approved in accordance with its *Auditor Independence Policy*.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

Note 41

Acquisitions and disposals of subsidiaries and businesses

Significant acquisition of entities or businesses:

There were no individually significant entities or businesses consolidated due to acquisition of control during the current financial year.

Other entities or businesses acquired:

Value Invest Asset Management S.A., KGG Partners GmbH, GLL Real Estate Partners GmbH, Nuix Pty Limited, Ringtail, Conergy Asia Pte Ltd and its subsidiaries, American Alpha Master Fund, Savion LLC, Macquarie Emerging Markets Small Cap Fund.

The impact of the acquisitions on the Consolidated Entity's revenue and earnings is immaterial.

The purchase price allocation for the business combinations are provisional as at 31 March 2019.

During the financial year ended 31 March 2018, other entities or businesses acquired or consolidated due to acquisition of control were:

UK Green Investment Bank Plc, Cargill Inc's global oil trading business (Cargill Petroleum), Cargill Inc's North American natural gas and electricity business (Cargill North American Power and Gas), Acacia Renewables K.K., Hirasawa Power West GK, M-Icheon Company Limited, M-Daon Company Limited, M-Haman Company Limited, Achim Solar Co Ltd., Norte III Power S.A.P.I. de C.V, PropertyIQ Pty. Ltd, PropertyIQ Strata Pty. Ltd., ADL Software Pty Ltd.

Aggregate provisional details of the entities and businesses acquired are as follows:

	2019 \$m	2018 \$m
Fair value of net assets acquired		
Cash and bank balances	127	101
Other financial assets	52	250
Held for sale and other assets ⁽¹⁾	87	1,722
Interests in associates and joint ventures	7	24
Property, plant and equipment	4	36
Intangible assets	503	83
Payables, provisions, borrowings and other liabilities	(197)	(437)
Non-controlling interests	(103)	(1)
Total fair value of net assets acquired	480	1,778
Consideration		
Cash consideration (net of transaction costs)	639	1,856
Deferred consideration	74	1
Fair value of equity interest held before the acquisition date	303	2
Total consideration (net of transaction costs)⁽¹⁾	1,016	1,859
Goodwill recognised on acquisition	536	81
Net cash flow		
Cash consideration	(639)	(1,856)
Less: cash and cash equivalents acquired	127	101
Net cash outflow	(512)	(1,755)

(1) Includes assets classified as held for sale and other non-financial assets.

Note 41

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities or businesses disposal:

There were no individually significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

Other disposal of entities:

ADL Software Pty Limited, Cadent Gas Plc., Lal Lal Wind Farms Fin Co Pty Limited, M Acquisition Sponsor II LLC, M Acquisition Company II Corp, Parachute Investments Limited, Energetics, Fujin Power Ltd, Electrodes Holdings and its subsidiaries, Canadian Breaks Sponsor Co. LLC, UCITS Global Value Equity Fund, Macquarie Absolute Return Real Estate Fund.

During the financial year ended 31 March 2018, other entities or businesses disposed of or deconsolidated due to loss of control were:

Levantera Development Limited, New Zoom Inc, Reclean Holdings and its Subsidiaries, Chaptre Investments Limited, Chaptre Green Co Limited, EIH PPP Limited, Eriugena Investments Limited, Eriugena Holdings Limited, Eriugena Designated Activity Company, Haiding One International Investment Co. Ltd., Haiding Two International Investment Co. Ltd., Haiding Three International Investment Co. Ltd., Hirasawa Power West Godo Kaisha, Norte III Power, S.A.P.I. de C.V, Advantage Funding Management and its subsidiaries (Advantage business), Macquarie Financial Ltd.

Aggregate details of the entities or businesses disposed of are as follows:

	2019 \$m	2018 \$m
Carrying value of assets and liabilities		
Cash and bank balances	68	55
Other financial assets	13	1,003
Held for sale and other assets ⁽¹⁾	1,977	707
Property, plant and equipment	690	81
Interests in associates and joint ventures	151	–
Intangible assets	3	16
Payables, provisions, borrowings and other liabilities	(878)	(1,264)
Non-controlling interests	(1,175)	(2)
Total carrying value of net assets	849	596
Consideration		
Cash consideration (net of cost of disposal)	1,309	376
Consideration receivable	6	416
Fair value remeasurement of investment retained	92	218
Total consideration	1,407	1,010
Direct costs relating to disposal	(13)	(5)
Net cash flow		
Cash consideration	1,309	376
Less: cash and cash equivalents disposed of or deconsolidated	(68)	(55)
Net cash inflow	1,241	321

(1) Includes assets classified as held for sale and other non-financial assets.

Notes to the financial statements

For the financial year ended 31 March 2019 *continued*

Note 42

Events after the reporting date

On 30 April 2019, the Consolidated Entity entered into a sales agreement for 25% of Macquarie Air Finance (MAF) to a third-party investor. MAF, which is reported as part of the CAF operating segment, was classified as held for sale as at 31 March 2019. Following the disposal of the interest in MAF, the Consolidated Entity will account for its 75% retained interest as an equity-accounted joint venture on the basis of the Consolidated Entity exercising joint control. There was no material change in the Consolidated Entity's shareholders' equity as a result of the disposal.

Directors' declaration

Macquarie Group Limited

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 102 to 238 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 2019 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.

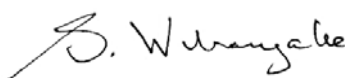
Note 1(i) includes a statement that the financial report complies with International Financial Reporting Standards.

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



Shemara Wikramanayake

Managing Director and Chief Executive Officer

Sydney
3 May 2019

Independent auditor's report

To the members of Macquarie Group Limited



Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Macquarie Group Limited (the Company) and its controlled entities (together the Consolidated Entity) is in accordance with the *Corporations Act 2001* (Cth), including:

- giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2019 and of their financial performance for the year then ended
- complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

What we have audited

The Consolidated Entity and Company financial report comprises:

- the Consolidated and Company statements of financial position as at 31 March 2019
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the Consolidated and Company income statements for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- 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 Company and 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 for the Consolidated Entity

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.

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.

The Consolidated Entity is structured into five 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 includes the five operating groups and the corporate segment.



Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of \$190 million, which represents approximately 5% of the Consolidated Entity's profit before tax.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Consolidated Entity profit before tax because, in our view, it is the benchmark against which the performance of the Consolidated Entity is most commonly measured.

We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Consolidated Entity audit scope

Our audit focused on where the Consolidated Entity 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 controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the five 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 procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn, instructed. As part of the overall supervision of our audit and to develop our understanding of the Consolidated Entity's global operations, the group audit team or the component audit teams also visited overseas locations, including Gurugram, Hong Kong, Houston, Jacksonville, London, Manila, New York and Singapore.

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. 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. We communicated the key audit matters to the Board Audit Committee. The key audit matters identified below relate to the audit of the Consolidated Entity, unless otherwise noted.

Key audit matter	How our audit addressed the key audit matter
<i>Provision for expected credit losses on loan assets held at amortised cost</i> Refer to Note 12	
The Consolidated Entity implemented AASB 9 on 1 April 2018. Under the AASB 9 credit 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 scenarios. In order to meet the ECL requirements of AASB 9, the Consolidated Entity has exercised judgement in developing ECL models and also in determining assumptions such as defining a significant increase in credit risk. The ECL models of the Consolidated Entity rely on numerous data inputs and certain post model adjustments are applied based on the Consolidated Entity's judgement. Loan assets held at amortised cost are classified as stage III under the ECL model where they are determined to be credit impaired. The ECL for credit impaired loan assets is measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate for that exposure. Given the extent of judgement involved, we considered this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the ECL including controls relating to: – review and approval of certain forward looking information used in the key models – the accuracy of certain critical data elements used in key ECL models, and – the review and challenge forums to assess the ECL output and post model adjustments. In addition to controls testing, we also performed substantive procedures including: – engaging PwC credit modelling experts to assess the reasonableness of the model monitoring performed for key models and to assess the reasonableness of the critical data elements identified by the Consolidated Entity – testing the completeness and accuracy of certain critical data elements used in key ECL models – testing the reasonableness of certain forward looking economic data selected by the Consolidated Entity, and – assessing certain post model adjustments identified by the Consolidated Entity. For credit impaired loan (stage III) provisions, we examined a sample of individual loan exposures to consider the reasonableness of provisions adopted. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.

Independent auditor's report

To the members of Macquarie Group Limited continued



Key audit matter	How our audit addressed the key audit matter
Valuation of financial assets and liabilities held at fair value Refer to Note 37 The Consolidated Entity exercises judgement in valuing certain financial 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. 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. Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over: – approval and validation of the models adopted – accuracy of data and inputs to models – the Consolidated Entity's process for testing valuations, and – governance and review. 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. 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 assumptions where appropriate. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.
Impairment of aviation assets Refer to Note 2 and 13 The Consolidated Entity holds certain assets where the recoverable amount is required to be considered under AASB 136, including its portfolio of aircraft assets. At year end, the Consolidated Entity considered whether there were any indicators that these aircraft assets might be impaired. Where indicators existed, the Consolidated Entity then compared carrying amounts of the relevant assets to the higher of their estimated value-in-use and fair value less costs of disposal in accordance with AASB 136. Value-in-use is the calculation of the net present value of the cash flows expected from the Consolidated Entity's use of an asset. This calculation requires an estimation of the expected future cash flows associated with the use of an asset and the determination of certain assumptions such as discount rates and growth rates. 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. Given the extent of judgement required in respect of impairment of assets we considered this to be a key audit matter.	Our procedures included: – updating our understanding of prevailing market conditions and factors that could materially affect the fair value and usage of the aircraft assets, and considering whether these may represent indicators of impairment – evaluating the appropriateness of the impairment assessment methodology and certain assumptions applied in the value-in-use calculations – assessing the competency, capability and objectivity of the external appraisers, and – engaging PwC valuation experts where relevant. We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.
IT systems and controls over financial reporting 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: – the framework of governance over IT systems – controls over program development and changes – controls over access to programs, data and IT operations, and – governance over generic and privileged user accounts. Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter.	Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also considered mitigating controls in order to respond to the impact on our overall audit approach.



Key audit matter	How our audit addressed the key audit matter
Provisions for tax payable and deferred tax liabilities Refer to Note 17 and 21	
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. Given the extent of judgement involved, we considered this to be a key audit matter.	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. 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. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.
Revenue recognition Refer to Note 2	
The Consolidated Entity adopted AASB 15 with effect from 1 April 2018. In some cases, judgement is required in relation to the recognition, measurement and cut-off considerations of certain revenue streams, including fee income and the disposal of certain assets. The determination of fee income recognition includes judgement relating to the timing and amount of variable consideration to be recognised in relation to certain performance fees. Given the extent of judgement involved, we considered this to be a key audit matter.	Our audit procedures included evaluating the design and testing the operating effectiveness of relevant controls relating to the recognition and measurement of revenue. In assessing the appropriateness of the recognition of revenue from fee income, we recalculated revenue for a sample of fees based on relevant information in supporting documents including contracts, trust constitutions and management agreements. In assessing the timing and amount of variable consideration to be recognised in relation to certain performance fees, we also considered the nature of the underlying fund assets, the proportion of assets already realised, the returns on the assets realised to date and the potential for volatility in the valuation of the remaining unrealised assets. In assessing the appropriateness of the recognition of revenue from the disposal of relevant assets, we performed cut-off procedures in respect of certain transactions where sale agreements were in place at year end but the transaction had not yet been fully completed. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.
Reversal of impairment on investment in subsidiary (Company only) Refer to Note 16	
At year end, the Company considered whether there were any indicators that an impairment loss recognised in prior periods on an investment in subsidiary no longer existed, or had decreased. Given the improved performance of the subsidiary, an indicator of impairment reversal was determined to exist. Accordingly an estimate of the investment's recoverable amount was calculated by determining the higher of the value-in-use and fair value less cost of disposal for the relevant investment. An impairment reversal was recognised for the amount by which the recoverable amount of the investment exceeded the carrying amount. Given the quantum of the investment and the judgement involved in determining the recoverable amount, we considered this to be a key audit matter.	Our procedures included: – evaluating the methodology applied in the impairment reversal assessment conducted – assessing certain underlying data used in determining the carrying value and recoverable amount for the investment in subsidiary with the impairment reversal, and – engaging PwC valuation experts where relevant. We assessed the appropriateness of the Company's disclosures in the financial report.

Independent auditor's report

To the members of Macquarie Group Limited continued



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2019, 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 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *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 Company and 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 Company or the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

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:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf for the Consolidated Entity and

http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf for the Company. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 62 to 99 of the Directors' Report for the year ended 31 March 2019.

In our opinion, the remuneration report of Macquarie Group Limited for the year ended 31 March 2019 complies with section 300A of the *Corporations Act 2001* (Cth).

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

K.G. Smith

Partner

Sydney
3 May 2019

Liability limited by a scheme approved under Professional Standards Legislation.

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Further information

Paraway Pastoral, Australia

Paraway Pastoral Company (Paraway) is part of a MIRA-managed agricultural portfolio, which has been owning and operating large-scale sheep and cattle enterprises across Australia since 2007. As one of Australia's largest pastoral land owners and operators, Paraway currently owns 4.4 million hectares with the capacity to run over 200,000 cattle and 240,000 sheep.

Additional investor information

Shareholder calendar

2019

Date	Event
3 May	Full-year result announcement
13 May	Ex-dividend date for final ordinary dividend
14 May	Record date for final ordinary dividend
11 June	Payment date for MCN4 distribution
17 June	Payment date for MCN3 distribution
3 July	Payment date for final ordinary dividend
25 July	AGM
10 September	Payment date for MCN4 distribution
16 September	Payment date for MCN3 distribution
17 September	Payment date for MCN2 distribution
30 September	Financial half-year end
1 November ⁽¹⁾	Half-year result announcement
11 November ⁽¹⁾	Ex-dividend date for interim ordinary dividend
12 November ⁽¹⁾	Record date for interim ordinary dividend
10 December	Payment date for MCN4 distribution
16 December	Payment date for MCN3 distribution
18 December ⁽¹⁾	Payment date for interim ordinary dividend

2020

Date	Event
10 March	Payment date for MCN4 distribution
16 March	Payment date for MCN3 distribution
17 March	Payment date for MCN2 distribution
31 March	Financial year end

2019 Annual General Meeting

Macquarie Group Limited's 2019 AGM will be held at 10:30 am on Thursday, 25 July 2019 at the Sheraton Grand Sydney Hyde Park, Grand Ballroom, 161 Elizabeth St, Sydney NSW 2000. Details of the business of the meeting will be forwarded to shareholders separately.

Dividend details

Macquarie generally pays a dividend on its fully paid ordinary shares twice a year following the interim and final results announcements. The proposed dates for the 2019 calendar year are in the calendar above.

(1) These dates are subject to change.

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie ordinary shares rather than receiving dividends in cash.

Stock exchange listing

Equity or hybrid security	Stock exchange listing	Trading code
Macquarie Group Limited Securities		
Macquarie ordinary shares	ASX	MQG
Macquarie Group Capital Notes 2 (MCN2)	ASX	MQGPB
Macquarie Group Capital Notes 3 (MCN3)	ASX	MQGPC
Macquarie Group Capital Notes 4 (MCN4)	ASX	MQGPD
Macquarie Bank Limited Convertible Securities		
Macquarie Bank Capital Notes (BCN)	ASX	MBLPA
Macquarie Additional Capital Securities (MACS)	SGX	6F6B

Macquarie also has debt securities quoted on the London Stock Exchange.

Equity and hybrid securities

The following information is correct as at 31 March 2019.

Macquarie Group Limited securities

Fully paid ordinary shares

Voting rights

At meetings of members or classes of members, each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands, every person present who is a member or a proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

- one vote for each fully paid share held by the member, and
- that proportion of a vote for any partly paid ordinary share calculated in accordance with clause 8.18 of the MGL Constitution.



A copy of the Constitution is available at macquarie.com/leadership-corporate-governance

20 largest holders

Registered holder	Number of ordinary shares held	% of ordinary shares
HSBC Custody Nominees (Australia) Limited	103,200,305	30.32%
J P Morgan Nominees Australia Pty Limited	59,146,390	17.38%
Citicorp Nominees Pty Limited	21,670,660	6.37%
National Nominees Limited	14,390,020	4.23%
Bond Street Custodians Limited <MEREP Trustee – RSU Allocated>	13,700,614	4.03%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	9,793,003	2.88%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	4,015,940	1.18%
BNP Paribas Noms Pty Ltd <DRP>	3,711,432	1.09%
Bond Street Custodians Limited <MEREP Trustee – Unallocated>	2,962,671	0.87%
Argo Investments Limited	2,458,151	0.72%
HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C>	2,397,400	0.70%
Australian Foundation Investment Company Limited	1,375,329	0.40%
Nicholas Moore	1,321,838	0.39%
Bond Street Custodians Limited <Solium Nominees Aus Pty Ltd>	1,251,688	0.37%
AMP Life Limited	1,027,198	0.30%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	873,804	0.26%
Netwealth Investments Limited <Wrap Services A/C>	683,649	0.20%
Milton Corporation Limited	664,490	0.20%
Mr Nicholas Moore	574,996	0.17%
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP	538,745	0.16%
Total	245,758,323	72.20%

Substantial shareholders

The following holders are registered by MGL as a substantial shareholder, having declared a relevant interest in accordance with the Act, in the voting shares below:

Registered holder	Number of ordinary shares held
Macquarie Group Limited	21,183,227
BlackRock Group	20,601,274

Spread of shareholdings

Range	Number of shareholders	Number of shares
1–1,000	113,208	30,470,885
1,001–5,000	16,900	32,401,978
5,001–10,000	1,127	7,697,665
10,001–100,000	586	14,383,207
100,001 shares and over	61	255,429,003
Total	131,882	340,382,738

There were 2,080 shareholders (representing 3,402 shares) who held less than a marketable parcel.

Additional investor information

Continued

Macquarie Group Capital Notes 2 (MCN2)

Voting rights

MCN2 may convert into a variable number of MGL ordinary shares on 18 March 2024 or at other times, subject to various conditions. Holders of MCN2 have no voting rights in respect meetings of members of MGL prior to conversion.

20 largest holders

Registered holder	Number of MCN2 held	% of MCN2
HSBC Custody Nominees (Australia) Limited	441,681	8.32%
IOOF Investment Management Limited <IPS Super A/C>	129,202	2.43%
BNP Paribas Nominees Pty Ltd	85,878	1.62%
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	80,097	1.51%
Navigator Australia Ltd <MLC Investment Sett A/C>	75,703	1.43%
National Nominees Limited	58,954	1.11%
Dimbulu Pty Ltd	50,000	0.94%
IOOF Investment Management Limited <IPS IDPS A/C>	40,847	0.77%
Netwealth Investments Limited <Wrap Services A/C>	36,199	0.68%
Board of Benevolence and of Aged Masons Widows <Orphans Fund A/C>	34,500	0.65%
Citicorp Nominees Pty Limited	30,872	0.58%
HSBC Custody Nominees (Australia) Limited – A/C 2	25,745	0.48%
Aust Executor Trustees Ltd <Charitable Foundation>	24,259	0.46%
Federation University Australia	22,910	0.43%
Netwealth Investments Limited <Super Services A/C>	19,869	0.37%
J P Morgan Nominees Australia Pty Limited	19,509	0.37%
G C F Investments Pty Ltd	18,000	0.34%
Australian Executor Trustees Limited <No 1 Account>	15,018	0.28%
AK Plastics Pty Ltd <Andrew Kohn Staff S/F A/C>	15,000	0.28%
Gandino Pty Ltd	15,000	0.28%
Total	1,239,243	23.34%

Spread of noteholdings

Range	Number of MCN2 holders	Number of MCN2
1–1,000	6,943	2,262,193
1,001–5,000	663	1,371,103
5,001–10,000	43	314,822
10,001–100,000	28	790,920
100,001 notes and over	2	570,883
Total	7,679	5,309,921

There was one noteholder (representing four notes) who held less than a marketable parcel.

Macquarie Group Capital Notes 3 (MCN3)

Voting rights

MCN3 may convert into a variable number of MGL ordinary shares on 15 December 2027 or at other times, subject to various conditions. Holders of MCN3 have no voting rights in respect meetings of members of MGL prior to conversion.

20 largest holders

Registered holder	Number of MCN3 held	% of MCN3
HSBC Custody Nominees (Australia) Limited	461,188	4.61%
National Nominees Limited	265,543	2.66%
IOOF Investment Management Limited <IPS Super A/C>	204,041	2.04%
Netwealth Investments Limited <Wrap Services A/C>	99,288	0.99%
HSBC Custody Nominees (Australia) Limited – A/C 2	86,016	0.86%
J P Morgan Nominees Australia Pty Limited	84,610	0.85%
Citicorp Nominees Pty Limited	73,706	0.74%
Longhurst Management Services Pty Ltd	60,000	0.60%
BNP Paribas Nominees Pty Ltd	58,068	0.58%
Navigator Australia Ltd <MLC Investment Sett A/C>	53,542	0.54%
Australian Executor Trustees Limited <No 1 Account>	45,067	0.45%
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	44,439	0.44%
Dimbulu Pty Ltd	40,000	0.40%
IOOF Investment Management Limited <IPS IDPS A/C>	39,682	0.40%
Invia Custodian Pty Limited <Income Pool A/C>	33,520	0.34%
Mutual Trust Pty Ltd	31,833	0.32%
Netwealth Investments Limited <Super Services A/C>	30,899	0.31%
Zashvin Pty Ltd	30,000	0.30%
BNP Paribas Noms Pty Ltd <DRP>	29,570	0.30%
Federation University Australia	29,007	0.29%
Total	1,800,019	18.00%

Spread of noteholdings

Range	Number of MCN3 holders	Number of MCN3
1–1,000	12,796	4,098,372
1,001–5,000	1,348	2,839,287
5,001–10,000	87	656,101
10,001–100,000	54	1,475,468
100,001 notes and over	3	930,772
Total	14,288	10,000,000

There were 37 noteholders (representing 145 notes) who held less than a marketable parcel.

Additional investor information

Continued

Macquarie Group Capital Notes 4 (MCN4)

Voting rights

MCN4 may convert into a variable number of MGL ordinary shares on 10 September 2029 or at other times, subject to various conditions. Holders of MCN4 have no voting rights in respect meetings of members of MGL prior to conversion.

20 largest holders

Registered holder	Number of MCN4 held	% of MCN4
HSBC Custody Nominees (Australia) Limited	437,805	4.84%
J P Morgan Nominees Australia Pty Limited	210,896	2.33%
Netwealth Investments Limited <Wrap Services A/C>	166,299	1.84%
National Nominees Limited	165,975	1.83%
Dimbulu Pty Ltd	100,000	1.10%
BNP Paribas Nominees Pty Ltd	81,344	0.90%
HSBC Custody Nominees (Australia) Limited	70,000	0.77%
John E Gill Trading Pty Ltd	67,500	0.75%
BNP Paribas Noms Pty Ltd <DRP>	61,522	0.68%
Netwealth Investments Limited <Super Services A/C>	48,963	0.54%
Citicorp Nominees Pty Limited	35,180	0.39%
Norfolk Enchants Pty Ltd <Trojan Retirement Fund A/C>	35,000	0.39%
Invia Custodian Pty Limited <Income Pool A/C>	33,950	0.37%
Nora Goodridge Investments Pty Limited	30,000	0.33%
Qushan Pty Ltd <The Qu A/C>	28,000	0.31%
Navigator Australia Ltd <MLC Investment Sett A/C>	27,685	0.31%
Pendant Realty Pty Ltd	25,000	0.28%
Gem Lake Qld Pty Ltd	24,250	0.27%
Pershing Australia Nominees Pty Ltd <Accum A/C>	24,136	0.27%
JDB Services Pty Ltd <RAC & JD Brice Invest A/C>	22,500	0.25%
Total	1,696,005	18.73%

Spread of noteholdings

Range	Number of MCN4 holders	Number of MCN4
1–1,000	10,538	3,585,935
1,001–5,000	1,105	2,412,878
5,001–10,000	109	835,070
10,001–100,000	49	1,240,052
100,001 notes and over	4	980,975
Total	11,805	9,054,910

Nil noteholders held less than a marketable parcel.

Macquarie Bank Limited convertible securities

Macquarie Bank Capital Notes (BCN)

Voting rights

BCN are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible into MGL ordinary shares in certain limited circumstances. BCN holders have no voting rights in respect of meetings of members of MBL, and have no voting rights in respect of meetings of members of MGL prior to conversion. As at 31 March 2019, there were 4,294,105 BCN on issue held by 6,173 registered holders.

Macquarie Additional Capital Securities (MACS)

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL, and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

As at 31 March 2019, the \$US750 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

Unlisted securities

The following information is correct as at 31 March 2019.

Exchangeable shares

62,679 exchangeable shares on issue are held by 11 former employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of a MGL ordinary share. They reached their 10-year anniversary in November 2017, upon which the scheme conditions remain in place, however a redemption date may be set at any time. They carry no voting rights in respect of meetings of members of MGL, prior to exchange.

43,305 exchangeable shares on issue are held by 9 former employees of Tristone Capital Global Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of a MGL ordinary share. They will reach their 10-year anniversary in August 2019, upon which the scheme conditions remain in place, however a redemption date can be set at any time and carry no voting rights in respect of meetings of members of MGL prior to exchange.

MEREP

3,075,825 DSUs are held by 521 participants and 1,229,353 PSUs are held by 15 participants in the MEREP.

American Depositary Receipt (ADR) program

Macquarie ADRs are negotiable certificates issued by BNY Mellon, with one ADR representing one MGL ordinary share. They are traded under the symbol MQBKYY and are classified as Level 1. They are not listed on any exchange and are only traded over-the-counter via brokers.

BNY Mellon:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516 USA

Toll-free telephone number for domestic callers:
1 888 BNY ADRs

Telephone number for international callers:
+1 201 680 6825

Further information can be found at:
adrbnymellon.com/resources/individual-investors

Enquiries

Investors who wish to enquire about any administrative matter relating to their MGL shareholding, MCN2, MCN3, MCN4, MIS or BCN security holding are invited to contact the Share Registry at:

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000 Australia

Telephone: +61 1300 554 096
Email: macquarie@boardroomlimited.com.au
Website: investorserve.com.au

All other enquiries relating to a MGL share investment can be directed to:

Investor relations

Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333
Email: macquarie.shareholders@macquarie.com
Website: macquarie.com/investors

Macquarie's Company Secretary, Dennis Leong, may be contacted on the above number and email address.

Website



The Interim and Annual Reports, presentations, dividend information and other investor information is available macquarie.com/investors

Ten year history

The financial information for the financial years ended 31 March 2010-2019 is based on the reported results using the Australian Accounting Standards that were effective and adopted by the Consolidate Entity at the reporting dates, which also comply with IFRS as issued by the IASB. Reporting periods have been restated only to the extent as required by the accounting standards. The financial reporting periods may hence not be fully comparable with one another as a result of changes in accounting standards' requirements.

Financial years ended 31 Mar	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Income Statement (\$ million)										
Net operating income	6,638	7,665	6,963	6,657	8,132	9,262	10,158	10,364	10,920	12,754
Total expense	(5,344)	(6,394)	(5,914)	(5,252)	(6,026)	(6,740)	(7,143)	(7,260)	(7,456)	(8,887)
Operating profit before income tax	1,294	1,271	1,049	1,405	2,106	2,522	3,015	3,104	3,464	3,867
Income tax expense	(201)	(282)	(287)	(533)	(827)	(899)	(927)	(868)	(883)	(879)
Profit for the financial year	1,093	989	762	872	1,279	1,623	2,088	2,236	2,581	2,988
Macquarie income securities distributions	(21)	(26)	(26)	(21)	(18)	(18)	(16)	(15)	(14)	(15)
Macquarie income preferred securities distributions	(8)	(4)	(4)	(4)	(4)	(5)	(1)	–	–	–
Profit attributable to other non-controlling interests	(14)	(3)	(2)	4	8	4	(8)	(4)	(10)	9
Profit attributable to ordinary equity holders	1,050	956	730	851	1,265	1,604	2,063	2,217	2,557	2,982
Statement financial position (\$ million)										
Total assets	145,940	157,568	153,626	144,748	153,904	187,976	196,755	182,877	191,325	203,182
Total liabilities	134,171	145,636	141,894	132,793	141,990	173,580	181,091	165,607	173,145	184,818
Net assets	11,769	11,932	11,732	11,955	11,914	14,396	15,664	17,270	18,180	18,364
Total loan assets	41,415	42,923	41,430	47,449	49,965	67,663	72,393	69,288	73,509	78,474
Impaired loan assets (net of provision) ⁽¹⁾	551	340	357	368	365	594	418	547	351	1,674
Share Information										
Dividends per share (cents per share)										
Interim	86	86	65	75	100	130	160	190	205	215
Final	100	100	75	125	160	200	240	280	320	360
Special ⁽²⁾	–	–	–	–	116	–	–	–	–	–
Total	186	186	140	200	376	330	400	470	525	575
Basic EPS (cents per share)	320.2	282.5	210.1	251.2	383.6	502.3	619.2	657.6	758.2	883.3
Share price as at 31 March (\$)	47.25	36.60	29.08	37.15	57.93	76.67	66.09	90.20	102.90	129.42
Ordinary shares (million shares)	344.2	346.8	348.6	339.5	321.1	333.5	340.3	340.4	340.4	340.4
Market capitalisation as at 31 March (fully paid ordinary shares) (\$ million)	16,263	12,693	10,137	12,613	18,601	25,569	22,491	30,700	35,024	44,050
Net tangible assets per ordinary share (\$)	28.40	28.91	28.12	29.94	31.71	38.19	41.23	42.74	45.12	46.21
Ratios (%)										
Return on average ordinary shareholders' funds	10.1	8.8	6.8	7.8	11.1	14.0	14.7	15.2	16.8	18.0
Ordinary dividend payout ratio	60.4	67.3	66.4	79.0	66.8	67.6	65.7	72.0	69.8	65.6
Expense/income ratio	80.5	83.4	84.9	78.9	74.1	72.8	70.3	70.1	68.3	69.7
Net loan loss as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.8	0.4	0.5	0.4	0.4	0.7	1.0	0.5	0.3	0.4
Assets under management (\$ billion)										
Staff numbers	14,887	15,791	14,519	13,905	14,180	14,373	14,660	13,925	14,810	15,715

(1) Represents net exposure in credit impaired loan assets as per Australian accounting standards for the financial year ended 31 March 2019. For financial years ended 31 March 2010-2018, represents net exposure in impaired loan assets disclosed as per Australian regulatory authority requirements.

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

Glossary

Defined term	Definition
A	
AASB	Australian Accounting Standards Board
ABCN	Australian Business and Community Network
the Act	<i>Corporations Act 2001</i> (Cth)
ADI	Authorised deposit-taking institution
ADR	American Depositary Receipt
AEC	Australian Electoral Commission
AGM	Annual General Meeting
AICD	Australian Institute of Company Directors
ALA	Alternative liquid assets
All Ords Index	All Ordinaries Accumulation Index
ALCO	Asset and Liability Committee
AMA	Advanced Measurement Approach
Annual Report	MGL's 2019 Annual Report
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ARR	Alternative reference rates
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
ATO	Australian Taxation Office
AUM	Assets under management
B	
BAC	Board Audit Committee
Bank Group	MBL and its subsidiaries
Banking Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
BBSW	Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc.
BCBS	Basel Committee on Banking Supervision
BCN	Macquarie Bank Capital Notes
BEAR	Banking Executive Accountability Regime
BFS	Banking and Financial Services Group

Defined term	Definition
BGCC	Board Governance and Compliance Committee
BNC	Board Nominating Committee
the Board, Macquarie Board	The Board of Voting Directors of Macquarie Group Limited
BRC	Board Remuneration Committee
BRiC	Board Risk Committee
Businesses	The areas within the Operating Groups carrying out various operations
C	
CAF	Corporate and Asset Finance Group
CAGR	Compound annual growth rate
CCB	Capital conservation buffer
CCyB	Countercyclical capital buffer
CDS	Credit default swaps
CEFC	Clean Energy Finance Corporate
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
CLF	Committed liquidity facility
the Code	The UK Remuneration Code
COG	Corporate Operations Group
the Company, MGL	Macquarie Group Limited ABN 94 122 169 279
Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full year in both FY2019 and FY2018
Conduct Risk	The risk of behaviour or action taken by individuals employed by on or behalf of Macquarie or taken collectively in representing Macquarie that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff or Macquarie
The Consolidated Entity, Macquarie	MGL and its subsidiaries
Corporate	Head office and Central Service Groups including Group Treasury
CoVA	Collateral valuation adjustment
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer

Glossary

Continued

Defined term	Definition
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CVA	credit valuation adjustments
D	
Deed	Deed of Access, Indemnity, Insurance and Disclosure
Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
DFVTPL	Designated as FVTPL
Directors	the Voting Directors of MGL (unless the context indicates otherwise)
Divisions	named divisions within Macquarie
DPS Plan	Directors' Profit Share Plan
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
E	
EAD	Exposure at default
ECAM	Economic Capital Adequacy Model
ECL	Expected credit loss
EIR	Effective interest rate
EMEA	Europe, Middle East and Africa
Environmental Management Plan (EMP)	Macquarie's internal framework of actions and targets to manage and reduce the environmental impact of its direct operations. The Plan covers Macquarie's corporate offices and associated corporate activities such as travel and procurement
EPS	earnings per share
ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
ESR	Environmental and Social Risk
EU	the European Union
Executive Director	Macquarie's most senior level of employee including Group Heads, Division Heads and senior business unit managers
Executive Key Management Personnel (Executive KMP)	Members of the Executive Committee of MGL
Executive Voting Director	an executive Board member

Defined term	Definition
F	
FCTR	Foreign currency translation reserve
FIRB	Foundation Internal Ratings Based Approach
FLI	Forward looking information
FMG	Financial Management Group
the Foundation	Macquarie Group Foundation
FRN	Floating rate notes
Funds	Macquarie-managed fund(s)
FVA	Funding valuation adjustment
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
G	
GDP	gross domestic product
GIG	Green Investment Group
GRI	Global Reporting Initiative
Group Head	The Head of a particular Operating or Central Service Group
H-J	
HFT	Held for active trading
HQLA	High quality liquid assets
IASB	International Accounting Standards Board
IBOR	Interbank-offered rates
IEA	International Energy Agency
IFRS	International Financial Reporting Standards
IRRBB	Interest rate risk in the banking book
K	
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of MGL
L	
LEADS	Leadership Advancement Development and Support
LGBTI	Lesbian Gay Bisexual Transgender and Intersex
LGL	Legal and Governance Group
LMI	Lenders mortgage insurance
Loss Given Default (LGD) Estimate	Macquarie's estimated economic loss should a counterparty default occur
LTIFR	Lost Time Injury Frequency Rate
LVR	loan to value ratio

Defined term	Definition
M	
M&A	Mergers and acquisitions
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board, the Board	the Board of Voting Directors of MGL
Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
Macquarie, the Consolidated Entity	MGL and its subsidiaries
MAF	Macquarie Air Finance
MFHPL	Macquarie Financial Holdings Pty Limited
MGL ordinary shares, MQG	MGL fully paid ordinary shares
Malus	The discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MAM	Macquarie Asset Management Group
Management	Division Directors and Executive Directors who have management or risk responsibility for a Division or business area
MCN2	Macquarie Group Capital Notes 2
MCN3	Macquarie Group Capital Notes 3
MCN4	Macquarie Group Capital Notes 4
MEREP	Macquarie Group Employee Retained Equity Plan
MGL, the Company	Macquarie Group Limited ABN 94 122 162 279
MIDIS	Macquarie Infrastructure Debt Investment Solutions
MIM	Macquarie Investment Management
MIP	Macquarie Infrastructure Partners
MIPS	Macquarie Income Preferred Securities
MIRA	Macquarie Infrastructure and Real Assets
MIS	Macquarie Income Securities
MMEs	major maintenance events
MPPM	Macquarie Private Portfolio Management
MSCI	Morgan Stanley Capital International

Defined term	Definition
MSIS	Macquarie Specialised Investment Solutions
N	
NCD	Negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NIFO	Net investment in foreign operations
NOHC	Non-operating holding company
Non-Bank Group	MGL, MFHPL and its subsidiaries
NPAT	net profit after tax
O	
OCI	Other comprehensive income
OECD	Organisation for Economic Co-operation and Development
Operating Groups	The Operating Groups consist of MAM, CAF, BFS, CGM and MacCap
Operationally Segregated Subsidiaries, OSS	The operations of some controlled subsidiaries are "segregated" from the rest of Macquarie, and a tailored Risk Management Framework may be adopted
OTC	over-the-counter
P	
PD	Probability of default
POCI	Purchased or originated credit-impairment
Post-2009 DPS	retained directors' profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity
PPAs	power purchase agreements
PRI	UN Principles for Responsible Investment
Probability of Default (PD) Estimate or MQ Rating	An estimate of the likelihood of the rated entity defaulting on its financial obligations to Macquarie over the period of a year and should look 'through the cycle' – i.e. represent the probability of default in natural economic conditions
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers

Glossary

Continued

Defined term	Definition
Q–R	
RAS	Risk Appetite Statement
RBA	Reserve Bank of Australia
RMG	Risk Management Group
ROE	return on ordinary equity
ROU	Right-of-use
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
S	
S&P	Standard & Poor's
Senior Executive	Macquarie's combined Division Director and Executive Director population
Scope 1	Emissions released to the atmosphere as a direct result of an activity, or series of activities controlled by an organisation. For example, emissions from natural gas and diesel usage in corporate offices.
Scope 2	Indirect emissions released to the atmosphere associated with the generation of purchased or acquired electricity, heating and cooling consumed by the organisation.
Scope 3	Indirect emissions, other than Scope 2 emissions, that are a consequence of the activities of the company but occur from sources not owned or controlled by the company. For example, emissions associated with employee travel.
Senior Management	Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation
SEs	Structured entities
SFE	Sydney Futures Exchange
SGX	Singapore Stock Exchange
SICR	Significant increase in credit risk
SOFP	Statement of financial position
SPEs	special purpose entities
SPPI	Solely payment of principal and interest
SRI	Socially Responsible Investing

Defined term	Definition
SYD	ASX-listed Sydney Airport
T	
TCFD	Financial Stability Board's Task Force on Climate-related Financial Disclosures
tCO2-e (Carbon dioxide equivalent in tonnes)	metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency)
TJ	terajoules
TSR	total shareholder return
U–V	
VaR	Value-at-Risk
Voting Directors	the Voting Directors of MGL as defined in the MGL Constitution
W–Z	
WHS	Work Health and Safety
WHSE	work health, safety and environmental
WTE	waste to energy
XVA	valuation adjustments

Contact details

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