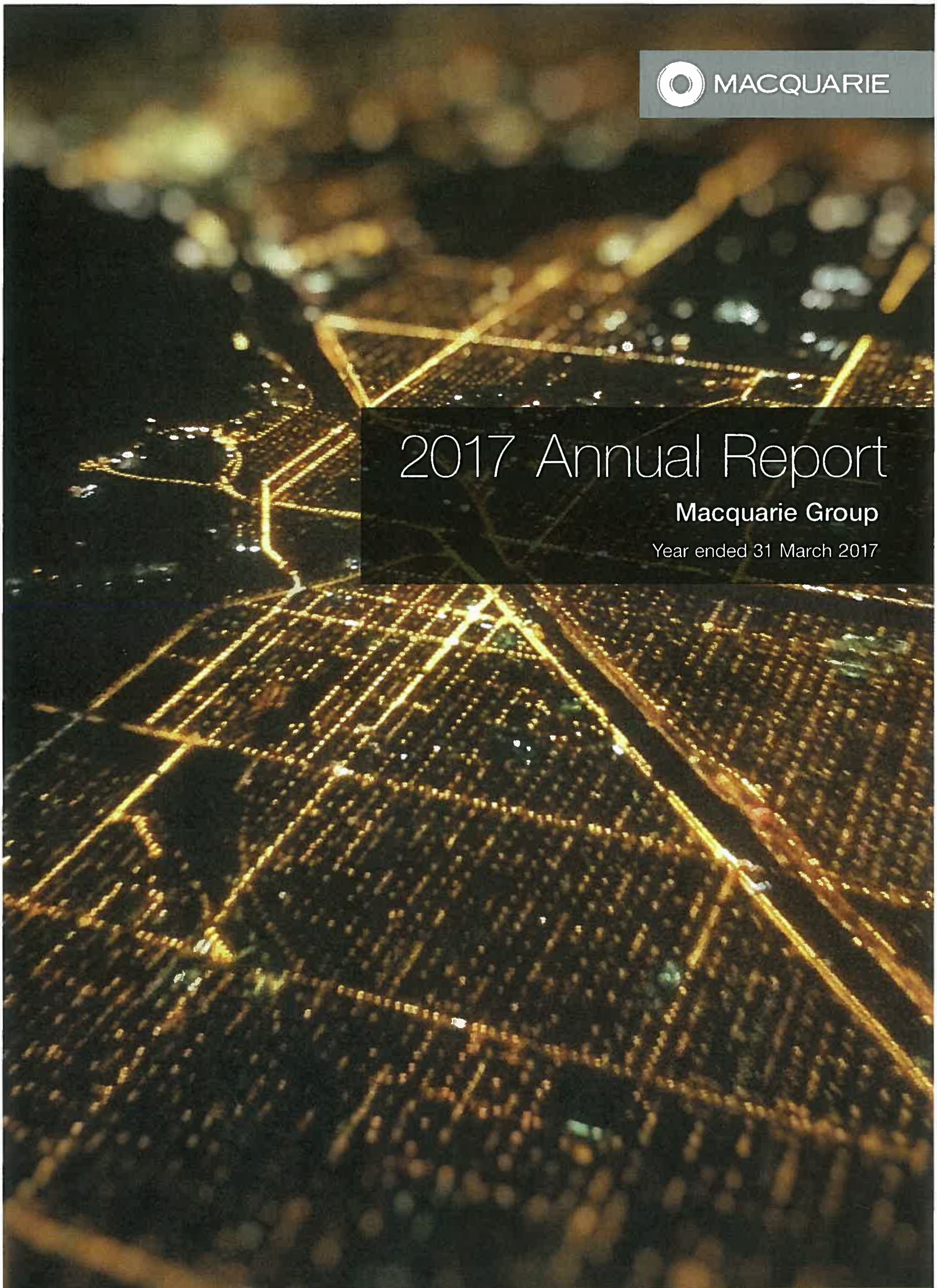

MACQUARIE

2017 Annual Report

Macquarie Group

Year ended 31 March 2017

MACQUARIE GROUP LIMITED ACN 122 169 279

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CORPORATE GOVERNANCE SUMMARY

CORPORATE GOVERNANCE STATEMENT

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

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

Our Corporate Governance Statement is available at macquarie.com/leadership-corporate-governance

CORPORATE GOVERNANCE

Macquarie's approach to corporate governance is to:

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

Macquarie recognises that a key factor in delivering long-term shareholder returns is providing superior services to clients. Macquarie's *Code of conduct* sets out the way staff are expected to do business.

ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

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

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

The acceptance of risk is an integral part of Macquarie's businesses. Macquarie's core risk management principles have remained stable and continue to be effective. The risk management framework incorporates active management and monitoring of key risks. It is designed to ensure that policies and procedures are in place to manage key risks.

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

COMMITMENT TO SHAREHOLDERS AND AN INFORMED MARKET

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

Further information for investors including the Annual General Meeting (AGM) webcast, interim and year-end results presentations and a shareholder calendar are available at macquarie.com/investors

BOARD OVERSIGHT

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

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

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

Board Renewal and Performance

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

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

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

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

Board Committees

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

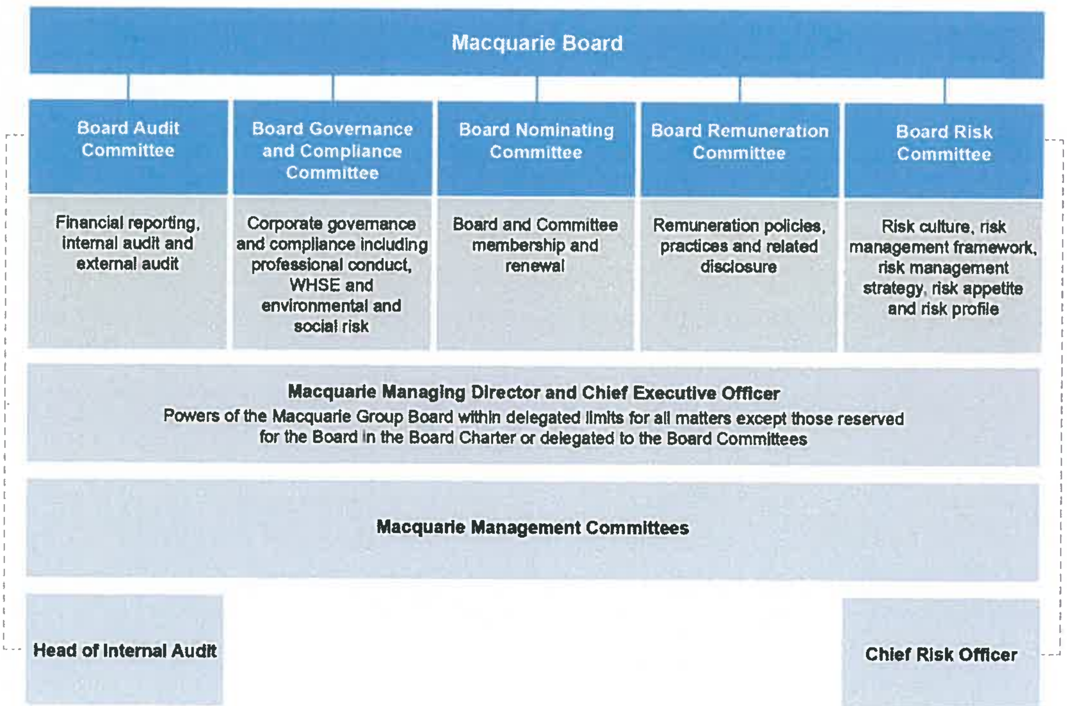
The membership of the Board Committees can be found in the Directors' Report. The Board Committee Charters detail the responsibilities of each Committee and how they exercise their authority.

Responsibilities of Management

The Board has reserved certain matters for its approval as set out in the *Board Charter*. In addition to delegating specific responsibilities to its various Board Committees, the Board also determines delegations to Management, approves relevant limits and reviews business developments for consistency within the *Risk Appetite Statement* and *Risk Management Strategy* approved by the Board.

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

Corporate Governance Framework



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

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

The above are available at macquarie.com/leadership-corporate-governance

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RISK MANAGEMENT REPORT

RISK GOVERNANCE

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

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

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

Further details are available in Macquarie's Corporate Governance Statement at macquarie.com/leadership-corporate-governance

RISK MANAGEMENT FRAMEWORK

Overview

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

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

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

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

Internal Audit reviews sections of Macquarie's risk management framework annually and covers the entire framework over a three-year period. The results of these reviews are reported to the Board Audit Committee (BAC). Relevant reviews for FY2017 have been completed.

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

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

Key Components

Core risk management principles

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

- **ownership of risk at the business level**: Group Heads are responsible for identifying risks within their businesses and ensuring appropriate management. Before taking decisions, clear analysis of the risks is sought to ensure those taken are consistent with the risk appetite and strategy of Macquarie
- **understanding worst case outcomes**: Highly experienced professionals at Macquarie use both quantitative and qualitative inputs to examine the consequences of worst case outcomes and determine whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, the market risk management framework is based primarily on the application of stress tests, rather than statistical models. Macquarie applies limits to contingent losses from worst case scenarios that include market movements larger than have occurred historically, for example, an instantaneous 40% gap move in stock prices. These limits effectively constrain position taking by divisions trading in products where the current risk appears low but potential risk exists in extreme loss events. Macquarie has over 14,000 contingent loss limits that consider a variety of worst case scenarios
- **requirement for an independent sign-off by risk management**: Macquarie places significant importance on having a strong, independent Risk Management Group (RMG) charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals, many with previous trading or investment banking experience. For all material proposals, RMG's opinion is sought at an early stage in the decision-making process. The approval document submitted to Senior Management includes independent input from RMG on risk and return.

Macquarie's risk culture is well established

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

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

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

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

Maintaining an appropriate risk culture

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

Setting behavioural expectations

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

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

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

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

Leading and executing

Management implements behavioural expectations through:

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

Monitoring, measuring and reporting

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

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

Multiple regular reports relating to risk culture are provided to Senior Management and the Board. Reports incorporating behavioural issues are prepared by all businesses, RMG divisions, Human Resources (HR) and Macquarie's Integrity Office.

Consequence management

Effective consequence management is also a key aspect of Macquarie's risk management framework and risk culture. In addition to Macquarie's group-wide guiding principles for consequence management, Operating and Central Service Groups may apply specific guidelines or procedures. Actions undertaken can assist staff in building their skills and knowledge. Where appropriate, actions can also be a deterrent against further breaches by reinforcing proper standards of staff conduct.

Macquarie aims to apply consequences for non-compliance in a timely manner, and as fairly and consistently as possible to ensure all Macquarie staff act with integrity.

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

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

In determining the appropriate consequence for a breach by a staff member, relevant factors (both mitigating and aggravating) are considered. Potential consequences may include, but are not limited to:

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

Conduct risk management framework

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

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

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RISK MANAGEMENT REPORT
CONTINUED

Management approach

Macquarie's approach to conduct risk management is integrated into how staff manage their responsibilities and conduct themselves in Macquarie's business every day. The existing risk management framework addresses conduct risk by:

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

Consistent with Macquarie's 'three lines of defence' approach to risk management, Operating and Central Service Groups are primarily responsible for ensuring that conduct risks are appropriately managed.

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

- proactive assistance to businesses to identify, assess, mitigate and manage compliance obligations and relevant risks
- analysis of regulatory and business developments, risk incidents, audit and regulatory findings. Where necessary, businesses are assisted with the definition and implementation of appropriate remediation actions
- review of specific transactions, new products and businesses including identifying and escalating potential conflicts of interest, and advising on the application of laws, regulations and policies
- adoption of a risk-based approach to performing independent monitoring and surveillance activities in addition to the supervisory activities performed by Operating and Central Service Groups
- regular training.

New and emerging conduct risks continue to be identified through the annual strategy and business planning process.

Risk management framework support

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

- **Macquarie's businesses are fundamentally client based.** Greater emphasis is placed across Macquarie on fostering long-term relationships with our clients. This facilitates building franchise businesses as opposed to short-term profits from proprietary trading
- **The role of risk management staff is one of active engagement in risk taking decisions**. In accordance with the principle of risk ownership, the primary risk analysis and initial decisions to reject or accept a transaction are taken by Operating and Central Service Groups. In its review of a new proposal, RMG provides independent confirmation of the risk acceptance decision. RMG works closely with each deal team sharing the goal of making the transaction successful and, where applicable, requiring improvements to the transaction terms. Transferring knowledge to transaction teams, to enable the same risk management principles to be applied at an early stage to future proposals is strongly emphasised
- **Macquarie's remuneration policy for Senior Management encourages a long-term view in decision making** through retention of remuneration and equity participation. We discourage excessive risk-taking as incentives are aligned with Macquarie's long-term profitability. The principles behind Macquarie's current remuneration structure have been in place for many years.

Risk appetite management

Risk appetite setting

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

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

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

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

New product and business approval process

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

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

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

Internal Audit performs an audit of the operations of any significant new businesses based on an assessment of the associated risk faced by Macquarie. The audit typically takes place within six months of an acquisition or launch. It includes confirmation that operations are in line with the new product and business approval document.

Limits

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

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

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

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

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

Relevant policies

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

Communication and training

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

Requirement to consider risk-adjusted returns

The RAS states that:

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

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

Risk capacity is allocated to activities that earn an appropriate reward for the risk. This is a binding discipline on risk acceptance to ensure the risk-return trade-off does not deteriorate. The level of acceptable return for any proposal must also account for strategic fit and broader risk analysis (e.g. tail risk and concentration).

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

RISK MANAGEMENT GROUP

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

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

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

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

Further details on RMG's structure and the management of specific risks are available at macquarie.com/risk-management

INTERNAL AUDIT

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

A specialist Risk Mindset and Behaviours team, composed of risk culture specialists, performs reviews across Macquarie using a well-established assessment methodology. The prevailing risk management attitudes and behaviours of selected functions in Operating and Central Service Groups are assessed. Areas of relative strengths are highlighted. Areas for improvement and required actions are identified.

Findings from all Internal Audit work are followed up to ensure remediation.

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

MARKET AND CREDIT RISK

Year end performance indicators

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

Trading revenue

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

Macquarie's market risk activities continue to be based on earning income from franchise businesses and margin from client flows. The majority of trading income is derived from client franchise 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 FY2017 Macquarie made a net trading profit on 235 out of 261 trading days (2016 results: 209 out of 262 trading days) and trading loss profiles were consistent with previous years. Larger trading profits were observed in 1H16 from improved trading opportunities driven by increased market volatility.

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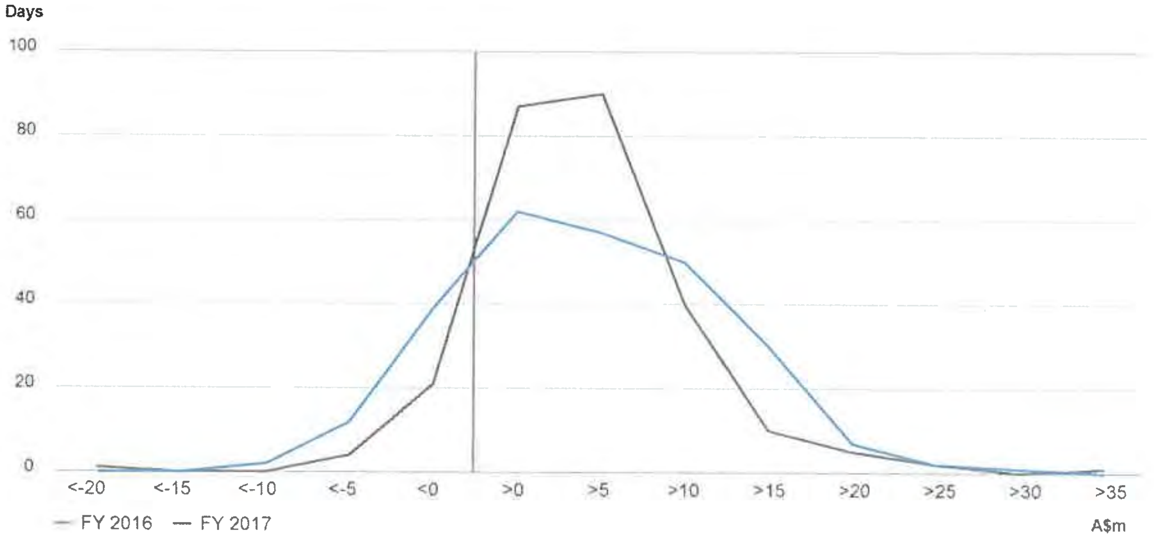
RISK MANAGEMENT REPORT
CONTINUED

Daily Trading Profit and Loss

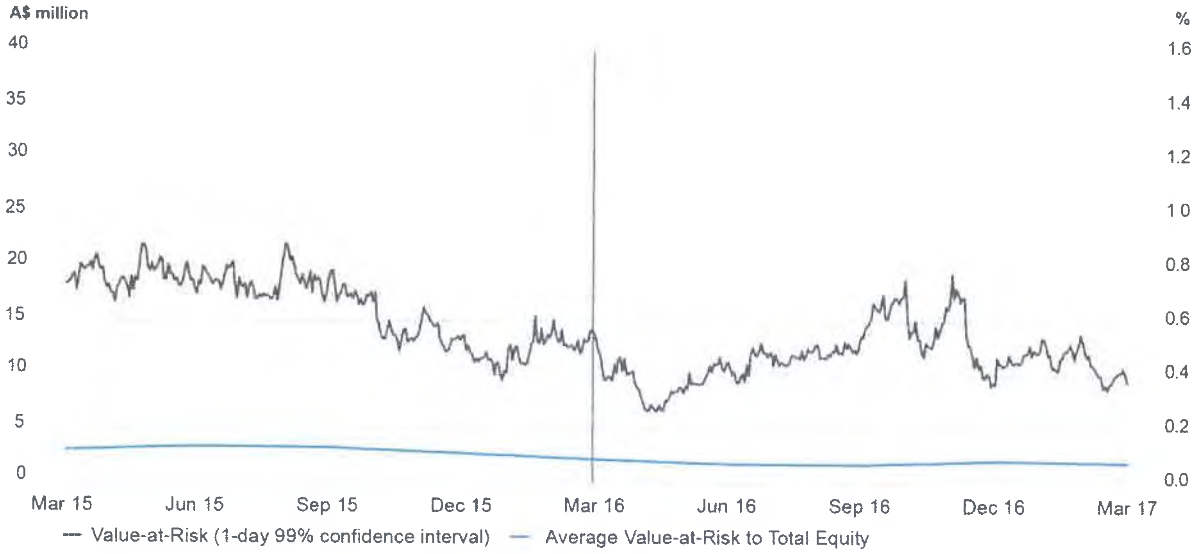


Value-at-Risk

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 from multi-year lows over the first half of the year from greater exposure to equities. Fluctuations over the second half of the year were driven by commodity positions. VaR remains modest in comparison to capital and earnings. It represents less than 0.1% of total equity.

Aggregate VaR

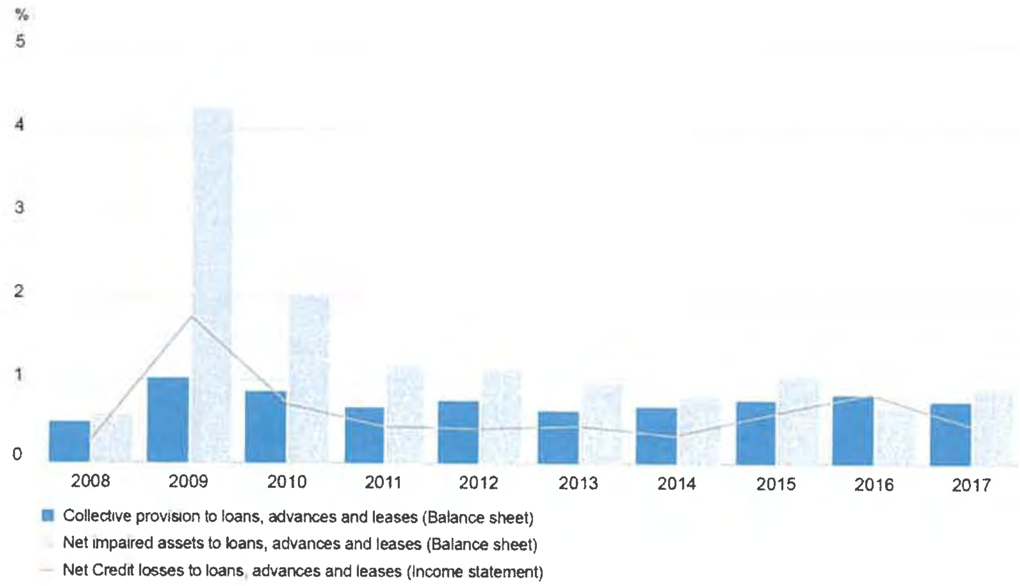


Loan impairment review

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

The increase in impaired assets is primarily driven by new impaired exposures in CGM related to the energy sector.

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



Notes:

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

 [redacted]

DIRECTORS' REPORT

Directors' Report

Schedule 1 - Directors' experience and special responsibilities

Schedule 2 - Remuneration Report

3

 [redacted]

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

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 2017.

DIRECTORS

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

Independent Directors

P.H. Warne, Chairman

G.R. Banks AO

G.M. Cairns

M.J. Coleman

P.A. Cross

D.J. Grady AM

M.J. Hawker AM

N.M Wakefield Evans

Executive Voting Director

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

The Directors listed above each held office as a Director of MGL throughout the financial year ended 31 March 2017. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

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

PRINCIPAL ACTIVITIES

The principal activity of MGL during the financial year ended 31 March 2017 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 2017 and 31 March 2016, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary owners for the financial year ended 31 March 2017 was $A2,217 million (2016: $A2,063 million).

DIVIDENDS AND DISTRIBUTIONS

Subsequent to the year ended 31 March 2017, the Directors have resolved to pay a final ordinary dividend of $A2.80 per share, 45% franked based on tax paid at 30% ($A951 million in aggregate). The final ordinary dividend is payable on 3 July 2017.

On 14 December 2016, the Company paid an interim ordinary dividend of $A1.90 per share, 45% franked ($A646 million in aggregate) for the financial year ended 31 March 2017.

On 4 July 2016, the Company paid a final dividend of $A2.40 per share, 40% franked ($A816 million in aggregate) for the financial year ended 31 March 2016.

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' EQUITY PARTICIPATION AND OTHER RELEVANT INTERESTS

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

Name & Position	Equity Participation			Other relevant interests	
	MGL ordinary shares	RSUs held in MEREP[1]	PSUs held in MEREP[1]	Direct & Indirect Interests	Number held
Executive Voting Director					
N.W. Moore	**2,109,147**	**613,701**	**229,762**	2004 Macquarie Timber Land Trust units	**50**
				2006 Macquarie Timber Land Trust units	**75**
				Macquarie Global Infrastructure Fund III (B) units	**2,163,106**
Independent Directors					
G.R. Banks	**6,416**	**–**	**–**	–	**–**
G.M. Cairns	**12,734**	**–**	**–**	Macquarie Income Securities	**900**
M.J. Coleman	**7,199**	**–**	**–**	Macquarie Group Capital Notes 2 (MCN2)	**2,000**
P.A. Cross	**7,636**	**–**	**–**	–	**–**
D.J. Grady	**8,003**	**–**	**–**	Macquarie Group Capital Notes	**400**
				MCN2	**100**
M.J. Hawker	**7,335**	**–**	**–**	MCN2	**500**
N.M. Wakefield Evans	**4,411**	**–**	**–**	–	**–**
P.H. Warne	**14,933**	**–**	**–**	–	**–**

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

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

[redacted]

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE

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

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

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

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

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

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE

Under MGL's Constitution, MGL indemnifies all past and present Directors and Secretaries of Macquarie (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 Macquarie, 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 (Deed) with each of the Directors. Under the Deed, MGL, inter alia agrees to:

- indemnify the Director to the full extent of the indemnity given in relation to officers of Macquarie under MGL's Constitution in force from time to time
- take out and maintain an insurance policy against liabilities incurred by the Director acting as an officer of Macquarie, or acting as an officer of another company at the specific request of Macquarie. 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).

(2) Number of meetings attended by the member / total number of meetings eligible to attend as a member
(3) Mr Warne ceased to be Chairman of the BRC effective 7 May 2016
(4) Mr Hawker commenced as Chairman of the BRC effective 8 May 2016

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 Macquarie and other companies where the person is acting as such at the specific request of Macquarie. 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, and were adopted by Macquarie upon the Macquarie restructure, under which MGL replaced MBL as the parent company of Macquarie.

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 and appropriately addressed.

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 2017 total $A10.0 million. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 41 – Audit and other services provided by PwC in the Financial Report.

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

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

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

[redacted]

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

CONTINUED

ROUNDING OF AMOUNTS

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

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

EVENTS SUBSEQUENT TO BALANCE DATE

At the date of this report, the Directors are not aware of any matter or circumstance that has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2017.

Peter Warne

Independent Director and Chairman

Nicholas Moore

Managing Director and Chief Executive Officer

Sydney

5 May 2017

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

K.G. Smith

Partner

PricewaterhouseCoopers

Sydney

5 May 2017

Liability limited by a scheme approved under Professional Standards Legislation

DIRECTORS' REPORT SCHEDULE 1 – DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

Peter H Warne, BA (Macquarie), FAICD

Independent Chairman of MGL and MBL since April 2016
Independent Voting Director of MGL since August 2007
Independent Voting Director of MBL since July 2007

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

Experience

Peter Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of roles at Bankers Trust Australia Limited, including as Head of its Financial Markets Group from 1988 to 1999. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 to 1999, then from 2000 to 2006. He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the ASX in July 2006, he became a Director of ASX Limited.

Age: 61

Mr Warne is a resident of New South Wales.

Listed Company directorships (last three years)

- Chairman, ALE Property Group (since September 2003)
- Director, ASX Limited (since July 2006)
- Chairman, OzForex Group Limited (now trading as OFX Limited) (September 2013 – November 2016)
- Deputy Chairman, Crowe Horwath Australasia Limited (from September 2008 – January 2015) (Director from May 2007 – January 2015)

Other current directorships/appointments

- Director, New South Wales Treasury Corporation
- Patron, Macquarie University Foundation

Nicholas W Moore, BCom LLB (UNSW), FCA

Managing Director and Chief Executive Officer of MGL since May 2008
Executive Voting Director of MGL since February 2008
Executive Voting Director of MBL since May 2008

Experience

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

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

Age: 58

Mr Moore is a resident of New South Wales.

Other current directorships/appointments

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

DIRECTORS' REPORT SCHEDULE 1 – DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES CONTINUED

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

Independent Voting Director of MGL and MBL since August 2013

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

Experience

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

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

Age: 67

Mr Banks is a resident of Victoria.

Other current directorships/appointments

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

Gordon M Cairns, MA (Hons) (Edin)

Independent Voting Director of MGL and MBL since November 2014

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

Experience

Gordon Cairns has held a range of management and executive roles throughout his career including Chief Executive Officer of Lion Nathan Limited. 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 served as a director on the boards of Lion Nathan Australia Limited and Seven Network Australia Limited and as Chairman of David Jones Limited and Rebel Group Pty Limited.

Age: 66

Mr Cairns is a resident of New South Wales.

Listed Company directorships (last three years)

- Chairman, Woolworths Limited (since September 2015)
- Chairman, Origin Energy Limited (since October 2013) (Director since June 2007)
- Chairman, David Jones Limited (from March 2014 – August 2014)

Other current directorships/appointments

- Director, Quick Service Restaurant Group Pty Ltd
- Director, World Education Australia

Michael J Coleman, MCom (UNSW), FCA, FCPA, FAICD

Independent Voting Director of MGL and MBL since November 2012

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

Experience

A senior audit partner with KPMG for 30 years, Michael Coleman has significant experience in risk management, financial and regulatory reporting and corporate governance.

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

Age: 66

Mr Coleman is a resident of New South Wales.

Listed Company directorships (last three years)

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

Other current directorships/appointments

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

Patricia A Cross, BSc (Hons) (Georgetown), FAICD

Independent Voting Director of MGL and MBL since August 2013

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

Experience

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

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

Age: 57

Mrs Cross is a resident of Victoria.

Listed Company directorships (last three years)

– Director, Aviva plc (since October 2013)

Other current directorships/appointments

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

[redacted]

DIRECTORS' REPORT SCHEDULE 1 – DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES CONTINUED

Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD

Independent Voting Director of MGL and MBL since May 2011

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

Experience

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

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

Age: 68

Ms Grady is a resident of New South Wales.

Listed Company directorships (last three years)

– Director, Spotless Group Holdings Limited (since March 2014)

Other current directorships/appointments

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

Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin, FAIM, FIoD

Independent Voting Director of MGL and MBL since March 2010

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

Experience

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

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

Age: 57

Mr Hawker is a resident of New South Wales.

Listed Company directorships (last three years)

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

Other current directorships/appointments

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

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	**Listed Company directorships (last three years)**
Nicola Wakefield Evans has significant Asia-Pacific experience as a corporate finance lawyer and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors. She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.	– Director, Lend Lease Corporation Limited (since September 2013 – Director, Toll Holdings Limited (May 2011 – May 2015)
Age: 56	**Other current directorships/appointments**
Ms Wakefield Evans is a resident of New South Wales.	– Director, Toll Holdings Limited (delisted) since May 2015 – Director, BUPA ANZ Healthcare Holdings Pty Ltd – Director, BUPA ANZ Insurance Pty Ltd – Member, Asialink (University of Melbourne) and AsiaLink Business – Member, Takeovers Panel – Director, UNSW Foundation Limited – Member, National Board, Australian Institute of Company Directors

COMPANY SECRETARIES' QUALIFICATIONS AND EXPERIENCE

Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW), CPA, FGIA	Paula Walsh, ACIS, MAICD, AAIM	Ida Lawrance, BCom (Hons) (Queens), DipLaw (LPAB), LLM (UNSW), AGIA
Company Secretary since October 2006	*Assistant Company Secretary since May 2008*	*Assistant Company Secretary since July 2016*
Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Corporate Governance Division, responsible for Macquarie's company secretarial requirements, general and professional risks insurances and employee equity plans. He has over 23 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.	Paula Walsh is a Division Director of Macquarie and has over 30 years corporate governance experience. She joined Macquarie in May 2007 and was previously Head of Corporate Governance, Asia Pacific at British Telecommunications plc.	Ida Lawrance is a Division Director of Macquarie and has over 15 years legal and governance experience. Prior to joining Macquarie in March 2006, Ida practiced as a lawyer in both the private and public sectors.

[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT

EXECUTIVE SUMMARY

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

In undertaking this assessment, the Board and the BRC have considered factors including:

- the degree of alignment between staff and shareholders
- Macquarie's performance during the year and the performance of each business
- shareholder returns
- the need to balance short-term and long-term incentives
- feedback from shareholders
- the risk and conduct culture of Macquarie[1]
- the employment environment
- the evolving regulatory landscape
- market developments.

The Board believes that Macquarie's longstanding remuneration approach continues to create a strong alignment of staff and shareholders' interests while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*.

The remuneration framework seeks to attract, motivate and retain exceptional people, while aligning their interests with those of shareholders. It comprises fixed remuneration, a profit share scheme and, for Macquarie's most senior executives, the Executive Committee, Performance Share Units (PSUs). The framework should be considered as an integrated whole. Each component is explained below.

One of the foundations of Macquarie's remuneration structure is the emphasis on performance-based remuneration. Fixed remuneration for senior staff remains low relative to comparable roles in other organisations, although it is sufficient to avoid inappropriate risk-taking. Moreover, it is low as a proportion of overall remuneration. In 2017, fixed remuneration for Macquarie's 12 Executive Committee members comprised approximately 7% of total remuneration. The balance remains at risk and is explicitly linked to performance.

While performance-based remuneration in the form of profit share is aligned with company performance, Macquarie's approach to performance-based remuneration is driven by a detailed assessment at the business group and individual level. The company-wide profit share pool is determined annually with reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital.

The Board has the discretion to adjust the company-wide profit share pool up or down to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. Such factors may include performance, risk and compliance considerations, the employment environment and staff retention risk. As in some previous years, not all the profit share pool has been paid to employees in the current year.

Allocations to business groups and teams reflect their performance and are made with reference to the company-wide profit share pool taking into account each business' relative contribution to profits, capital and funding usage, risk management and compliance, market developments and the employment environment.

Allocations to individuals are based on their performance. The criteria used to assess each individual's performance vary depending on their role and include:

- financial performance
- risk management and compliance
- business leadership
- people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

For staff whose primary role is risk and financial control, including the Chief Risk Officer (CRO) and Chief Financial Officer (CFO), the Board also seeks to ensure that their remuneration preserves the independence of the function and maintains Macquarie's robust risk management framework.

Performance-based remuneration is delivered in ways that encourage a long-term perspective and ensure alignment with shareholders' long-term interests and staff retention. In turn, this encourages staff to maximise net profit after tax (NPAT) and return on ordinary equity (ROE) without exposing Macquarie to risk or behaviours that jeopardise long-term profitability or reputation. To achieve this outcome, a significant portion of performance-based remuneration is:

- retained and deferred over a long period (e.g. the retention rate for the CEO's profit share allocation is 80% retained for up to seven years). Including PSUs, the effective deferral rate for the CEO is 82% for this year
- delivered in a combination of Macquarie equity and Macquarie-managed fund equity
- subject to forfeiture in certain circumstances.

(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

Performance-based remuneration in the form of PSUs provides an additional incentive to Executive Committee members to drive company performance over the long-term over and above their business group responsibilities. They are allocated to Executive Committee members based on their performance, using criteria similar to those used for profit share. PSUs vest in equal tranches after three and four years and are exercisable subject to the achievement of two performance hurdles linked to earnings per share (EPS) and ROE, with no retesting.

Other conditions apply that seek to align staff and shareholder interests. All Executive Directors are subject to a minimum shareholding requirement that can be satisfied by the delivery of equity under the current remuneration arrangements. This provides the strongest incentive to staff to maximise long-term profitability and shareholder returns.

Macquarie prohibits staff from hedging any of the following types of securities:

- shares held to satisfy the minimum shareholding requirement
- deferred and unvested awards to be delivered under the equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP), including PSUs.

Staff can only trade MGL ordinary shares and other securities during designated trading windows.

Macquarie's remuneration outcomes are aligned to business results and shareholder returns.

Macquarie has delivered strong financial results for shareholders while appropriately managing remuneration for staff. The Board is of the view that the remuneration outcomes for senior executives are appropriately aligned to their businesses' performance, Macquarie's performance and the interests of shareholders.

Remuneration outcomes for Executive Key Management Personnel (KMP) varied according to their individual performance and the performance of their business.

A comparison of Macquarie's performance and executive remuneration measures is shown on page 64 of this Remuneration Report.

Macquarie has a strong and effective remuneration governance framework.

The Board and the BRC remain committed to strong remuneration governance structures and processes. Strict processes are in place to ensure that conflicts of interest are appropriately managed. The BRC makes recommendations to the Board on key decisions. The Board (excluding the CEO) approves key remuneration decisions including outcomes for all Executive KMP members.

An independent remuneration review has also been obtained from an independent consultant, Pay Governance, to provide an opinion on the appropriateness of Macquarie's remuneration arrangements.

Non-Executive Director (NED) fees take into account market rates for relevant organisations and market trends within the shareholder approved aggregate limit.

In summary, Macquarie's longstanding approach to remuneration supports the overarching objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of Conduct* and *What We Stand For*.

[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

REMUNERATION FRAMEWORK

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

Macquarie's remuneration framework continues to support the overarching objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*. Directors recognise that to achieve this objective, Macquarie must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders. They consider this is best achieved by supporting the principles set out in the chart below.

Overall remuneration objectives and principles

SUPERIOR COMPANY PERFORMANCE

Align interests of staff and shareholders | **Attract, motivate and retain high quality people**

Directors consider this is best achieved by supporting the following principles:

- remunerating high performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie
- emphasising performance-based remuneration with an appropriate balance between short-term and long-term incentives having regard to risk
- linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
- ensuring remuneration is structured to drive behaviours which reflect Macquarie's culture and promote Macquarie's risk management framework
- delivering remuneration in a way that encourages a long-term perspective and creates alignment with shareholder interests
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives.

CREATING A LONG-TERM FOCUS

Risk considerations

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

The Board and the BRC take risk and behavioural matters very seriously. There are consistent and transparent practices in place for managing non-compliance with Macquarie's policies and to ensure that staff behaviour is aligned with the *Code of conduct* and *What We Stand For*. There are robust processes in place to ensure that these matters are appropriately considered when assessing performance and determining remuneration outcomes.

To assist the BRC:

- the CFO confirms to the BRC that the forecast profit share pool would not result in the elimination of capital surpluses
- the CRO provides an independent annual report to the BRC detailing any material breaches of the risk management framework, losses and impairments, the 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 are appropriately reflected in remuneration outcomes for relevant staff. HR subsequently provides a report to the BRC detailing how this has been achieved
- Macquarie operates a robust consequence management process whereby incidents, breaches of policy or regulation or conduct issues are managed and regularly shared with senior management. The Global Head of HR annually reports to the BRC on the outcomes from the consequence management process and confirms that these matters have been considered in determining remuneration and promotion outcomes where appropriate.

The BRC uses this information when considering the remuneration allocated to businesses and individuals.

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
- PSUs (for Executive Committee members).

The way in which these three elements work together as part of an integrated framework to support the objectives and principles is outlined in the below diagram.

FIXED REMUNERATION

Determine fixed remuneration

- modest compared with similar roles in other organisations but sufficient to avoid inappropriate risk-taking
- compared with profit share, generally higher for risk and financial control staff than for front office staff
- reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements
- no fixed remuneration increases proposed for Executive Committee members for FY2018.

PERFORMANCE-BASED REMUNERATION

Determine company-wide pool

Profit share pool

- determined by reference to a proportion of the Macquarie Group after tax profits and its earnings over and above the estimated cost of capital
- potential for the Board to exercise discretion to adjust the size of the pool up or down.

PSU pool

- reflects the Macquarie Group's overall performance over recent years.

Determine awards

- businesses
- individuals

Profit share pool

- determined in the context of the overall company-wide pool
- considers each business' relative contribution to profits (not revenue) taking into account factors including capital and funding usage, risk management and compliance, market developments and the employment environment
- individual awards are based on performance. Performance criteria vary depending on an individual's role including:
  - financial performance
  - risk management and compliance
  - business leadership
  - people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

PSU pool

- PSUs are only awarded to members of the Executive Committee.

Risk and financial control groups and other support groups

- based on the quality and integrity of control functions and the quality of business support services
- not determined with reference to profitability.

Structure and deliver performance-based remuneration

- create shareholder alignment by adopting an approach where a significant portion of performance-based remuneration is:
  - retained and deferred over a long period
  - delivered in a combination of MGL equity and Macquarie-managed fund equity
  - subject to forfeiture upon leaving the Macquarie Group except in certain circumstances.
- Malus provisions apply to certain senior employees
- employ ROE and EPS as PSU vesting hurdles.

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

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

Profit share retention levels

Macquarie retains a percentage of certain individual's annual gross profit share allocation (retained profit share). The percentage is set according to their role:

Standard retention rates by role for FY2017

Role	Percentage retained (%)
CEO	80
CEO Macquarie Bank	60
Other Executive Committee Members	60 – 70
Designated Executive Directors(2)	50 – 60
Other Executive Directors	40 – 60
Staff other than Executive Directors	25 – 60(3)

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. During FY2017, the retention levels for certain Executive Committee members were increased to further strengthen shareholder alignment.

Investment of retained profit share

An individual's retained profit share is invested in a combination of MGL ordinary shares under the MEREP(4) and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan(5). The following table shows the current percentage allocation of retained profit share that is invested in these two plans for Executive Directors, which is dependent on their role.

Role	Post-2009 DPS Plan (Macquarie-managed fund equity) %	MEREP (MGL ordinary shares) %
CEO MGL and CEO MBL	10	90
Executive Committee members with Funds responsibilities	50	50
Other Executive Committee members	10 – 20	80 – 90
Executive Directors with Funds responsibilities	50 – 75	25 – 50
Other Executive Directors	10 – 20	80 – 90

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.

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 BRC reviews the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities.

In limited circumstances, retained profit share may be allocated to other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of employees with those of their specific types of clients.

A small number of individuals with funds responsibilities may receive a portion of their deferred 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. Currently there are no KMP that participate in these arrangements. 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.

(2) Executive Directors who have a significant management or risk responsibility in the organisation
(3) Above certain monetary thresholds.
(4) The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in MGL ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 32 to the financial statements in the Financial Report
(5) The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. These amounts are required to be disclosed as remuneration for Executive KMP. The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset

Vesting and release of profit share

Whilst employed, retained profit share vests and is released over a period that reflects the scope and nature of an individual's role and responsibilities. The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions, having regard to regulatory and remuneration trends at the time of allocation. For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. The following table shows the current release schedule for retained profit share invested in the Post-2009 DPS Plan and the MEREP.

Role	Release schedule
Executive Committee members (including the Managing Director and CEOs of MGL and MBL), Designated Executive Directors	One-fifth in each of years 3 – 7
Other Executive Directors	One-third in each of years 3 – 5
Staff other than Executive Directors	One-third in each of years 2 – 4

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 jurisdictions outside Australia to ensure compliance with local regulatory requirements.

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 and subsequent years 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 MGL or MBL making a material financial misstatement.

Each of the above is a Malus Event.

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations. This includes, for example, staff in the EU who are required to comply with the UK Remuneration Code. These individuals are subject to additional Malus and clawback provisions under these 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 death, serious incapacitation, genuine retirement, redundancy, disability, serious ill-health or other limited exceptional circumstances. The Board or its delegate, 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 connection with 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 or its delegate may impose such other conditions as it considers appropriate. This year such discretion has been exercised and retained profit share released for nine executives.

[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

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

In addition to the Malus provisions set out above, the Board or its delegate may reduce or eliminate in full the retained profit share of any departing Executive Director for whom discretion has been exercised to accelerate the vesting of their retained profit share upon termination, if it determines that the Executive Director has at any time during or after their employment committed a Malus Event (as described above) or:

a) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
b) joined a competitor.

Each of the above is a Post Employment Event.

In the case of death or serious incapacitation, the Board or its delegates 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 an Executive Director has a tax liability on termination of employment in respect of any unvested retained profit share, the Board or its delegate 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. Additionally, an individual will forfeit their entitlement to receive any such payments if at any time the Board determines that a Malus Event has occurred, or if the individual's employment terminates, unless in the case of death, serious incapacitation, genuine retirement, redundancy, disability or serious ill health. The Board or its delegate has discretion to permit a departing individual to retain all or some of any entitlement they would otherwise forfeit in limited exceptional circumstances as set out above. Where a departing individual retains their entitlement, they will receive a share of performance fees paid proportional to the period from when they became a participant to the end of their employment relative to the period from final close of the fund to the date the performance fee is paid, up to a maximum of 80% of what they would have been entitled to had their employment not ceased.

Performance Share Units (PSUs)

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

Since their introduction, PSUs have been structured as DSUs[6] with performance hurdles. Holders have no right to dividend equivalent payments. In all other respects, holders of these PSUs have the same rights as holders of other DSUs. There is no exercise price for PSUs. The following table summarises the key terms of PSUs and the performance hurdles:

Determination	The Board approves the value of PSUs to be allocated to Executive Committee members each year. The aggregate value of PSUs to be allocated is determined with reference to profits over recent years.
Allocation	The allocation to individuals[7] is based on: – role scope and complexity – financial and non-financial performance assessment against a range of factors including financial results, risk management and compliance, business leadership and people leadership – upholding the *Code of conduct* and *What We Stand For*.
Vesting	Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles.
Upon leaving Macquarie	To ensure continued alignment with shareholders post termination, in the case of death, serious incapacitation, genuine retirement, redundancy, disability, serious ill-health or 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. Unless one of the early release circumstances applies, unvested PSUs will be forfeited on termination.

(6) A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 32 to the financial statements in the Financial Report.
(7) The allocation of PSUs to the CEO, who is an Executive Voting Director, is subject to shareholder approval.

[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

Performance hurdles 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 FY2017.

<table>
<tr><th></th><th>EPS CAGR hurdle</th><th>ROE hurdle</th></tr>
<tr><td>Application to PSU awards</td><td>50%</td><td>50%</td></tr>
<tr><td>Performance measure</td><td>Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years)</td><td>Relative average annual ROE over the vesting period (three to four years) compared with a reference group of global financial institutions(8)</td></tr>
<tr><td>Hurdle</td><td>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.
For awards made prior to 2013, the EPS CAGR hurdle range was 9% - 13%.</td><td>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.</td></tr>
<tr><td>Rationale for hurdles</td><td colspan="2">– ROE and EPS are considered appropriate measures of performance as they drive long-term company performance and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool
– ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control
– The approach is consistent with that advocated by APRA in not using TSR as a measure
– ROE and EPS can be substantiated using information that is disclosed in audited financial statements
– The use of a sliding scale diversifies the risk of not achieving the hurdles, 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
– Macquarie's performance hurdles 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 recognises the extent of Macquarie's diversification and internationalisation. At 31 March 2017, total international income represented approximately 63% of Macquarie's total income with approximately 55% of Macquarie's staff located outside Australia.</td></tr>
</table>

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

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. 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.

The PSUs that vested in July 2016 comprised the second tranche of those awards granted in 2012 and the first tranche of those granted in 2013. As the performance hurdles under each tranche were not met in full, not all of the awards became exercisable. As a result:

	EPS CAGR hurdle			ROE hurdle		
PSU tranche	**Macquarie result (for vesting period)**	**Hurdle**	**Outcome**	**Macquarie result (for vesting period)**	**Hurdle**	**Outcome**
2012 Tranche 2	31.02%	9%-13%	100% exercisable	10.64%	50% above the 50th percentile: (6.78%) 100% at the 75th percentile: 18.57%	88% exercisable
2013 Tranche 1	35.08%	7.5%-12%	100% exercisable	11.85%	50% above the 50th percentile: (4.30%) 100% at the 75th percentile: 6.39%	100% exercisable

PSUs that did not meet performance hurdles expired.

Other features of Macquarie's remuneration structure

Promotion Awards

Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on seniority set with reference to an Australian dollar value.

Minimum shareholding requirement

Executive Directors are required to hold a relevant interest in MGL ordinary shares which have a value equal to 5% of an Executive Director's aggregate profit share allocations for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy.

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 56 to 60 for details
PSU participation	Executive Committee members are eligible to receive PSUs. Refer to pages 61 to 63 for details
Termination of employment	Requires no more than four weeks' notice(9) by Macquarie or the Executive Committee member

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

[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

ALIGNMENT OF REMUNERATION OUTCOMES TO RESULTS

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

Macquarie has delivered strong financial results for shareholders in FY2017. NPAT and EPS have increased by 7% and 6% respectively compared with FY2016. Total compensation has increased broadly in line with the growth in NPAT and EPS, reflecting Macquarie's commitment to delivering appropriate levels of remuneration. In addition, returns to shareholders have been strong with an annual TSR[10] of 44.6% and an increase in ordinary dividends of 18% compared to FY2016.

The Board is of the view that the remuneration outcomes for senior executives are appropriately aligned to their business' performance, Macquarie's performance and the interests of shareholders. To demonstrate the link between pay and performance, a comparison of performance measures and executive remuneration outcomes allows shareholders to see how the remuneration for Executive KMP is aligned with performance. Remuneration outcomes for Executive KMP varied according to their individual performance and the performance of their business.

The analysis below shows that both CEO remuneration and total Executive KMP remuneration have increased broadly in line with the increase in NPAT and EPS.

Comparison of performance measures and executive remuneration measures: FY2016-2017

	Expressed as	2017	2016	Increase/ (Decrease) %
Performance measures				
NPAT	$Am	**2,217**	2,063	7
Basic EPS	Cents per share	**657.6**	619.2	6
Ordinary Dividends	Cents per share	**470.0**	400.0	18
Return on equity	Percent	**15.2**	14.7	
Annual TSR	Percent	**44.6**	(9.9)	
Executive remuneration measures				
Total Compensation Expense	$Am	**4,121**	3,957	4
Compensation Expense to Income ratio	Percent	**39.8**	39.0	
Average staff headcount		**13,990**	13,902	1
Actual staff headcount 31 March		**13,597**	14,372	(5)
Statutory Remuneration – CEO	$Am	**18.71**	18.16	3
Statutory Remuneration – Total Executive KMP	$Am	**126.46**	116.28	9

(10) TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date

Performance over past 10 years: FY2008-2017

Years ended 31 March	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Income Statement										
NPAT attributable to ordinary owners ($Am)	**2,217**	2,063	1,604	1,265	851	730	956	1,050	871	1,803
Basic EPS (cents per share)	**657.6**	619.2	502.3	383.6	251.2	210.1	282.5	320.2	309.6	670.6
Shareholder returns										
Return on average ordinary shareholders' funds (% p.a.)	**15.2**	14.7	14.0	11.1	7.8	6.8	8.8	10.1	9.9	23.7
Dividend – Interim and Final (cents per share)	**470**	400	330	260	200	140	186	186	185	345
Dividend – Special (cents per share)	**–**	–	–	116[11]	–	–	–	–	–	–
Share price at 31 March ($A)	**90.2**	66.1	76.7	57.9	37.2	29.1	36.6	47.3	27.1	52.8
Annual TSR (%)	**44.6**	(9.9)	38.9	66.0	34.4	(15.9)	(18.9)	79.8	(44.0)	(33.6)
10 year TSR (%)	**83.9**	–	–	–	–	–	–	–	–	–

MACQUARIE'S PERFORMANCE RELATIVE TO A REFERENCE GROUP

The analysis below demonstrates that Macquarie has performed well on the following key indicators of ROE and TSR.

The same international investment banking reference group as last year has been used under each heading in the analysis below. The BRC considers these firms to be appropriate on the basis that they broadly operate in the same markets and compete for the same people as Macquarie. Nonetheless, comparisons are complicated as each company has a different business mix. Some companies are or have become parts of larger organisations, often with large retail operations that can distort comparisons. In addition, depending on the business mix, the capital requirements may differ significantly, impacting each companies' capital levels.

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

Return on equity

Macquarie's ROE continues to improve, up from 14.7% in FY2016 to 15.2% in FY2017, and higher than all but one of the comparator group. In addition, Macquarie's three, five and ten-year average annual ROE exceeds all but one of the comparator group.

Comparator company ROE over ten years[12] FY2008-2017

Macquarie versus reference group

	1 year average % p.a.	3 year average % p.a.	5 year average % p.a.	10 year average % p.a.
Macquarie	**15.2**	**14.6**	**12.6**	**12.2**
Average of reference group	7.2	11.0	8.9	7.5
Company	6.8	4.9	4.1	3.0
Company	2.9	0.6	0.3	7.2
Company	(6.3)	(3.0)	(0.2)	3.0
Company	(2.7)	(3.6)	(1.8)	2.6
Company	9.4	9.3	9.9	12.3
Company	10.0	10.0	9.9	9.2
Company	30.4	65.1	47.4	n.a.
Company	8.1	7.2	5.2	5.0
Company	5.9	8.2	5.3	(2.9)

Source: Bloomberg and Annual Reports

(11) 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.
(12) The reference group comprise 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.

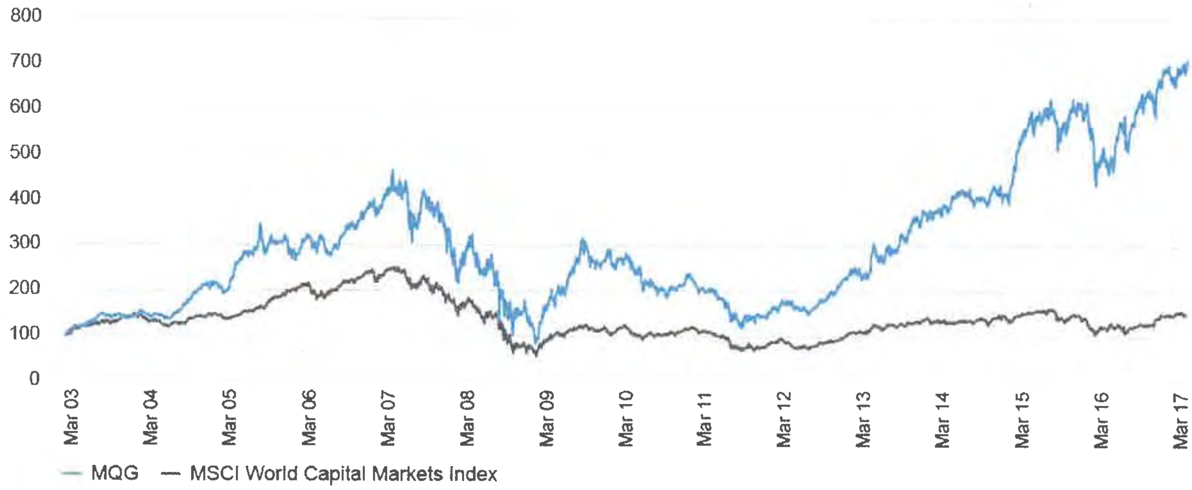
[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

Total shareholder return

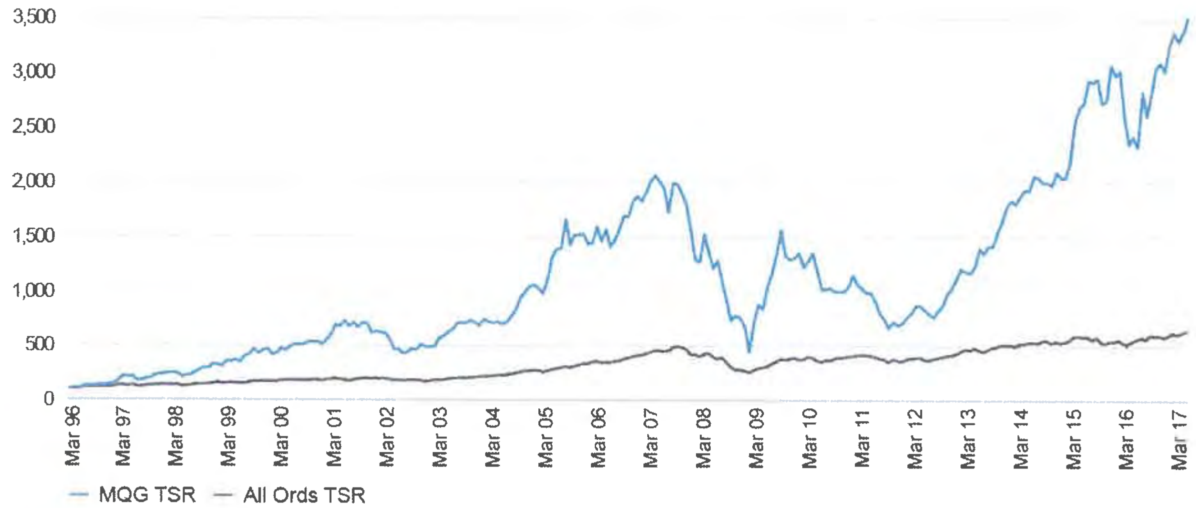
Macquarie's shareholder return over the long-term has been strong and continues to outperform both the MSCI World Capital Markets Index since the inception of this index and the All Ordinaries Accumulation Index (All Ords) since listing.

Macquarie TSR versus the MSCI Index(13)
30 April 2003 to 31 March 2017



Source: Factset

Macquarie TSR versus the All Ords(14)
29 July 1996 to 31 March 2017



Source: Bloomberg

(13) 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, here and throughout this Remuneration Report, 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.

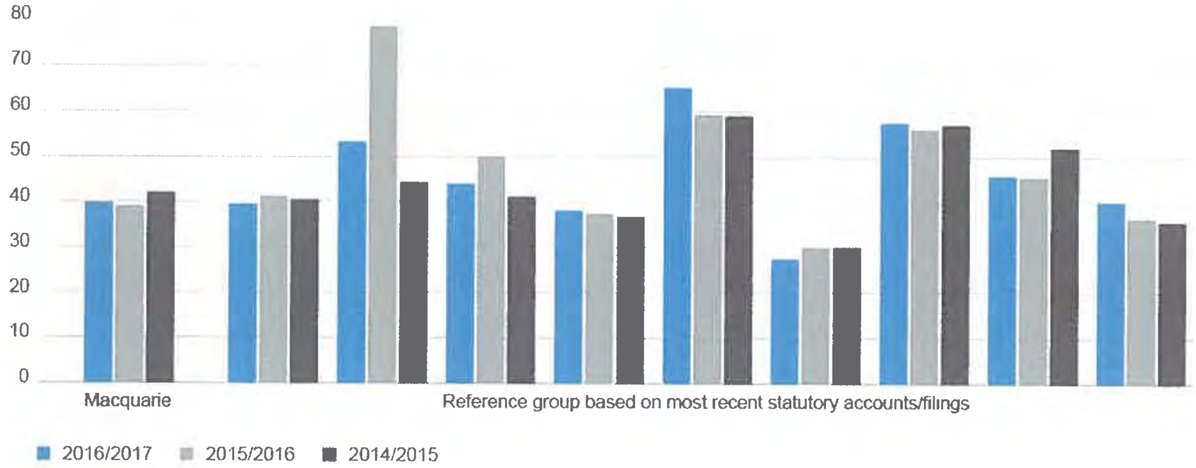
(14) Indexed to 100 on 29 July 1996, being when MBL shares were first quoted on ASX. The All Ords line in the above chart is based on the S&P/ASX 500 Accumulation Index from 31 March 2000. Prior to this, it was based on the All Ords.

Compensation expense to income ratio

One guideline used to evaluate overall remuneration levels is the organisation's compensation expense to income ratio (compensation ratio). The compensation ratio is widely used in the financial services industry as a broad measure of relative remuneration levels. It is not, however, the basis on which Macquarie's profit share pool is determined. Macquarie's compensation ratio is compared with that of a reference group[15] in the following chart. While the compensation ratio effectively adjusts for differences in size between organisations, it is not an entirely adequate measure to use in assessing compensation levels because it fails to take into account factors such as those set out on page 65.

Notwithstanding these factors, Macquarie's FY2017 ratio of 39.8% is lower than all but three of the comparator group.

Compensation ratio: FY2015-FY2017 (%)



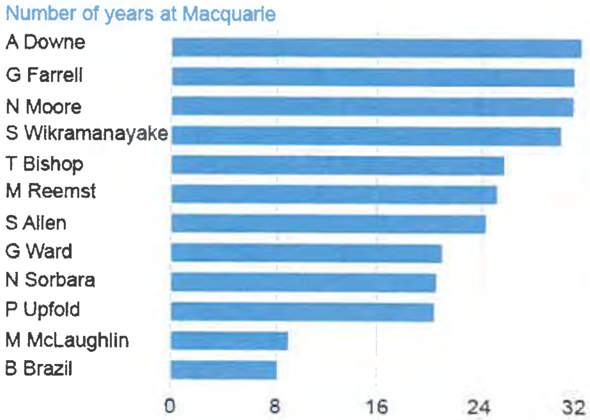
Source: Data has been calculated by Macquarie. The information is based on publicly available information for the reference group. In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some organisations.

Staff retention

One of the primary goals of Macquarie's remuneration arrangements is to attract, motivate and retain high-performing staff. The Board's view is that Macquarie continues to achieve this goal. The 6.8% director-level voluntary turnover rate in FY2017 is lower than the prior year and remains below the voluntary turnover rate across Macquarie overall.

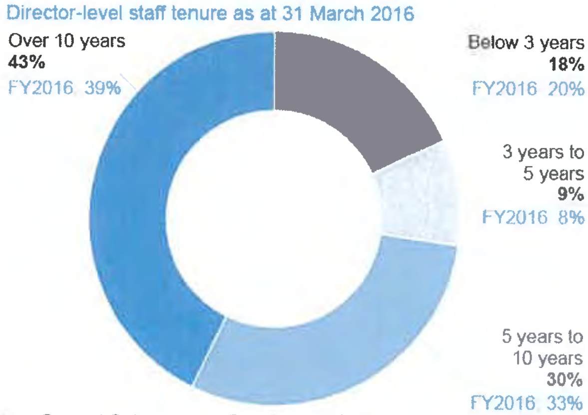
Tenure of Executive Committee members[16]

Macquarie continues to have a highly experienced senior management team. The average tenure of Macquarie's Executive Committee is approximately 23 years.



Director-level staff tenure[17]

This depth of experience continues outside of the Executive Committee. As at 31 March 2017, 43% of Director-level staff had ten or more years' experience with Macquarie, while a further 30% had between five and ten years' experience with Macquarie.



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

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

(17) Directors include all Director-level staff defined as Associate Directors, Division Directors and Executive Directors. As at 31 March 2017, there were a total of 3,038 Director-level staff, of whom 332 were Executive Directors.

[redacted]

REMUNERATION GOVERNANCE

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

Strong Board oversight

The Board oversees Macquarie's remuneration arrangements. 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 NEDs:

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

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

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

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

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

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

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

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

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

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

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 system.

The only service that Pay Governance provides to Macquarie is executive compensation consulting to the BRC. This year, Pay Governance considered the overall approach to remuneration, comparator organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant comparator company information was available. 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
- 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 system 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.

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

NON-EXECUTIVE DIRECTOR REMUNERATION

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

Non-Executive Director remuneration policy

Macquarie's NED remuneration policy achieves its overall objective of appropriate remuneration by:

- Setting Board and Committee fees to reflect the time commitment and responsibilities involved, taking into account market rates for relevant organisations and market trends
- Delivering these fees in a form that is not contingent on Macquarie's performance.

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.

The CEO is not remunerated separately for acting as an Executive Voting Director.

Directors are required to disclose to Macquarie, at least annually, their financing arrangements relating to their Macquarie securities.

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

Board and Committee fees

Board and Committee fees are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. An internal review of NED remuneration was completed in 2016. Following this review, the Boards determined that Board and Committee fees should remain unchanged.

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.

Information on the number of Board and Committee meetings is included on page 46 of the Directors' Report.

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 MGL.

Under the minimum shareholding requirement, NEDs are required to acquire a minimum of 6,000 MGL ordinary shares progressively over a five-year period from the date of their appointment. The Chairman is required to hold a minimum of 12,000 MGL ordinary shares within three years of their appointment as Chairman.

Under Macquarie's *Trading Policy*, NEDs are prohibited from hedging shares held to meet this minimum MGL shareholding requirement. Each NED's current holding of MGL ordinary shares is included on page 45 of the Directors' Report.

MGL and MBL Annual Director Fees

	MGL fees		MBL fees		Total fees	
	Chairman $A	Member $A	Chairman $A	Member $A	Chairman(18) $A	Member $A
Board	615,000	177,500	250,000	72,500	865,000	250,000
BRiC(19)	75,000	35,000	n.a.	n.a.	75,000	35,000
BAC(19)	75,000	35,000	n.a.	n.a.	75,000	35,000
BRC(19)	75,000	35,000	n.a.	n.a.	75,000	35,000
BGCC(19)	75,000	35,000	n.a.	n.a.	75,000	35,000
BNC(19)	n.a.	8,000	n.a.	n.a.	n.a.	8,000

(18) The Board Chairman is not paid separate Committee fees. The Board Chairman is Chairman of the BNC, a member of the BRiC and the BRC, and normally attends BAC and BGCC meetings by invitation.
(19) Macquarie has five standing Board Committees. The BAC and BRiC are joint committees of MGL and MBL. The BRC also advises both Boards.

 [redacted]

APPENDICES: KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

APPENDIX 1: KMP

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. The following table sets out the KMPs for FY2017:

Name	Position
Executive Voting Director	
N.W. Moore	CEO
Non-Executive Directors	
G.R. Banks AO	Independent Director
G.M. Cairns	Independent Director
M.J. Coleman	Independent Director
P.A. Cross	Independent Director
D.J. Grady AM	Independent Director
M.J. Hawker AM	Independent Director
N.M. Wakefield Evans	Independent Director
P.H. Warne	Independent Chairman
Executives	
S.D. Allen	CRO, Head of RMG
T.C. Bishop	Head of Macquarie Capital
B.A. Brazil	Co-Head of CAF
A.J. Downe	Head of CGM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, United States of America
M.J. Reemst	Macquarie Bank CEO
N. Sorbara	COO, Head of COG
P.C. Upfold	CFO, Head of FMG
S. Vrcelj	Former Head of MSG
G.C. Ward	Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

With the exception of Mr S. Vrcelj, who ceased to be a member of the Executive Committee on 29 November 2016:

- all of the above individuals were KMP for the full year
- all of the above Executives as well as the CEO were members of the Executive Committee as at 5 May 2017.

Except where otherwise noted, the remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the Act and in compliance with AASB 124 *Related Party Disclosures*. For the purpose of these disclosures, all the individuals listed above have been determined to be KMP, as defined by AASB 124 *Related Party Disclosures*.

APPENDIX 2: STATUTORY REMUNERATION DISCLOSURES

Executive Remuneration

The remuneration arrangements for all of the persons listed on the previous page as Executive Voting Directors or Executives are described on pages 56 to 63.

Under the requirements of AASB 124 Related Party Disclosures, the remuneration disclosures for the years ended 31 March 2017 and 31 March 2016 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP. So, comparable executive remuneration is confined to those who were Executive KMP for the full year in both FY2017 and FY2016.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2017 will be granted during FY2018, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2016. The expense is estimated using the price of MGL ordinary shares as at 31 March 2017 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.19% per annum, expected vesting dates of PSUs of 1 July 2020 and 1 July 2021, and a dividend yield of 4.94% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

As explained on page 58, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long-Term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the table on page 73). When these amounts are negative, they are deducted from Long-Term Employee Benefits remuneration in the same column.

These earnings on retained DPS amounts 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.

[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

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

			Short-Term Employee Benefits		
Name	Position	Year	Salary (including superannuation) $A	Performance related remuneration[1] $A	Total short-term employee benefits $A
Executive Voting Director					
N.W. Moore[6]	Managing Director and CEO	**2017**	**818,804**	**3,447,296**	**4,266,100**
		2016	819,337	5,316,528	6,135,865
Other Executives					
S.D. Allen	CRO, Head of RMG	**2017**	**770,639**	**2,348,707**	**3,119,346**
		2016	771,140	2,463,988	3,235,128
T.C. Bishop	Head of Macquarie Capital	**2017**	**722,474**	**1,619,472**	**2,341,946**
		2016	711,427	1,830,933	2,542,360
B.A. Brazil	Co-Head of CAF	**2017**	**722,474**	**6,387,347**	**7,109,821**
		2016	722,944	6,747,536	7,470,480
A.J. Downe[7]	Head of CGM	**2017**	**936,281**	**5,564,000**	**6,500,281**
		2016	917,241	2,857,143	3,774,384
G.A. Farrell	Co-Head of CAF	**2017**	**722,474**	**3,030,590**	**3,753,064**
		2016	722,944	3,316,907	4,039,851
M. McLaughlin[7]	Country Head, United States of America	**2017**	**797,240**	**800,000**	**1,597,240**
		2016	815,557	–	815,557
M.J. Reemst	MBL Managing Director and CEO	**2017**	**722,474**	**1,401,648**	**2,124,122**
		2016	687,241	1,492,608	2,179,849
N. Sorbara[8]	COO, Head of COG	**2017**	**698,713**	**1,780,472**	**2,479,185**
		2016	699,168	1,990,144	2,689,312
P.C. Upfold	CFO, Head of FMG	**2017**	**770,639**	**2,121,413**	**2,892,052**
		2016	771,140	2,653,525	3,424,665
G.C. Ward	Deputy Managing Director, Head of BFS	**2017**	**770,639**	**3,030,590**	**3,801,229**
		2016	771,140	2,899,924	3,671,064
S. Wikramanayake	Head of MAM	**2017**	**722,474**	**5,826,309**	**6,548,783**
		2016	722,944	7,789,992	8,512,936
Total Remuneration – Comparable Executive KMP[9]		**2017**	**9,175,325**	**37,357,844**	**46,533,169**
		2016	9,132,223	39,359,228	48,491,451
Former Executives					
S. Vrcelj[10]	Former Head of MSG	**2017**	**485,709**	**189,412**	**675,121**
		2016	722,944	1,137,225	1,860,169
Total Remuneration – Executive KMP (including former executives)		**2017**	**9,661,034**	**37,547,256**	**47,208,290**
		2016	9,855,167	40,496,453	50,351,620

Long-Term Employee Benefits			Share Based Payments				
Restricted profit share[2] $A	Earnings on prior year restricted profit share[3] $A	Total long-term employee benefits $A	Equity awards including shares[4] $A	PSUs[5] $A	Total share-based payments $A	Total Remuneration $A	Percentage of remuneration that consists of PSUs %
1,378,918	478,265	1,857,183	9,004,475	3,586,078	12,590,553	18,713,836	19.16
1,240,523	251,274	1,491,797	7,069,511	3,462,119	10,531,630	18,159,292	19.07
352,306	126,838	479,144	2,017,926	1,688,686	3,706,612	7,305,102	23.12
246,399	68,671	315,070	1,588,305	1,581,667	3,169,972	6,720,170	23.54
377,877	450,920	828,797	2,893,189	2,004,093	4,897,282	8,068,025	24.84
427,218	(12,911)	414,307	2,411,227	1,794,467	4,205,694	7,162,361	25.05
958,102	223,087	1,181,189	6,973,281	1,619,586	8,592,867	16,883,877	9.59
1,012,130	100,086	1,112,216	5,427,698	1,070,664	6,498,362	15,081,058	7.10
834,600	882,811	1,717,411	4,717,101	2,510,939	7,228,040	15,445,732	16.26
428,571	493,797	922,368	3,683,786	2,466,982	6,150,768	10,847,520	22.74
454,589	215,380	669,969	3,201,048	2,506,392	5,707,440	10,130,473	24.74
331,691	155,750	487,441	2,632,648	2,433,409	5,066,057	9,593,349	25.37
120,000	238,882	358,882	1,290,666	562,715	1,853,381	3,809,503	14.77
–	130,290	130,290	1,418,577	530,920	1,949,497	2,895,344	18.34
210,247	72,717	282,964	1,223,635	1,112,092	2,335,727	4,742,813	23.45
149,261	50,881	200,142	924,529	740,077	1,664,606	4,044,597	18.30
267,071	50,565	317,636	1,354,591	1,662,145	3,016,736	5,813,557	28.59
199,014	23,058	222,072	937,227	1,420,192	2,357,419	5,268,803	26.95
318,212	55,845	374,057	1,919,250	1,112,092	3,031,342	6,297,451	17.66
265,353	24,655	290,008	1,425,822	740,077	2,165,899	5,880,572	12.59
909,177	141,766	1,050,943	2,296,985	2,307,839	4,604,824	9,456,996	24.40
579,985	70,610	650,595	1,815,740	2,128,552	3,944,292	8,265,951	25.75
4,369,732	865,262	5,234,994	3,040,082	2,515,794	5,555,876	17,339,653	14.51
3,894,996	393,915	4,288,911	2,329,696	2,487,425	4,817,121	17,618,968	14.12
10,550,831	3,802,338	14,353,169	39,932,229	23,188,451	63,120,680	124,007,018	
8,775,141	1,750,076	10,525,217	31,664,766	20,856,551	52,521,317	111,537,985	
44,196	25,715	69,911	787,901	921,630	1,709,531	2,454,563	37.55
265,353	16,748	282,101	1,077,295	1,524,426	2,601,721	4,743,991	32.13
10,595,027	3,828,053	14,423,080	40,720,130	24,110,081	64,830,211	126,461,581	
9,040,494	1,766,824	10,807,318	32,742,061	22,380,977	55,123,038	116,281,976	

 [redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

Notes to the statutory remuneration disclosures

(1) The cash portion of each person's profit share allocation for the reporting period as an Executive KMP.
(2) The amount of retained profit share that is deferred to future periods and held as a notional investment in Macquarie-managed fund equity (Post-2009 DPS Plan).
(3) The earnings on restricted profit share as described on page 58.
(4) The current year expense for retained profit share that is invested in Macquarie shares under the MEREP as described on page 58. This is recognised as an expense over the respective vesting periods as described on page 59.
(5) The current year expense for PSUs that is recognised over the vesting period as described on page 61.
(9) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2017 and FY2016.

Notes on individuals

(6) Mr Moore's FY2017 statutory remuneration includes $A9.7 million that relates to prior year equity awards that have been previously disclosed and approved by shareholders. In future years it is likely, subject to performance, there will also be an amount that relates to equity awards in respect of years 2010-2016 that have previously been disclosed and approved by shareholders.
(7) Mr Downe and Mr McLaughlin are paid in $SG and $US respectively. They have not received a base remuneration increase during the year. The base salary for FY2017 differs to FY2016 due to exchange rate movements.
(8) Ms Sorbara's FY2017 full-time equivalent salary is $770,639 (FY2016: $771,140)
(10) Mr Vrcelj retired from the Executive Committee on 29 November 2016 and will not receive a PSU grant in respect of FY2017. The amount shown as a PSU share-based payment represents the current year expense in respect of prior year PSU awards.

Non-Executive Director Remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on page 69 of the Remuneration Report. The fees shown include fees paid as members of both the MGL and MBL Boards. Whilst NED fees were unchanged during the current year, FY2017 amounts reflect the full year impact of fee increases effective 1 October 2015.

	Year	Fees $A	Other benefits $A[11]	Total Compensation $A
G.R. Banks[12]	**2017**	**363,000**	**–**	**363,000**
	2016	329,250	–	329,250
G.M. Cairns	**2017**	**328,000**	**–**	**328,000**
	2016	320,500	–	320,500
M.J. Coleman	**2017**	**403,000**	**3,000**	**406,000**
	2016	390,500	12,000	402,500
P.A. Cross	**2017**	**368,000**	**–**	**368,000**
	2016	360,500	–	360,500
D.J. Grady	**2017**	**363,000**	**–**	**363,000**
	2016	350,500	–	350,500
M.J. Hawker[13]	**2017**	**398,914**	**–**	**398,914**
	2016	376,750	–	376,750
H.K. McCann[14]	**2017**	**–**	**–**	**–**
	2016	845,000	–	845,000
N.M. Wakefield Evans[15]	**2017**	**403,000**	**–**	**403,000**
	2016	360,500	–	360,500
P.H. Warne[16]	**2017**	**865,000**	**–**	**865,000**
	2016	360,500	–	360,500
Total Remuneration – Non-Executive KMP	**2017**	**3,491,914**	**3,000**	**3,494,914**
	2016	3,694,000	12,000	3,706,000

(11) Other benefits for NEDs include due diligence committee fees paid to Mr Coleman of $A3 000 (FY2016 $A12 000)
(12) Mr Banks commenced as a member of the BGCC effective 1 January 2016
(13) Mr Hawker commenced as a member of the BRC effective 1 January 2016 and commenced as Chairman effective 8 May 2016 He ceased to be Chairman of the BGCC effective 31 December 2015
(14) Mr McCann retired from the MGL and MBL Boards effective 31 March 2016
(15) Ms Wakefield Evans commenced as Chair of the BGCC effective 1 January 2016
(16) Mr Warne commenced as Chairman of the MGL and MBL Boards and Chairman of the BNC effective 1 April 2016 He ceased to be Chairman of the BRC effective 7 May 2016

APPENDIX 3: 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 2016	Shares received on withdrawal from the MEREP	Other changes[1]	Number of shares held at 31 March 2017[2]
Executive Director				
N.W. Moore	1,849,118	260,029	–	**2,109,147**
Non-Executive Directors				
G.R. Banks	4,916	–	1,500	**6,416**
G.M. Cairns	12,734	–	–	**12,734**
M.J. Coleman[3]	9,051	478	–	**9,529**
P.A. Cross	7,636	–	–	**7,636**
D.J. Grady	7,881	–	425	**8,306**
M.J. Hawker	11,407	–	–	**11,407**
N.M. Wakefield Evans	4,177	–	234	**4,411**
P.H. Warne	14,933	–	–	**14,933**
Executives				
S.D. Allen	46,513	87,463	(100,661)	**33,315**
T.C. Bishop	35,419	74,283	(109,702)	**–**
B.A. Brazil	82,735	74,067	(100,001)	**56,801**
A.J. Downe	68,594	159,795	(199,795)	**28,594**
G.A. Farrell	–	52,944	(52,944)	**–**
M. McLaughlin	–	73,910	(73,910)	**–**
M.J. Reemst	10,902	18,130	(18,130)	**10,902**
N. Sorbara	9,384	28,233	(28,233)	**9,384**
P.C. Upfold	56,885	17,570	696	**75,151**
S. Vrcelj	–	40,282	(40,282)	**–**
G.C. Ward	–	97,194	(97,194)	**–**
S. Wikramanayake	496,804	118,950	–	**615,754**

(1) Includes on-market acquisitions and disposals.
(2) 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 81
(3) 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

Name and position	RSU awards granted to date[4][5]	Grant date	Number vested during the year[6][7]
Executives			
A.J. Downe	**54,749**	**17-Jun-16**	**–**
	57,546	6-Jul-15	–
	75,152	25-Jun-14	4,663
	58,182	25-Jun-13	11,636
	95,575	7-Jun-12	19,115
	82,233	20-Jun-11	16,446
	93,557	30-Jun-10	18,491
	78,150	3-Mar-10	15,268
G.A. Farrell	**41,749**	**17-Jun-16**	**–**
	44,959	6-Jul-15	–
	48,496	25-Jun-14	3,202
	46,229	25-Jun-13	9,245
	88,108	7-Jun-12	17,621
	57,259	20-Jun-11	11,451
M. McLaughlin	**–**	**17-Jun-16**	**–**
	14,501	6-Jul-15	–
	25,321	25-Jun-14	3,085
	28,490	25-Jun-13	5,698
	14,908	7-Jun-12	2,981
M.J. Reemst	**18,787**	**17-Jun-16**	**–**
	14,810	6-Jul-15	–
N. Sorbara	**25,049**	**17-Jun-16**	**–**
	18,512	6-Jul-15	–
	17,105	25-Jun-14	635
	12,327	25-Jun-13	2,465

[redacted]

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

Name and position	RSU awards granted to date[4,5]	Grant date	Number vested during the year[6,7]
Executives			
P.C. Upfold	**33,399**	**17-Jun-16**	**–**
	26,446	6-Jul-15	–
S. Vrcelj	**33,399**	**17-Jun-16**	**–**
	12,694	6-Jul-15	–
	18,792	25-Jun-14	1,090
	52,872	20-Jun-11	10,574
G.C. Ward	**32,445**	**17-Jun-16**	**–**
	26,446	6-Jul-15	–
	31,696	25-Jun-14	2,486
	31,229	25-Jun-13	6,246
	46,460	7-Jun-12	9,292
	43,316	20-Jun-11	8,663
	36,591	30-Jun-10	7,231
	90,110	3-Mar-10	14,438
S. Wikramanayake[10]	**54,473**	**17-Jun-16**	**–**
	42,608	6-Jul-15	–
	47,019	25-Jun-14	2,282
	35,957	25-Jun-13	7,191
	58,075	7-Jun-12	22,420
	35,245	20-Jun-11	1,854
	13,605	30-Jun-10	–
	66,611	3-Mar-10	6,780

(4) Or during the period that the Executive was a KMP.
(5) 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. The above table shows the number of RSUs granted prior to that date adjusted for the impact of the consolidation.
(6) RSUs vesting during the current financial year for grants made prior to Executives becoming a KMP are not disclosed.
(7) 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.
(8) As at 31 March 2017, 32,466 awards granted in previous years are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.
(9) As at 31 March 2017, 40,619 awards granted in previous years are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.
(10) As at 31 March 2017, 27,452 awards granted in previous years are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

PSU awards to KMP

The following tables set out details of PSU awards granted to Executive KMP. PSUs are granted in the financial year following the year of Macquarie's performance to which the grant relates. For example, PSUs granted in August 2016 relate to the Executive KMP's performance in FY2016.

	Granted to date			Forfeited/Lapsed during the financial year[12,13]			Exercised during the financial year[13]	
Name and position	Number[11]	Date	Value $A[11]	Number	%	Value $A[14]	Number exercised	Value $A[15]
Executive Director								
N.W. Moore	**52,887**	**15-Aug-16**	**4,132,590**	–	–	–	–	–
	52,947	17-Aug-15	3,535,271	–	–	–	–	–
	84,920	15-Aug-14	4,067,668	–	–	–	–	–
	78,017	15-Aug-13	3,223,662	–	–	–	39,009	3,015,396
	113,886	15-Aug-12	2,495,242	3,417	3	235,431	53,527	4,137,102
Executives								
S.D. Allen	**26,339**	**15-Aug-16**	**2,058,129**	–	–	–	–	–
	26,369	17-Aug-15	1,760,658	–	–	–	–	–
	36,191	15-Aug-14	1,733,549	–	–	–	–	–
	33,157	15-Aug-13	1,370,047	–	–	–	16,579	1,219,078
	49,411	15-Aug-12	1,082,595	1,483	3	102,179	23,223	1,706,792
T.C. Bishop	**31,524**	**15-Aug-16**	**2,463,285**	–	–	–	–	–
	31,560	17-Aug-15	2,107,261	–	–	–	–	–
	43,315	15-Aug-14	2,074,789	–	–	–	–	–
	39,895	15-Aug-13	1,648,462	–	–	–	19,947	1,467,301
	25,308	15-Aug-12	554,499	760	3	52,364	11,894	879,323
B.A. Brazil	**41,023**	**15-Aug-16**	**3,205,537**	–	–	–	–	–
	35,298	17-Aug-15	2,356,847	–	–	–	–	–
A.J. Downe	**37,332**	**15-Aug-16**	**2,917,122**	–	–	–	–	–
	37,374	17-Aug-15	2,495,462	–	–	–	–	–
	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,193	15-Aug-13	2,197,935	–	–	–	26,597	2,071,274
	101,232	15-Aug-12	2,217,993	3,038	3	209,318	47,579	3,699,222
G.A. Farrell	**37,332**	**15-Aug-16**	**2,917,122**	–	–	–	–	–
	37,374	17-Aug-15	2,495,462	–	–	–	–	–
	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,194	15-Aug-13	2,197,976	–	–	–	–	–
	92,796	15-Aug-12	2,033,160	2,785	3	191,887	–	–
M. McLaughlin	**8,296**	**15-Aug-16**	**648,249**	–	–	–	–	–
	8,305	17-Aug-15	554,525	–	–	–	–	–
	13,393	15-Aug-14	641,525	–	–	–	–	–
	12,412	15-Aug-13	512,864	–	–	–	6,205	453,072
	15,064	15-Aug-12	330,053	452	3	31,143	7,080	517,110

DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT
CONTINUED

	Granted to date			Forfeited/Lapsed during the financial year[12]			Exercised during the financial year[13]	
Name and position	Number[11]	Date	Value $A[11]	Number	%	Value $A[14]	Number exercised	Value $A[15]
M.J. Reemst	**26,339**	**15-Aug-16**	**2,058,129**	–	–	–	–	–
	26,369	17-Aug-15	1,760,658	–	–	–	–	–
N. Sorbara	**26,339**	**15-Aug-16**	**2,058,129**	–	–	–	–	–
	26,369	17-Aug-15	1,760,658	–	–	–	–	–
	36,191	15-Aug-14	1,733,549	–	–	–	–	–
	33,158	15-Aug-13	1,370,088	–	–	–	16,579	1,215,536
P.C. Upfold	**26,339**	**15-Aug-16**	**2,058,129**	–	–	–	–	–
	26,369	17-Aug-15	1,760,658	–	–	–	–	–
S. Vrcelj	**27,999**	**15-Aug-16**	**2,187,842**	–	–	–	–	–
	28,030	17-Aug-15	1,871,563	–	–	–	–	–
	38,470	15-Aug-14	1,842,713	–	–	–	–	–
	35,463[16]	15-Aug-13	1,383,005	–	–	–	17,731	1,306,813
G.C. Ward	**36,087**	**15-Aug-16**	**2,819,838**	–	–	–	–	–
	36,128	17-Aug-15	2,412,267	–	–	–	–	–
	49,584	15-Aug-14	2,375,074	–	–	–	–	–
	45,569	15-Aug-13	1,882,911	–	–	–	22,784	1,669,598
	55,436	15-Aug-12	1,214,603	1,664	3	114,650	26,054	1,908,855
S. Wikramanayake	**37,332**	**15-Aug-16**	**2,917,122**	–	–	–	–	–
	37,374	17-Aug-15	2,495,462	–	–	–	–	–
	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,193	15-Aug-13	2,197,935	–	–	–	26,597	1,983,604
	110,270	15-Aug-12	2,416,016	3,309	3	227,990	51,826	3,865,183

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 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 2016 PSU allocation has been determined based on a valuation of a PSU at 15 August 2016. The fair value of $A77.54 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	1.84% per annum
Expected vesting dates	1 July 2019 and 1 July 2020
Dividend yield	4.76% per annum

PSUs have a nil exercise price. PSUs vest on a pro-rata basis as set out on page 61. For the 2016 grant, the first tranche will vest on 1 July 2019. The PSUs expire on 17 August 2024.

(11) 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. The above table shows the number of PSUs granted prior to that date adjusted for the impact of the consolidation. The value is based on the fair value per share at grant date multiplied by the adjusted number of awards.
(12) Performance hurdles for PSU awards issued on or after 15 August 2012 and vesting at 1 July 2016 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.
(13) One ordinary share was issued as a result of the exercise of one PSU.
(14) Based on closing share price at 30 June 2016, being the day the PSUs were forfeited.
(15) Based on the share price at the time of exercise.
(16) PSUs were formally issued on 17 February 2014.

MEREP awards of KMP and their related parties[17]

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

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

Name and position	Type of Award	Number of Awards held at 1 April 2016	Awards granted during the financial year[18]	Awards vested/exercised during the financial year[19]	Awards not able to be exercised due to performance hurdles not met[20]	Number of awards held at 31 March 2017
Executive Director						
N.W. Moore	RSU	625,050	156,144	167,493	–	**613,701**
	PSU	272,828	52,887	92,536	3,417	**229,762**
Executives						
S.D. Allen[21]	RSU	171,616	31,014	47,661	–	**154,969**
	PSU	120,423	26,339	39,802	1,483	**105,477**
T.C. Bishop[21]	RSU	202,799	53,773	42,442	–	**214,130**
	PSU	127,424	31,524	31,841	760	**126,347**
B.A. Brazil	RSU	478,706	127,396	74,067	–	**532,035**
	PSU	35,298	41,023	–	–	**76,321**
A.J. Downe	RSU	364,269	54,749	85,619	–	**333,399**
	PSU	199,032	37,332	74,176	3,038	**159,150**
G.A. Farrell	RSU	259,592	41,749	52,944	–	**248,397**
	PSU	194,815	37,332	–	2,785	**229,362**
M. McLaughlin	RSU	187,054	–	60,625	–	**126,429**
	PSU	41,642	8,296	13,285	452	**36,201**
M.J. Reemst	RSU	87,520	18,787	18,130	–	**88,177**
	PSU	26,369	26,339	–	–	**52,708**
N. Sorbara	RSU	66,615	25,049	11,654	–	**80,010**
	PSU	95,718	26,339	16,579	–	**105,478**
P.C. Upfold	RSU	113,703	33,399	17,570	–	**129,532**
	PSU	26,369	26,339	–	–	**52,708**
S. Vrcelj	RSU	80,406	33,399	22,551	–	**91,254**
	PSU	101,963	27,999	17,731	–	**112,231**
G.C. Ward	RSU	178,948	32,445	48,356	–	**163,037**
	PSU	158,999	36,087	48,838	1,664	**144,584**
S. Wikramanayake[21]	RSU	205,849	54,473	40,527	–	**219,795**
	PSU	203,550	37,332	78,423	3,309	**159,150**

(17) A related party of Mr M J 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.
(18) Awards are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs and PSUs disclosed as granted above relate to FY2016.
(19) 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.
(20) Performance hurdles for PSU awards issued on or after 15 August 2012 and vesting at 1 July 2016 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.
(21) Refer to footnotes (8), (9) and (10) in the table 'RSU Awards to KMP' on pages 76 to 78.

[redacted]

APPENDIX 4: OTHER KMP DISCLOSURES

Other transactions with KMP and their related parties

Certain KMP and their related parties have acquired investments in certain products from subsidiaries within Macquarie. These products typically involve the issuance of investment units and have been financed with limited recourse loans. Some are accounted for as fee and commission income when acting on behalf of investors. This fee represents the service performed by Macquarie for transferring interest received from investors in exchange for their investment unit returns. The gross receipts by Macquarie were $2,700 thousand (2016: $1,100 thousand). Others are subject to swap agreements and are accounted for as derivatives by Macquarie. All the arrangements between the investor and Macquarie are subject to a legal right of set-off.

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

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

Aggregated amounts recognised by Macquarie	Balance at 31 March 2017 $A'000	Balance at 31 March 2016 $A'000
Trading income	**838**	800
Fee and Commission income	**397**	174

Contributions in respect of these products relate to the following Key Management Personnel: S. Wikramanayake.

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 2008 through to 31 March 2017 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

4

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FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTENTS

The Financial Report was authorised for issue by the Board of Directors on 5 May 2017.
The Board of Directors has the power to amend and reissue the Financial Report.

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

		CONSOLIDATED		COMPANY	
	Notes	2017 $m	2016 $m	2017 $m	2016 $m
Interest and similar income	2	**5,138**	5,461	**447**	519
Interest expense and similar charges	2	**(2,953)**	(3,182)	**(488)**	(433)
Net interest income/(expense)		**2,185**	2,279	**(41)**	86
Fee and commission income	2	**4,331**	4,862	**10**	–
Net trading income/(expense)	2	**1,769**	2,067	**(39)**	22
Net operating lease income	2	**921**	880	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	2	**51**	4	**–**	–
Other operating income and charges	2	**1,107**	66	**4,087**	4,320
Net operating income		**10,364**	10,158	**4,017**	4,428
Employment expenses	2	**(4,379)**	(4,244)	**(4)**	(4)
Brokerage, commission and trading-related expenses	2	**(852)**	(892)	**–**	(4)
Occupancy expenses	2	**(392)**	(397)	**–**	–
Non-salary technology expenses	2	**(644)**	(587)	**–**	–
Other operating expenses	2	**(993)**	(1,023)	**(2)**	(2)
Total operating expenses		**(7,260)**	(7,143)	**(6)**	(10)
Operating profit before income tax		**3,104**	3,015	**4,011**	4,418
Income tax expense	4	**(868)**	(927)	**(2)**	(39)
Profit after income tax		**2,236**	2,088	**4,009**	4,379
Profit attributable to non-controlling interests:					
Macquarie Income Securities	5	**(15)**	(16)	**–**	–
Macquarie Income Preferred Securities	5	**–**	(1)	**–**	–
Other non-controlling interests		**(4)**	(8)	**–**	–
Profit attributable to non-controlling interests		**(19)**	(25)	**–**	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		**2,217**	2,063	**4,009**	4,379
		Cents per share			
Basic earnings per share	6	**657.6**	619.2		
Diluted earnings per share	6	**644.5**	600.1		

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

		CONSOLIDATED		COMPANY	
	Notes	2017 $m	2016 $m	2017 $m	2016 $m
Profit after income tax		2,236	2,088	4,009	4,379
Other comprehensive income:					
Movements in items that may be subsequently reclassified to profit or loss:					
Available for sale investments, net of tax	28				
Revaluation gains taken to equity		107	152	–	–
Impairment transferred to income statement		32	86	–	–
Realisation from sale transferred to income statement		(301)	(126)	–	–
Cash flow hedges, revaluation gains taken to equity, net of tax	28	15	(34)	–	–
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	28	(1)	1	–	–
Exchange differences on translation of foreign operations, net of hedge and tax		(130)	(188)	–	–
Movements in items that will not be reclassified to profit or loss:					
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax		(30)	–	–	–
Total other comprehensive expense		(308)	(109)	–	–
Total comprehensive income		1,928	1,979	4,009	4,379
Total comprehensive (income)/expense attributable to non-controlling interests:					
Macquarie Income Securities holders		(15)	(16)	–	–
Macquarie Income Preferred Securities holders		–	(5)	–	–
Other non-controlling interests		(3)	6	–	–
Total comprehensive income attributable to non-controlling interests		(18)	(15)	–	–
Total comprehensive income attributable to ordinary equity holders of Macquarie Group Limited		1,910	1,964	4,009	4,379

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2017

		CONSOLIDATED		COMPANY	
	Notes	2017 $m	2016 $m	2017 $m	2016 $m
Assets					
Receivables from financial institutions	7	27,471	33,128	–	–
Trading portfolio assets	8	26,933	23,537	–	–
Derivative assets		12,106	17,983	–	–
Investment securities available for sale	9	6,893	11,456	–	–
Other assets	10	16,558	12,496	70	36
Loan assets held at amortised cost	11	76,663	80,366	–	–
Other financial assets at fair value through profit or loss	13	1,502	1,649	–	–
Due from subsidiaries	30	–	–	10,009	10,853
Property, plant and equipment	14	11,009	11,521	–	–
Interests in associates and joint ventures accounted for using the equity method	15	2,095	2,691	–	–
Intangible assets	16	1,009	1,078	–	–
Investments in subsidiaries	17	–	–	22,644	20,339
Deferred tax assets	18	638	850	26	74
Total assets		182,877	196,755	32,749	31,302
Liabilities					
Trading portfolio liabilities	19	5,067	5,030	–	–
Derivative liabilities		11,128	14,744	–	–
Deposits	20	57,708	52,245	11	–
Other liabilities	21	15,031	13,103	160	198
Payables to financial institutions	22	17,072	23,860	2,413	2,850
Due to subsidiaries	30	–	–	945	873
Debt issued at amortised cost	23	50,828	63,685	5,746	6,425
Other financial liabilities at fair value through profit or loss	24	2,404	2,672	–	–
Deferred tax liabilities	18	621	543	–	–
Total liabilities excluding loan capital		159,859	175,882	9,275	10,346
Loan capital	26	5,748	5,209	1,130	1,126
Total liabilities		165,607	181,091	10,405	11,472
Net assets		17,270	15,664	22,344	19,830
Equity					
Contributed equity	27	6,290	6,422	8,933	9,097
Reserves	28	1,396	1,536	804	686
Retained earnings	28	7,877	7,158	12,607	10,047
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		15,563	15,116	22,344	19,830
Non-controlling interests	28	1,707	548	–	–
Total equity		17,270	15,664	22,344	19,830

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							CONSOLIDATED
Balance as at 1 April 2015		5,947	1,656	6,306	13,909	487	14,396
Profit after income tax		–	–	2,063	2,063	25	2,088
Other comprehensive expense, net of tax		–	(99)	–	(99)	(10)	(109)
Total comprehensive (expense)/income		–	(99)	2,063	1,964	15	1,979
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs		532	–	–	532	–	532
Dividends paid	5,28	–	–	(1,208)	(1,208)	–	(1,208)
Purchase of shares by MEREP Trust	27	(383)	–	–	(383)	–	(383)
Sale of Treasury shares	27	20	–	–	20	–	20
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(3)	(3)	78	75
Dividends and distributions paid or provided for		–	–	–	–	(32)	(32)
Other equity movements:							
MEREP expense	28	–	298	–	298	–	298
Additional deferred tax benefit on MEREP expense	28	–	4	–	4	–	4
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards	28	–	(17)	–	(17)	–	(17)
– to contributed equity for equity settled awards	27,28	271	(271)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity	27,28	55	(55)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	27,28	(20)	20	–	–	–	–
		475	(21)	(1,211)	(757)	46	(711)
Balance as at 31 March 2016		6,422	1,536	7,158	15,116	548	15,664
Profit after income tax		–	–	2,217	2,217	19	2,236
Other comprehensive expense, net of tax		–	(277)	(30)	(307)	(1)	(308)
Total comprehensive (expense)/income		–	(277)	2,187	1,910	18	1,928
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs		1	–	–	1	–	1
Dividends paid	5,28	–	–	(1,462)	(1,462)	–	(1,462)
Purchase of shares by MEREP Trust	27	(433)	–	–	(433)	–	(433)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(6)	(6)	1,160	1,154
Dividends and distributions paid or provided for		–	–	–	–	(19)	(19)
Other equity movements:							
MEREP expense	28	–	382	–	382	–	382
Additional deferred tax benefit on MEREP expense	28	–	57	–	57	–	57
Net other movements in treasury shares	27	(2)	–	–	(2)	–	(2)
Transfer from share-based payments reserve to contributed equity for equity settled awards	27,28	277	(277)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity	27,28	39	(39)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	27,28	(14)	14	–	–	–	–
		(132)	137	(1,468)	(1,463)	1,141	(322)
Balance as at 31 March 2017		6,290	1,396	7,877	15,563	1,707	17,270

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
					COMPANY
Balance as at 1 April 2015		8,667	654	6,864	16,185
Profit after income tax		–	–	4,379	4,379
Total comprehensive income		–	–	4,379	4,379
Transactions with equity holders in their capacity as ordinary equity holders:					
Contributions of ordinary equity, net of transaction costs		538	–	–	538
Dividends paid	5,28	–	–	(1,196)	(1,196)
Purchase of shares by MEREP Trust	27	(383)	–	–	(383)
Sale of Treasury shares	27	17	–	–	17
Other equity movements:					
MEREP expense relating to employees of subsidiaries	28	–	298	–	298
Additional deferred tax benefit on MEREP expense	28	–	9	–	9
Transfer from share-based payments reserve:					
– to other liabilities for cash settled awards	28	–	(17)	–	(17)
– to contributed equity for equity settled awards	27,28	271	(271)	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity	27,28	7	(7)	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	27,28	(20)	20	–	–
		430	32	(1,196)	(734)
Balance as at 31 March 2016		9,097	686	10,047	19,830
Profit after income tax		–	–	4,009	4,009
Total comprehensive income		–	–	4,009	4,009
Transactions with equity holders in their capacity as ordinary equity holders:					
Contributions of ordinary equity, net of transaction costs		3	–	–	3
Dividends paid	5,28	–	–	(1,449)	(1,449)
Purchase of shares by MEREP Trust	27	(433)	–	–	(433)
Other equity movements:					
MEREP expense relating to employees of subsidiaries	28	–	382	–	382
Additional deferred tax benefit on MEREP expense	28	–	2	–	2
Transfer from share-based payments reserve to contributed equity for equity settled awards	27,28	277	(277)	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity	27,28	3	(3)	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	27,28	(14)	14	–	–
		(164)	118	(1,449)	(1,495)
Balance as at 31 March 2017		8,933	804	12,607	22,344

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

[redacted]

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

		CONSOLIDATED		COMPANY	
	Notes	2017 $m	2016 $m	2017 $m	2016 $m
Cash flows (used in)/from operating activities					
Interest and similar income received		5,161	5,455	447	519
Interest expense and similar charges paid		(2,843)	(3,125)	(428)	(426)
Dividends and distributions received		209	226	1,787	2,199
Fees and other non-interest income received		4,484	4,961	10	6
Fees and commissions paid		(909)	(835)	–	(4)
Operating lease income received		1,607	1,541	–	–
Net proceeds from/(payments for) trading portfolio assets and other financial assets/liabilities		3,901	(2,114)	(11)	–
Payments to non-trading portfolio suppliers		(1,401)	(2,065)	–	–
Employment expenses paid		(3,885)	(4,102)	(4)	(17)
Income tax paid		(723)	(1,178)	(257)	(125)
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		1,181	1,056	–	–
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		(1,077)	(972)	–	–
Net loan assets realised/(granted)		1,012	(1,013)	1,522	191
Net margin money (paid)/received		(1,104)	314	–	–
Net movement in payables to other financial institutions, deposits and other borrowings		(11,001)	15,359	(1,184)	507
Net payments for assets under operating lease		(320)	(685)	–	–
Net cash flows (used in)/from operating activities	29	(5,708)	12,823	1,882	2,850
Cash flows from/(used in) investing activities					
Net proceeds from/(payments for) investment securities available for sale		3,212	(2,406)	–	–
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		2,869	1,897	–	2,121
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		(2,619)	(14,580)	–	(4,461)
Proceeds from the disposal of property, plant and equipment and intangible assets		–	34	–	–
Payments for the acquisition of property, plant and equipment and intangible assets		(329)	(183)	–	–
Net cash flows from/(used in) investing activities		3,133	(15,238)	–	(2,340)
Cash flows from/(used in) financing activities					
Proceeds from the issue of ordinary shares		–	530	–	530
Proceeds from non-controlling interests		1,160	120	–	–
Proceeds from the issue of loan capital		980	1,503	–	522
Payments on redemption of loan capital		(221)	(718)	–	–
Payments on redemption of Macquarie Income Preferred Securities		–	(82)	–	–
Dividends and distributions paid		(1,477)	(1,228)	(1,449)	(1,196)
Net payments for treasury shares	27	(433)	(363)	(433)	(366)
Net cash flows from/(used in) financing activities		9	(238)	(1,882)	(510)
Net decrease in cash and cash equivalents		(2,566)	(2,653)	–	–
Cash and cash equivalents at the beginning of the financial year		14,320	16,973	–	–
Cash and cash equivalents at the end of the financial year	29	11,754	14,320	–	–

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

NOTE 1
Summary of significant accounting policies
(i) Basis of preparation

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

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

This Financial Report has been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and certain assets and liabilities (including derivative instruments) at fair value.

Critical accounting estimates and significant judgements

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

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

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

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

New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current financial year

AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

AASB 2015-5 introduces a choice in application of the equity method by a non-investment entity investor to an investment entity investee. When a non-investment entity investor applies the equity method to an investment entity associate or joint venture, the investor may retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries, or reverse the fair value measurement to conform to the accounting policies of the investor.

AASB 2015-5 is required to be retrospectively applied.

Application in the current year did not have a material impact on the financial position or performance of the Consolidated Entity.

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

AASB 9 Financial Instruments

AASB 9 Financial Instruments will replace AASB 139 Financial Instruments: Recognition and Measurement with an effective date for Macquarie of 1 April 2018. The new standard results in changes to accounting policies for financial assets and financial liabilities covering classification and measurement, impairment and hedge accounting.

Classification and Measurement:

Financial assets

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

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

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

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

Amortised cost

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

(i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 1
Summary of significant accounting policies continued

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTOCI

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

(i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTPL

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

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

Business model assessment

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

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

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

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

Financial liabilities

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

Impairment:

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

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

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

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

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

(i) Stage 1 – 12 month ECL

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

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

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

(iii) Stage 3 – Lifetime ECL credit-impaired

An ECL is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate (EIR) for that exposure. This modelling methodology does not change from AASB 139. For credit-impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for forward-looking information.

(iv) Purchased or originated credit-impaired

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

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

(v) Simplified model for trade receivables and operating lease receivables

The Consolidated Entity may choose to adopt a simplified model for these exposures which measures ECL under the Stage 2 approach unless the exposures are credit impaired in which case they would be measured under the Stage 3 approach. The Consolidated Entity must apply this simplified model to trade and other receivables that do not contain a significant financing component.

Hedge accounting:

Hedge accounting under AASB 9 is more closely aligned with financial risk management, and may be applied to a greater variety of hedging instruments and risks.

NOTE 1

Summary of significant accounting policies continued

Implementation Project:

A project was initiated in 2015 to manage the implementation of AASB 9 while considering all available accounting and regulatory guidance. The project is jointly sponsored by the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO). A steering committee has been established that is responsible for governance of the project and includes senior executives from the Financial Management Group, Risk Management Group and Corporate Operations Group.

The key responsibilities of the steering committee include setting scope and milestones for the project, ensuring proper resourcing, setting accounting policy, making key project decisions and communicating the impact of the project.

The classification and measurement stream has defined the significant business models and cash flow characteristics for all financial assets under the scope of AASB 9.

The Consolidated Entity does not expect to irrevocably elect to present subsequent changes in the fair value of equity instruments in other comprehensive income (OCI), which means that investment securities available for sale – equity instruments will be classified at FVTPL upon adoption of AASB 9.

The combined application of the contractual cash flow characteristics and business model tests to balances that existed as at 31 March 2017 will result in an increase in financial assets measured at fair value, if the standard was adopted as at 31 March 2017. This measurement change is not expected to result in a material change to equity. This assessment and the transition adjustment to retained earnings is subject to the composition of financial assets held at the date of transition.

The impairment stream of the project is continuing to focus on the design and development of the ECL impairment model components for PD, LGD, EAD and SICR, including incorporating forward-looking information. The models are being developed for retail and wholesale exposures separately which reflects the way the Consolidated Entity manages credit risk.

The impairment stream is also focused on defining the operational requirements for the calculation of ECL and the design of the technology solution for tracking credit migration and calculating ECL.

Until the models have been developed and tested, the Consolidated Entity is unable to provide a quantitative impact of the adoption of the standard, however, based on estimates on 31 March 2017 balances, the adoption is not expected to result in a material change to equity.

The hedging stream is currently focused on amending the hedge documentation and policies to be applied on transition. The adoption of the hedge accounting requirements is not expected to have a material impact when compared to AASB 139.

Transition:

The Consolidated Entity will not early adopt AASB 9 other than the requirement relating to own credit risk which was adopted prospectively from 1 October 2016 as the retrospective impact was not considered to be material. Fair value movements relating to own credit risk on financial liabilities designated at fair value through profit or loss were previously recognised in the Income Statement and will now be recognised in Other Comprehensive Income.

All other changes in accounting policies from the adoption of the standard will be applied from 1 April 2018 with no restatement of comparative periods. Differences arising in the carrying value of financial assets and liabilities will be recognised as an adjustment to opening retained earnings and reserves at 1 April 2018.

AASB 15 Revenue from Contracts with Customers

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

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

The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2018 and is expected to apply the standard retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings.

AASB 15 specifically excludes financial instruments. As such, the impacted revenue streams are limited to fee-based revenue items such as performance fees, corporate advisory and underwriting fees and asset management fees.

An assessment has been performed on existing revenue streams. Based on this assessment, it is not expected that Macquarie will be materially impacted. Any transition adjustment to retained earnings is subject to the revenue streams existing at the date of transition.

AASB 16 Leases

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

AASB 16 is effective for the Consolidated Entity for the annual periods beginning 1 April 2019 with the option to early adopt in the financial year beginning 1 April 2018.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 1

Summary of significant accounting policies continued

An initial assessment has been performed based on leases that exist in the current reporting period. Based on this assessment, it is not anticipated that there will be a material impact to the statement of financial position or equity, regardless of the method for calculating the 'right-of-use' asset that is adopted. This assessment is subject to the composition of operating leases at the date of transition. A schedule of current operating lease commitments is disclosed in Note 34.

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

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

The requirements are effective for Macquarie on 1 April 2018. The Consolidated Entity has early adopted this amendment. Retrospective application did not have a material impact on the financial position nor performance of the Consolidated Entity.

(ii) Principles of consolidation

Subsidiaries

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

(i) power to direct the relevant activities

(ii) exposure to significant variable returns, and

(iii) the ability to utilise power to affect the Consolidated Entity's own returns.

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

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

Structured entities

Structured Entities (SEs) are those entities where voting rights do not have a significant effect on its returns, including where voting rights relate to administrative tasks only and contractual arrangements dictate how the entity should carry out its activities.

When assessing whether the Consolidated Entity controls (and therefore consolidates) a SE, judgement is required as to whether the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE.

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

Consolidation

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

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

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

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

Interests in associates and joint ventures accounted for using the equity method

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

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

NOTE 1

Summary of significant accounting policies continued

(iii) Business combinations

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

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

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

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

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

(iv) Segment reporting

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

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

(vi) Revenue and expense recognition

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

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 1
Summary of significant accounting policies continued

Net interest income

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

Fee and commission income

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

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

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

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

Net trading income

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

Net operating lease income

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

Dividends and distributions

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

(vii) Taxation

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

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

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

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

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

Tax consolidation

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

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

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

NOTE 1

Summary of significant accounting policies continued

Goods and services tax (GST)

Items in the profit or loss and amounts capitalised to the statement of financial position as assets are recognised net of GST (or other value-added tax), except where the tax incurred is not recoverable from the taxation authority. In these circumstances, the tax is recognised as part of the expense or included in the cost of the asset.

Receivables and payables are inclusive of GST. Cash flows are presented on a gross basis in the statements of cash flow.

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

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

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

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

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

(ix) Recognition and derecognition of financial instruments

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

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

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

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

(x) Trading portfolio assets and liabilities

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

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

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

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

(xi) Derivative instruments

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

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

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

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 1
Summary of significant accounting policies continued

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

(xii) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in Note 38 - Fair value of financial assets and financial liabilities. Movements in the cash flow hedging reserve in equity are shown in Note 28 - Reserves, retained earnings and non-controlling interests.

(xiii) Investments and other financial assets

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

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

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

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

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

Investment securities available for sale

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

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

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

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

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

NOTE 1

Summary of significant accounting policies

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

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

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

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

(xv) Impairment

Loan assets held at amortised cost

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

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

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

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

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

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

Investment securities available for sale

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

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

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

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

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

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

Interests in associates and joint ventures

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

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 1
Summary of significant accounting policies continued

(xv) Impairment (continued)

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

An impaired investment in an associate or joint venture is written off, either partially or in full, when there is no reasonable expectation of recovering cash flows from the investment, and all avenues of recovery have been exhausted. Recoveries from investments in associates or joint ventures previously written off are recorded based on the cash received.

Investments in subsidiaries

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

(xvi) Life insurance business

The life insurance business is comprised of insurance contracts and investment contracts as defined in AASB 4 *Insurance Contracts*. The following are key accounting policies in relation to the life insurance business:

Disclosure

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Company in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, and AASB 1038 *Life Insurance Contracts* which apply to investment contracts and assets backing insurance liabilities, respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets

Investment assets are carried at fair value through profit or loss. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (and for unlisted securities), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Changes in fair values are recognised in the income statement in the period in which the changes occur.

Restriction on assets

Investments held in the life insurance business can only be used within the restrictions imposed under the *Life Insurance Act 1995*. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, acquire investments to further the business of the fund or pay distributions when solvency and capital adequacy requirements allow. Shareholders can only receive a distribution when the capital adequacy requirements of the *Life Insurance Act 1995* have been met.

Policy liabilities

Life insurance liabilities are measured as the accumulated benefits to policyholders in accordance with AASB 139 and AASB 1038, which apply to investment contracts and assets backing insurance liabilities, respectively.

(xvii) Property, plant and equipment

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

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

Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements[1]	10 to 20%
Equipment	33 to 50%
Infrastructure assets	2 to 10%
Aviation[2]	2 to 8%
Meters	5 to 10%
Rail cars	3 to 5%
Other operating lease assets	2 to 50%

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

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

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

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

NOTE 1

Summary of significant accounting policies continued

(xviii) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

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

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

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

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

Software

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

Impairment

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

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

(xix) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

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

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

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

Interest expense on such items is recognised in the income statement as interest expense using the effective interest method.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 1
Summary of significant accounting policies continued

(xxi) Provisions

Employee benefits

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

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

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

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

Dividends

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

(xxii) Earnings per share

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

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

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

(xxiii) Performance based remuneration

Share-based payments

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

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

Profit share remuneration

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

(xxiv) Cash and cash equivalents

Cash and cash equivalents comprise of:

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

(xxv) Investment property

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

(xxvi) Leases

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

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

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

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

(xxvii) Offsetting financial instruments

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

NOTE 1

Summary of significant accounting policies continued

(xxviii) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method (for debt host component of convertible preference securities and subordinated debt at amortised cost).

(xxix) Contributed equity

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

(xxx) 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 profit or loss.

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

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

(xxxi) Comparatives

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

(xxxii) Rounding of amounts

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

 [redacted]

NOTES TO THE FINANCIAL STATEMENTS
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	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m
NOTE 2				
Profit for the financial year				
Net interest income/(expense)				
Interest and similar income received/receivable	5,138	5,461	447	519
Interest expense and similar charges paid/payable	(2,953)	(3,182)	(488)	(433)
Net interest income/(expense)	2,185	2,279	(41)	86
Fee and commission income				
Base fees	1,580	1,582	–	–
Performance fees	264	714	–	–
Mergers and acquisitions, advisory and underwriting fees	963	962	–	–
Brokerage and commissions	813	888	–	–
Other fee and commission income[1]	711	716	10	–
Total fee and commission income	4,331	4,862	10	–
Net trading income/(expense) [2]				
Equities	452	597	–	–
Commodities[3]	1,163	1,274	–	–
Credit, interest rate and foreign exchange products	154	196	(39)	22
Net trading income/(expense)	1,769	2,067	(39)	22
Net operating lease income				
Rental income[4]	1,646	1,541	–	–
Depreciation on operating lease assets	(725)	(661)	–	–
Net operating lease income	921	880	–	–
Share of net profits of associates and joint ventures accounted for using the equity method	51	4	–	–

(1) Includes life investment and insurance premium income of $161 million (2016: $266 million) and related expenses of $128 million (2016: $194 million).
(2) Includes net fair value gain of $64 million (2016: $162 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This amount includes $31 million loss (2016: $49 million gain) in relation to changes in the fair value of liabilities designated as held at fair value through profit or loss due to changes in the Consolidated Entity's credit risk. From 1 October 2016 fair value movements due to changes in the Consolidated Entity's credit risk were recognised in Other Comprehensive Income.
Fair value changes relating to derivatives are also reported in net trading income which largely offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met. Refer to Note 1(xi) – Derivative instruments.
(3) Includes transportation and storage costs of $266 million (2016: $300 million).
(4) Includes net supplemental rent on aircraft of $128 million (2016: $130 million).

NOTE 2

Profit for the financial year continued

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Other operating income and charges				
Net gain on sale of investment securities available for sale	419	188	–	–
Impairment charge on investment securities available for sale	(47)	(121)	–	–
Net gain on sale of interests in associates and joint ventures	286	222	–	–
Impairment charge on interests in associates and joint ventures	(27)	(24)	–	–
Gain on disposal of assets under operating lease	16	8	–	–
Net gain on disposal, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale(1)	613	152	–	–
Impairment reversal on subsidiaries	–	–	2,300	–
Impairment charge on intangible assets and other non-financial assets	(99)	(77)	–	–
Dividends/distributions received/receivable from:				
Investment securities available for sale	95	156	–	–
Subsidiaries (Note 30)	–	–	1,787	4,320
Individually assessed provisions for impairment and write-offs:				
Loan assets provided for (Note 11)	(201)	(470)	–	–
Other receivables provided for	(9)	(25)	–	–
Recovery of loans previously provided for (Note 11)	19	32	–	–
Recovery of other receivables previously provided for	19	4	–	–
Loans written off	(148)	(112)	–	–
Recovery of loans previously written off	44	23	–	–
Collective allowance for credit losses reversed/(provided for) during the financial year:				
Loan assets (Note 11)	20	(26)	–	–
Other assets	(15)	(3)	–	–
Other income	122	139	–	–
Total other operating income and charges(2)	1,107	66	4,087	4,320
Net operating income	10,364	10,158	4,017	4,428

(1) Includes $240 million gain on sale of Macquarie Life's risk insurance business Refer Note 42 – Acquisitions and disposals of subsidiaries and businesses

(2) Prior comparative financial year has been reclassified to conform to current financial year presentation Net operating lease income was previously reported as a component of total other operating income and charges

 [redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m
NOTE 2				
Profit for the financial year continued				
Employment expenses				
Salary and related costs including commissions, superannuation and performance-related profit share	(3,691)	(3,611)	(4)	(4)
Share-based payments[1]	(416)	(339)	–	–
Provision for long service leave and annual leave	(14)	(7)	–	–
Total compensation expenses	(4,121)	(3,957)	(4)	(4)
Other employment expenses including on-costs, staff procurement and staff training	(258)	(287)	–	–
Total employment expenses	(4,379)	(4,244)	(4)	(4)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	(674)	(688)	–	–
Other fee and commission expenses	(178)	(204)	–	(4)
Total brokerage, commission and trading-related expenses	(852)	(892)	–	(4)
Occupancy expenses				
Operating lease rentals	(219)	(230)	–	–
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 14)	(73)	(70)	–	–
Other occupancy expenses	(100)	(97)	–	–
Total occupancy expenses	(392)	(397)	–	–
Non-salary technology expenses				
Information services	(189)	(179)	–	–
Depreciation: equipment (Note 14)	(27)	(25)	–	–
Service provider and other non-salary technology expenses	(428)	(383)	–	–
Total non-salary technology expenses	(644)	(587)	–	–
Other operating expenses				
Professional fees	(385)	(374)	–	–
Travel and entertainment expenses	(154)	(173)	–	–
Advertising and promotional expenses	(80)	(85)	–	–
Amortisation of intangible assets (Note 16)	(35)	(61)	–	–
Auditor's remuneration (Note 41)	(36)	(34)	–	–
Communication expenses	(35)	(34)	–	–
Depreciation: infrastructure assets (Note 14)	(16)	(18)	–	–
Other expenses	(252)	(244)	(2)	(2)
Total other operating expenses	(993)	(1,023)	(2)	(2)
Total operating expenses	(7,260)	(7,143)	(6)	(10)

(1) Includes $33 million (2016: $41 million) of share-based payment expense for cash settled awards.

NOTE 3

Segment reporting

(i) Operating segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into five Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. There were previously six Operating Groups and during the year ended 31 March 2017 Commodities and Financial Markets merged with Macquarie Securities to form CGM. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

MAM provides clients with access to a diverse range of capabilities and products, including infrastructure and real asset management, securities investment management and tailored investment solutions over funds and listed equities.

CAF delivers tailored finance and asset management solutions to clients through the cycles, specialising in corporate and real estate lending and with an expertise in asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail, rotorcraft and mining equipment.

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

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

Macquarie Capital provides global corporate finance services, including M&A, debt and equity capital markets and principal investments, with key specialities in six industry groups: Infrastructure; Real Estate; TMET; Resources; Industrials; FIG.

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

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

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

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

Internal funding arrangements

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

Generally, Operating Groups may only source funding directly from external sources when there is recourse only to the assets being funded and not to the Consolidated Entity.

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

Transactions between Operating Groups

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

Accounting for derivatives that economically hedge interest rate risk

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

Central Service Groups

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

Performance-related profit share and share-based payments expense

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

Income tax

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

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 3
Segment reporting continued
(i) Operating segments continued

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment for the financial year. Prior financial year comparative information has been reclassified to conform to current financial year presentation.

	Macquarie Asset Management $m	Corporate and Asset Finance $m	Banking and Financial Services $m
Net interest and trading (expense)/income	**(42)**	**712**	**1,049**
Fee and commission income/(expense)	**2,067**	**53**	**472**
Net operating lease income	**14**	**904**	**–**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**45**	**–**	**6**
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	**14**	**(111)**	**(91)**
Other other operating income and charges	**454**	**233**	**207**
Internal management revenue/(charge)	**44**	**40**	**5**
Net operating income	**2,596**	**1,831**	**1,648**
Total operating expenses	**(1,057)**	**(634)**	**(1,135)**
Profit/(loss) before tax	**1,539**	**1,197**	**513**
Tax expense	**–**	**–**	**–**
(Profit)/loss attributable to non-controlling interests	**(1)**	**1**	**–**
Net profit/(loss) contribution attributable to ordinary equity holders	**1,538**	**1,198**	**513**
Reportable segment assets	**8,017**	**38,159**	**38,106**

Net interest and trading (expense)/income	(15)	848	941
Fee and commission income/(expense)	2,504	43	526
Net operating lease income	12	865	–
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(16)	7	1
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	(14)	(167)	(43)
Other other operating income and charges	239	67	35
Internal management revenue/(charge)	–	60	4
Net operating income	2,710	1,723	1,464
Total operating expenses	(1,053)	(594)	(1,114)
Profit/(loss) before tax	1,657	1,129	350
Tax expense	–	–	–
(Profit)/loss attributable to non-controlling interests	(13)	1	–
Net profit/(loss) contribution attributable to ordinary equity holders	1,644	1,130	350
Reportable segment assets	6,726	41,005	39,522

Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
			CONSOLIDATED 2017
2,060	**14**	**161**	**3,954**
857	**887**	**(5)**	**4,331**
–	**–**	**3**	**921**
–	**28**	**(28)**	**51**
(149)	**(97)**	**(10)**	**(444)**
181	**368**	**108**	**1,551**
(1)	**6**	**(94)**	**–**
2,948	**1,206**	**135**	**10,364**
(1,976)	**(722)**	**(1,736)**	**(7,260)**
972	**484**	**(1,601)**	**3,104**
–	**–**	**(868)**	**(868)**
(1)	**(1)**	**(17)**	**(19)**
971	**483**	**(2,486)**	**2,217**
86,107	**3,521**	**8,967**	**182,877**
			CONSOLIDATED 2016
2,285	16	271	4,346
922	870	(3)	4,862
–	–	3	880
1	(11)	22	4
(347)	(187)	(41)	(799)
57	475	(8)	865
(3)	15	(76)	–
2,915	1,178	168	10,158
(2,071)	(732)	(1,579)	(7,143)
844	446	(1,411)	3,015
–	–	(927)	(927)
–	5	(18)	(25)
844	451	(2,356)	2,063
92,673	4,578	12,251	196,755

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 3
Segment reporting continued

(ii) Products and services

For the purposes 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, and
- **Capital Markets:** advisory, underwriting, facilitation, broking, principal investments and real estate/property development.

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m
Revenue from external customers		
Lending	5,712	5,518
Financial Markets	3,618	3,993
Asset and Wealth Management	2,914	3,328
Capital Markets	2,638	2,425
Total revenue from external customers(1)	14,882	15,264

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

(iii) Geographical areas

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

	CONSOLIDATED 2017		CONSOLIDATED 2016	
	Revenue from external customers $m	Non-current assets(1) $m	Revenue from external customers $m	Non-current assets(1) $m
Australia	5,969	2,087	6,202	1,641
Europe, Middle East and Africa(2)	3,789	9,735	3,706	11,274
Americas(3)	3,750	2,393	3,989	2,412
Asia Pacific	1,374	278	1,367	248
Total	14,882	14,493	15,264	15,575

(1) Non-current assets consist of intangible assets, interests in associates and joint ventures accounted for using the equity method, property, plant and equipment and investment property.
(2) Included within this balance is external revenue generated in the United Kingdom of $2,898 million (2016: $2,763 million).
(3) Included within this balance is external revenue generated in the United States of America of $3,532 million (2016: $3,829 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customers.

NOTE 4

Income tax expense

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
(i) Income tax expense				
Current tax (expense)/benefit	**(486)**	(876)	**44**	(47)
Deferred tax (expense)/benefit	**(382)**	(51)	**(46)**	8
Total income tax expense	**(868)**	(927)	**(2)**	(39)
(ii) Numerical reconciliation of income tax expense to prima facie tax payable				
Prima facie income tax expense on operating profit(1)	**(931)**	(905)	**(1,203)**	(1,325)
Tax effect of amounts which are non-assessable/(not deductible) in calculating taxable income:				
Rate differential on offshore income	**75**	(21)	**5**	6
Impairment reversal on subsidiaries	**–**	–	**690**	–
Intra-group dividend	**–**	–	**536**	1,296
Other items	**(12)**	(1)	**(30)**	(16)
Total income tax expense	**(868)**	(927)	**(2)**	(39)
(iii) Tax benefit/(expense) relating to items of other comprehensive income				
Available for sale reserve	**54**	21	**–**	–
Cash flow hedges	**(13)**	(14)	**–**	–
Share of other comprehensive expense of associates and joint ventures	**–**	(1)	**–**	–
Foreign currency translation reserve	**2**	3	**–**	–
Total tax benefit relating to items of other comprehensive income	**43**	9	**–**	–
(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities				
Fixed assets	**(9)**	82	**–**	–
Intangible assets	**9**	12	**–**	–
Investments	**(89)**	5	**–**	–
Tax losses	**(77)**	(24)	**–**	13
Leasing and financial instruments	**(207)**	(57)	**–**	–
Other assets and liabilities	**(9)**	(69)	**(46)**	(5)
Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities	**(382)**	(51)	**(46)**	8

(1) Prima facie income tax on operating profit is calculated at the rate of 30% (2016: 30%).

Revenue authorities undertake risk reviews and audits as part of their normal activities.

The Consolidated Entity has assessed these and other taxation claims and litigation, including seeking advice where appropriate, and considers that it holds appropriate provisions.

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
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CONTINUED

NOTE 5
Dividends and distributions paid or provided for

(i) Dividends paid

	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m
Ordinary share capital and exchangeable shares				
Final dividend paid (2016: $2.40 (2015: $2.00) per share)[1],[2]	**816**	667	**809**	660
Interim dividend paid (2017: $1.90 (2016: $1.60) per share)[3]	**646**	541	**640**	536
Total dividends paid (Note 28)	**1,462**	1,208	**1,449**	1,196

(1) Final dividend paid by the Consolidated Entity includes $7 million (2016: $6 million) of dividend equivalent amount paid to Deferred Share Unit (DSU) holders as described in Note 32 – Employee equity participation.
(2) Final dividend paid by the Consolidated Entity includes $nil (2016: $1 million) of dividend paid to the holders of exchangeable shares as described in Note 27 – Contributed equity.
(3) Interim dividend paid by the Consolidated Entity includes $6 million (2016: $5 million) of dividend equivalent amount paid to DSU holders as described in Note 32 – Employee equity participation

The 2016 final and 2017 interim dividends paid during the financial year were franked at 40% and 45% respectively based on tax paid at 30% (full year to 31 March 2016: 40% franked on tax paid at 30%). The dividends paid to the holders of exchangeable shares were not franked.

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

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

Since the end of the financial year, the Directors have resolved to pay a 2017 final dividend of $2.80 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 2017 from retained profits at 31 March 2017, but not recognised as a liability at the end of the financial year is $951 million (net of $3 million to be received on treasury shares (refer to Note 27 – Contributed equity for further details of these instruments)). This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 31 March 2017.

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Cash dividend per ordinary share (distribution of current year profits) ($ per share)	**4.70**	4.00	**4.70**	4.00
Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2016: 30%) ($m)	**199**	306	**199**	306

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.

NOTE 5

Dividends and distributions paid or provided for continued

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
(iii) Distributions paid or provided for				
Macquarie Income Securities[1]				
Distributions paid (net of distributions previously provided for)	12	13	–	–
Distributions provided for	3	3	–	–
Total distributions paid or provided for	15	16	–	–
Macquarie Income Preferred Securities[2]				
Distributions paid (net of distributions previously provided for)	–	1	–	–
Total distributions paid	–	1	–	–

(1) The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Refer to Note 28 – Reserves, retained earnings and non-controlling interests for further details on MIS.
(2) Macquarie Income Preferred Securities (MIPS) were redeemed in June 2015.

NOTE 6

Earnings per share

	CONSOLIDATED 2017	CONSOLIDATED 2016
	Cents per share	
Basic earnings per share	657.6	619.2
Diluted earnings per share	644.5	600.1
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	$m	$m
Profit after income tax	2,236	2,088
Profit attributable to non-controlling interests:		
Macquarie Income Securities	(15)	(16)
Macquarie Income Preferred Securities	–	(1)
Other non-controlling interests	(4)	(8)
Total profit attributable to ordinary equity holders of MGL	2,217	2,063
Less profit attributable to participating unvested MEREP awards	(105)	(112)
Total earnings used in the calculation of basic earnings per share	2,112	1,951
Add back : Profit attributable to dilutive participating unvested MEREP awards	65	79
Adjusted interest expense on loan capital	115	95
Total earnings used in the calculation of diluted earnings per share	2,292	2,125

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NOTE 6
Earnings per share continued

	CONSOLIDATED 2017	CONSOLIDATED 2016
	Number of shares	
Total weighted average number of equity shares (net of treasury shares) used in the calculation of basic earnings per share	**321,147,160**	315,077,420
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)	**321,147,160**	315,077,420
Potential equity shares:		
Weighted average unvested MEREP awards(1)	**12,658,678**	16,029,615
Weighted average loan capital(2)	**21,795,249**	23,011,767
Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share	**355,601,087**	354,118,802

(1) For details of MEREP awards, refer to Note 32 – Employee equity participation.
(2) For details of loan capital, refer to Note 26 – Loan capital.

NOTE 7
Receivables from financial institutions

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Cash and other receivables(1)	**9,464**	9,196	**–**	–
Cash collateral on securities borrowed and reverse repurchase agreements(2)	**18,007**	23,932	**–**	–
Total receivables from financial institutions	**27,471**	33,128	**–**	–

(1) Included within this balance is $147 million (2016: $134 million) provided as security over payables to other financial institutions.
(2) The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2017 is $18,205 million (2016: $25,675 million). For certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral that the Consolidated Entity is permitted to sell or re-pledge in the absence of default is $18,205 million (2016: $25,640 million), of which the fair value of collateral sold or re-pledged is $4,629 million (2016: $6,344 million).

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

NOTE 8

Trading portfolio assets

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Equities				
Listed	12,121	9,774	–	–
Unlisted	11	45	–	–
Commodities	5,601	4,462	–	–
Commonwealth government securities	4,862	4,857	–	–
Foreign government securities and treasury notes	2,509	2,125	–	–
Corporate loans and securities	1,758	2,220	–	–
Other	71	54	–	–
Total trading portfolio assets[1]	26,933	23,537	–	–

(1) Included within these balances are trading assets of $5,200 million (2016 $4,058 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements

The above amounts are 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 2017
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	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
NOTE 9				
Investment securities available for sale				
Debt securities(1)	4,851	9,078	–	–
Equity securities				
Listed	899	1,104	–	–
Unlisted	1,143	1,274	–	–
Total investment securities available for sale(2)	**6,893**	**11,456**	**–**	**–**

(1) Includes $509 million (2016: $479 million) provided as security over payables to financial institutions.
(2) Includes $nil (2016: $599 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $1,919 million (2016: $4,553 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
NOTE 10				
Other assets				
Security settlements	6,529	5,961	–	–
Debtors and prepayments	5,609	4,169	26	14
Interests in associates and assets of disposal group classified as held for sale(1)	2,802	656	–	–
Life investment linked contracts and other unitholder assets	721	850	–	–
Income tax receivable	471	476	44	22
Investment properties(2)	380	288	–	–
Other	46	96	–	–
Total other assets(3)	**16,558**	**12,496**	**70**	**36**

(1) Includes $1,733 million (2016: $nil) relating to an indirect investment in a gas distribution network in the United Kingdom acquired during the financial year exclusively with an intention to sell. This investment is held in a consortium vehicle that forms part of the Consolidated Entity. Non-controlling interest for the amounts contributed by external investors to the consortium vehicle of $1,171 million are included in Note 28 – Reserves, retained earnings and non-controlling interests.
(2) The fair value of investment properties was determined by independent valuers and classified as Level 3 in the fair value hierarchy (as defined in Note 38 - Fair value of financial assets and financial liabilities).
(3) Includes $437 million (2016: $388 million) provided as security over payables to financial institutions.

Of the above amounts, $15,807 million (2016: $12,099 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $70 million (2016: $36 million) by the Company.

NOTE 11

Loan assets held at amortised cost

	CONSOLIDATED 2017			CONSOLIDATED 2016		
	Gross $m	Individually assessed provisions for impairment $m	Net $m	Gross $m	Individually assessed provisions for impairment $m	Net $m
Residential mortgage loans[1]	30,338	(3)	30,335	31,378	(14)	31,364
Lease and retail financing[1]	19,772	(66)	19,706	19,480	(55)	19,425
Corporate and commercial lending	16,861	(347)	16,514	18,651	(343)	18,308
Margin money placed	7,376	–	7,376	8,526	–	8,526
Relationship banking mortgages	2,453	–	2,453	2,241	–	2,241
Investment and insurance premium lending	737	(1)	736	1,023	(1)	1,022
Total loan assets before collective allowance for credit losses	77,537	(417)	77,120	81,299	(413)	80,886
Less collective allowance for credit losses			(457)			(520)
Total loan assets held at amortised cost [2],[3]			76,663			80,366

(1) Included within this balance are loans of $16,332 million (2016: $18,087 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.
(2) Included within this balance are other loans of $767 million (2016: $2,924 million) pledged as security over issued notes and payables to other external investors and financial institutions.
(3) Loans of $nil (2016: $811 million) are pledged as collateral to secure liabilities under repurchase agreements and stock lending arrangements.

Of the above amounts, $28,765 million (2016: $32,850 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 2017
CONTINUED

	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m
NOTE 11				
Loan assets held at amortised cost continued				
Individually assessed provisions for impairment				
Balance at the beginning of the financial year	413	621	–	–
Provided for during the financial year (Note 2)	201	470	–	–
Loan assets written off or sold, previously provided for	(206)	(624)	–	–
Recovery of loans previously provided for (Note 2)	(19)	(32)	–	–
Net transfer from collective provisions	30	–	–	–
Foreign exchange movements	(2)	(22)	–	–
Balance at the end of the financial year	417	413	–	–
Individually assessed provisions as a percentage of total gross loan assets	0.54%	0.51%	–	–
Collective allowance for credit losses				
Balance at the beginning of the financial year	520	428	–	–
(Reversed)/provided for during the financial year (Note 2)	(20)	26	–	–
(Disposal)/acquisition during the financial year	(7)	66	–	–
Net transfer (to specific)/from other provisions	(30)	5	–	–
Foreign exchange movements	(6)	(5)	–	–
Balance at the end of the financial year	457	520	–	–

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

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

	CONSOLIDATED 2017			CONSOLIDATED 2016		
	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	2,569	(267)	2,302	2,068	(198)	1,870
Later than one year and not later than five years	3,820	(436)	3,384	4,223	(435)	3,788
Later than five years	108	(24)	84	156	(34)	122
Total	6,497	(727)	5,770	6,447	(667)	5,780

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m

NOTE 12

Impaired financial assets

	2017 $m	2016 $m	2017 $m	2016 $m
Debt investment securities available for sale before cumulative impairment loss	49	131	–	–
Cumulative impairment loss	(48)	(68)	–	–
Debt investment securities available for sale	1	63	–	–
Impaired loan assets and other financial assets before individually assessed provision for impairment	1,071	915	–	–
Less individually assessed provision for impairment	(501)	(483)	–	–
Loan assets and other financial assets after individually assessed provision for impairment	570	432	–	–
Total net impaired financial assets	**571**	**495**	–	–

NOTE 13

Other financial assets at fair value through profit or loss

	2017 $m	2016 $m	2017 $m	2016 $m
Investment securities				
Equity	869	1,109	–	–
Debt	72	72	–	–
Loan assets	561	468	–	–
Total other financial assets at fair value through profit or loss(1)	**1,502**	**1,649**	–	–

(1) Includes $10 million (2016: $398 million) provided as security over payables to financial institutions

Of the above amounts, $788 million (2016: $1,046 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

[redacted]

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NOTE 14
Property, plant and equipment

	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m
Assets for own use				
Land and buildings				
Cost	278	277	–	–
Less accumulated depreciation	(13)	(8)	–	–
Total land and buildings	265	269	–	–
Furniture, fittings and leasehold improvements				
Cost	670	717	–	–
Less accumulated depreciation	(458)	(493)	–	–
Total furniture, fittings and leasehold improvements	212	224	–	–
Equipment				
Cost	114	133	–	–
Less accumulated depreciation	(81)	(89)	–	–
Total equipment	33	44	–	–
Infrastructure assets				
Cost	561	440	–	–
Less accumulated depreciation	(28)	(13)	–	–
Total infrastructure assets	533	427	–	–
Total assets for own use	1,043	964	–	–
Assets under operating lease				
Aviation				
Cost	10,167	10,476	–	–
Less accumulated depreciation	(1,996)	(1,597)	–	–
Total aviation	8,171	8,879	–	–
Meters				
Cost	1,146	1,081	–	–
Less accumulated depreciation	(411)	(391)	–	–
Total meters	735	690	–	–
Rail cars				
Cost	762	840	–	–
Less accumulated depreciation	(129)	(114)	–	–
Total rail cars	633	726	–	–
Others				
Cost	603	407	–	–
Less accumulated depreciation	(176)	(145)	–	–
Total others	427	262	–	–
Total assets under operating lease	9,966	10,557	–	–
Total property, plant and equipment	11,009	11,521	–	–

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

NOTE 14

Property, plant and equipment continued

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

Assets for own use	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Balance as at 1 April 2015	296	257	43	159	755
Acquisitions	6	90	28	427	551
Disposals	(10)	(21)	(1)	(152)	(184)
Reclassification	(17)	(35)	–	35	(17)
Foreign exchange movements	–	(3)	(1)	(24)	(28)
Depreciation expense (Note 2)	(6)	(64)	(25)	(18)	(113)
Balance as at 31 March 2016	**269**	**224**	**44**	**427**	**964**
Acquisitions	**3**	**74**	**17**	**182**	**276**
Disposals	**(2)**	**(15)**	**(1)**	**–**	**(18)**
Foreign exchange movements	**–**	**(3)**	**–**	**(60)**	**(63)**
Depreciation expense (Note 2)	**(5)**	**(68)**	**(27)**	**(16)**	**(116)**
Balance as at 31 March 2017	**265**	**212**	**33**	**533**	**1,043**

Included in the balance of assets for own use are assets pledged as security over payables to financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $14 million (2016: $3 million).

Assets under operating lease	Aviation $m	Meters $m	Rail cars $m	Other $m	Total $m
Balance as at 1 April 2015	4,526	777	744	277	6,324
Acquisitions	5,122	144	12	73	5,351
Disposals	(25)	(57)	–	(6)	(88)
Reclassification	–	(36)	(1)	(3)	(40)
Impairments	(39)	–	–	(3)	(42)
Foreign exchange movements	(264)	(24)	1	–	(287)
Depreciation expense (Note 2)	(441)	(114)	(30)	(76)	(661)
Balance as at 31 March 2016	**8,879**	**690**	**726**	**262**	**10,557**
Acquisitions	**43**	**272**	**3**	**252**	**570**
Disposals	**(256)**	**–**	**–**	**(14)**	**(270)**
Reclassification	**1**	**(33)**	**–**	**1**	**(31)**
Impairments	**(19)**	**–**	**–**	**–**	**(19)**
Foreign exchange movements	**44**	**(91)**	**(68)**	**(1)**	**(116)**
Depreciation expense (Note 2)	**(521)**	**(103)**	**(28)**	**(73)**	**(725)**
Balance as at 31 March 2017	**8,171**	**735**	**633**	**427**	**9,966**

Included in the balance of assets under operating leases are assets pledged as security over payables to financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $3,028 million (2016: $3,134 million).

[redacted]

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NOTE 14

Property, plant and equipment continued

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

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Assets under operating lease				
Not later than one year	1,130	1,134	–	–
Later than one year and not later than five years	2,508	2,845	–	–
Later than five years	531	831	–	–
Total future minimum lease payments receivable	4,169	4,810	–	–

NOTE 15

Interests in associates and joint ventures accounted for using the equity method

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Loans and investments without provisions for impairment	1,998	2,580	–	–
Loans and investments with provisions for impairment	241	296	–	–
Less provisions for impairment	(144)	(185)	–	–
Loans and investments with provisions for impairment at recoverable amount	97	111	–	–
Total interests in associates and joint ventures accounted for using the equity method[1],[2]	2,095	2,691	–	–

(1) Includes $1,690 million (2016: $2,012 million) relating to interests in associates and $405 million (2016: $679 million) relating to interests in joint ventures.
(2) Financial statements of associates and joint ventures have various reporting dates. There are no associates or joint ventures individually material to the Consolidated Entity.

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

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
NOTE 16				
Intangible assets				
Goodwill				
At cost	**605**	637	**–**	–
Less accumulated impairment loss	**(163)**	(112)	**–**	–
Total goodwill	**442**	525	**–**	–
Intangible assets with indefinite lives				
At cost	**270**	270	**–**	–
Less accumulated impairment loss	**–**	–	**–**	–
Total intangible assets with indefinite lives	**270**	270	**–**	–
Customer and servicing contracts				
At cost	**176**	190	**–**	–
Less accumulated amortisation and impairment loss	**(124)**	(123)	**–**	–
Total customer and servicing contracts	**52**	67	**–**	–
Other identifiable intangible assets				
At cost	**466**	408	**–**	–
Less accumulated amortisation and impairment loss	**(221)**	(192)	**–**	–
Total other identifiable intangible assets	**245**	216	**–**	–
Total intangible assets	**1,009**	1,078	**–**	–

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

Reconciliation of the Consolidated Entity's movement in intangible assets at their written down value:

	Goodwill $m	Intangible assets with indefinite lives $m	Customer and servicing contracts $m	Other identifiable intangible assets $m	Total $m
Balance as at 1 April 2015	580	293	89	202	1,164
Acquisitions	–	–	–	79	79
Disposals	(39)	(22)	(3)	–	(64)
Impairments	(11)	–	–	(22)	(33)
Amortisation (Note 2)	–	–	(22)	(39)	(61)
Foreign exchange movements	(5)	(1)	3	(4)	(7)
Balance as at 31 March 2016	525	270	67	216	1,078
Acquisitions	**12**	**–**	**20**	**110**	**142**
Reclassifications during the financial year	**(2)**	**–**	**2**	**–**	**–**
Adjustment to purchase consideration	**–**	**–**	**–**	**2**	**2**
Costs capitalised in prior years expensed off	**–**	**–**	**–**	**(39)**	**(39)**
Disposals	**(23)**	**–**	**(20)**	**(6)**	**(49)**
Impairments	**(62)**	**–**	**–**	**(19)**	**(81)**
Amortisation (Note 2)	**–**	**–**	**(17)**	**(18)**	**(35)**
Foreign exchange movements	**(8)**	**–**	**–**	**(1)**	**(9)**
Balance as at 31 March 2017	**442**	**270**	**52**	**245**	**1,009**

Goodwill and Intangible assets with indefinite lives:

Goodwill and Intangible assets with indefinite lives are tested for impairment by comparing the carrying amount of Cash Generating Unit (CGU) or a group of CGUs to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Intangible assets with indefinite lives are considered indefinite as the underlying income stream is related to the management of funds that have no defined end date and are expected to operate perpetually.

[redacted]

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NOTE 16
Intangible assets continued
Goodwill and Intangible assets with indefinite lives continued

Fair value less costs to sell is estimated with market based approaches using revenues, earnings and assets under management multiples based on a trading statistics of companies deemed comparable and publicly available information relevant to the business.

Value in use is calculated using pre-tax cashflow projections for fee revenue, net income and operating expenses. Forecasts are extrapolated using a growth rate and discounted using a discount rate incorporating market risk determinants, adjusted for specific risks related to the CGU and the environment in which it operates.

NOTE 17
Investments in subsidiaries

	COMPANY 2017 $m	COMPANY 2016 $m
Investments at cost without provisions for impairment	13,382	13,379
Investments at cost with provisions for impairment	17,208	17,206
Less provisions for impairment[1]	(7,946)	(10,246)
Investments with provisions for impairment at recoverable amount	9,262	6,960
Total investments in subsidiaries	22,644	20,339

(1) During the financial year the Company recognised an impairment reversal of $2,300 million (2016: $nil) as a consequence of the continued improvement in the performance of its subsidiary. Macquarie Financial Holdings Pty Limited (Australia). The recoverable amount has been estimated using valuation techniques which incorporate the subsidiary's consolidated earnings and relevant earnings multiples. The recoverable amount was classified as level 3 in the fair value hierarchy (as defined in Note 38 – Fair value of financial assets and financial liabilities).

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

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

- Macquarie (UK) Group Services Limited (United Kingdom)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Agricultural Funds Management Limited (Australia)
- Macquarie America Holdings Inc. (United States)
- Macquarie Americas Holdings Pty Limited (Australia)
- Macquarie B.H. Pty Limited (Australia)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited (Australia)
- Macquarie CAF Holdings Inc. (United States)
- Macquarie Capital (Australia) Limited (Australia)
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Capital (Hong Kong) Limited (Hong Kong)
- Macquarie Capital (Singapore) Pte. Limited (Singapore)
- Macquarie Capital (USA) Inc (United States)
- Macquarie Capital Limited (Hong Kong)
- Macquarie Capital Securities (Singapore) Pte. Limited (Singapore)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Corporate Holdings Pty Limited (Australia)
- Macquarie Corporate International Holdings Pty Limited (Australia)
- Macquarie Emerging Markets Asian Trading Pte Limited (Singapore)
- Macquarie Energy Canada Limited (Canada)
- Macquarie Energy LLC (United States)
- Macquarie Equities Limited (Australia)
- Macquarie Euro Limited (United Kingdom)
- Macquarie Finance Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Holdings Pty Limited (Australia)
- Macquarie Financial Limited (Canada)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Group (US) Holdings No. 1 Pty. Limited (Australia)
- Macquarie Group Employee Retained Equity Plan (MEREP Trust) (Australia)
- Macquarie Group investments (UK) No.2 Limited (United Kingdom)
- Macquarie Group Services Australia Pty Limited (Australia)
- Macquarie Holdings (USA) Inc. (United States)
- Macquarie Inc. (United States)
- Macquarie Infrastructure and Real Assets (Europe) Limited (United Kingdom)
- Macquarie Infrastructure and Real Assets Inc. (United States)
- Macquarie Infrastructure Funds Management Pty. Limited (Australia)
- Macquarie Infrastructure Management (USA) Inc. (United States)
- Macquarie International Finance Limited (Australia)
- Macquarie Investment Management Australia Limited (Australia)
- Macquarie Investment Management Global Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty. Limited (Australia)
- Macquarie Life Limited (Australia)
- Macquarie Management Holdings, Inc. (United States)
- Macquarie Physical Metals (USA) Inc. (United States)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Securities (Australia) Limited (Australia)
- Macquarie Securities (NZ) Limited (New Zealand)
- Macquarie Securitisation Limited (Australia)
- Macquarie Specialised Asset Management Limited (Australia)
- Meadowlark Capital LLC (United States)
- MIF Holdings Limited (United Kingdom)
- Delaware Investments Management Company, LLC (United States
- Delaware Management Company (United States)

NOTE 17

Investments in subsidiaries continued

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

Overseas subsidiaries conduct business predominantly in their place of incorporation, unless otherwise stated.

Beneficial interest in all material subsidiaries is 100%.

All material subsidiaries have a 31 March reporting date.

In accordance with ASIC instruments 13-0151, 13-0394, 15-0518, 16-0119 and 16-1066, the Consolidated Entity has been granted relief under section 340 of the Act from synchronising the year-end of the following consolidated entities to 31 March:

- Macquarie Mexico Real Estate Management, S.A. de C.V.
- Texas Municipal Gas Acquisition and Supply Corporation III
- Macquarie Energy Mexico, S. de R.L. de C.V. (formerly Macquarie Gas de Sonora S. De R.L. de C.V.)
- Comercializadora Energia de la Reforma S. de R.L. de C.V
- Delaware Asia Select Fund

NOTE 18

Deferred tax assets/(liabilities)

	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m
The balance comprises temporary differences attributable to:				
Other assets and liabilities	1,046	973	–	42
Tax losses	421	498	28	32
Investments	143	145	–	–
Fixed assets	173	172	–	–
Leasing and financial instruments	7	34	–	–
Intangibles	23	7	–	–
Set-off of deferred tax liabilities	(1,175)	(979)	(2)	–
Total deferred tax assets	638	850	26	74
Leasing and financial instruments	(1,092)	(904)	–	–
Other asset and liabilities	(336)	(306)	(2)	–
Intangible assets	(137)	(130)	–	–
Investments	(219)	(181)	–	–
Fixed assets	(12)	(1)	–	–
Set-off of deferred tax assets	1,175	979	2	–
Total deferred tax liabilities	(621)	(543)	–	–
Net deferred tax assets	17	307	26	74

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

Potential tax assets of approximately $282 million (2016: $201 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable. Included in this amount are gross losses of $30 million (2016: $49 million) that will expire within 2 years, $87 million (2016: $64 million) that will expire in 2 - 5 years, $69 million (2016: $55 million) that will expire in 5 - 10 years and $201 million (2016: $182 million) that will expire in 10 - 20 years. $776 million (2016: $455 million) of gross losses do not expire and can be carried forward indefinitely.

[redacted]

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	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m

NOTE 19
Trading portfolio liabilities

Listed equity securities	4,404	4,310	–	–
Foreign government securities	592	649	–	–
Corporate securities	71	71	–	–
Total trading portfolio liabilities	**5,067**	**5,030**	**–**	**–**

NOTE 20
Deposits

Interest bearing deposits				
Call	38,551	32,756	–	–
Term	7,154	8,860	11	–
Client monies, segregated fund and margin money held	10,182	9,091	–	–
Non-interest bearing call deposits	1,821	1,538	–	–
Total deposits	**57,708**	**52,245**	**11**	**–**

NOTE 21
Other liabilities

Due to brokers and customers	6,588	5,855	–	–
Accrued charges, income received in advance and other liabilities	3,112	3,033	71	55
Creditors	3,103	2,203	7	5
Aircraft and rail maintenance liabilities	782	772	–	–
Life investment linked contracts and other unitholder liabilities	714	771	–	–
Liabilities of disposal groups classified as held for sale	520	–	–	–
Income tax payable	212	469	82	138
Total other liabilities	**15,031**	**13,103**	**160**	**198**

	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m

NOTE 22

Payables to financial institutions

Borrowings from banks	**10,125**	14,799	**2,413**	2,850
Cash collateral on securities lent and repurchase agreements	**6,947**	9,061	**–**	–
Total payables to financial institutions	**17,072**	23,860	**2,413**	2,850

NOTE 23

Debt issued at amortised cost

Debt issued at amortised cost(1)	**50,828**	63,685	**5,746**	6,425
Total debt issued at amortised cost	**50,828**	63,685	**5,746**	6,425

(1) Included within this balance are amounts payable to SPE note holders and debt holders of $13,430 million (2016 $14,939 million)

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

Reconciliation of debt issued at amortised cost by major currency

(In Australian dollar equivalent)

United States dollars	**25,536**	33,185	**5,236**	5,868
Australian dollar	**14,887**	15,903	**7**	7
Euro	**5,650**	7,295	**–**	–
Swiss franc	**1,912**	2,013	**–**	–
Japanese yen	**1,222**	1,275	**503**	550
Great British pound	**767**	3,055	**–**	–
Hong Kong dollar	**222**	224	**–**	–
Yuan renminbi	**218**	230	**–**	–
Norwegian krone	**153**	164	**–**	–
Canadian dollar	**125**	129	**–**	–
Korean won	**107**	104	**–**	–
South African rand	**17**	69	**–**	–
Singapore dollar	**12**	39	**–**	–
Total	**50,828**	63,685	**5,746**	6,425

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

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NOTE 24
Other financial liabilities at fair value through profit or loss

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Structured notes[(1),(2)]	**2,404**	2,672	**–**	–
Total other financial liabilities at fair value through profit or loss	**2,404**	**2,672**	**–**	**–**

(1) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or other assets
(2) Includes cumulative fair value losses of $12 million (2016: $49 million gains) due to changes in the Consolidated Entity's credit risk

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through profit or loss for the Consolidated Entity is $3,183 million (2016: $3,157 million).

Reconciliation of other financial liabilities at fair value through profit or loss by major currency

(In Australian dollar equivalent)

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
United States dollars	**1,812**	2,113	**–**	–
South African rand	**513**	420	**–**	–
Australian dollar	**56**	60	**–**	–
Euro	**19**	50	**–**	–
Others	**4**	29	**–**	–
Total	**2,404**	**2,672**	**–**	**–**

NOTE 25

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply the Basel III Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book.

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations. Level 3 consists of the Level 2 group plus the non-bank group.

As an APRA authorised and regulated Non-Operating Holding Company (NOHC), the Company is required to maintain the minimum regulatory capital calculated as the sum of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWA plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
- the non-bank group capital requirement, using the Consolidated Entity's ECAM. Transactions internal to the Consolidated Entity are excluded.

The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity has satisfied all internally and externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the financial year.

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NOTE 26

Loan capital

Subordinated debt

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

Macquarie Group Capital Notes (MCN)

On 7 June 2013, the Company issued 6 million MCN at face value of $100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

MCN may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 7 June 2021. The MCN may also be exchanged earlier on an acquisition event (where a person acquires control of the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, MCN Holders will receive up to approximately $101 worth of ordinary shares per MCN held. The total number of ordinary shares that would be issued if all MCN were exchanged at 31 March 2017 would be 6,879,235 (31 March 2016: 9,076,839). The maximum number of ordinary shares that can be issued on an exchange is 70,721,358.

The MCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 4.00% per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the MCN, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

Macquarie Group Capital Notes 2 (MCN 2)

On 18 December 2015, the Company issued 5.3 million MCN2 at face value of $100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

MCN2 may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 18 March 2024. The MCN2 may also be exchanged earlier on an acquisition event (where a person acquires control of the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, MCN2 Holders will receive up to approximately $101 worth of ordinary shares per MCN2 held. The total number of ordinary shares that would be issued if all MCN2 were exchanged at 31 March 2017 would be 6,088,032 (31 March 2016: 8,032,883). The maximum number of ordinary shares that can be issued on an exchange is 32,644,295.

The MCN2 pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 5.15% per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the MCN2, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

Macquarie Bank Capital Notes (BCN)

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

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

In the event of an exchange, BCN Holders will receive up to approximately $101 worth of ordinary shares per BCN held. The total number of ordinary shares that would be issued if all BCN were exchanged at 31 March 2017 would be 4,923,360 (31 March 2016: 6,496,151). The maximum number of ordinary shares that can be issued on an exchange is 37,056,481.

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

Exchangeable Capital Securities (ECS)

On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of ECS.

The ECS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 10.25% per annum, payable semi-annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. If interest is not paid on the ECS, MBL and the Company will be restricted from paying dividends or returning capital on their ordinary shares until the next interest payment date.

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid ordinary shares of the Company on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of the Company's ordinary shares will be issued at a 5% discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange.

No ECS were exchanged during the financial year. The total number of ordinary shares that would be issued if all ECS were exchanged at 31 March 2017 would be 3,904,622 (31 March 2016: 5,134,261). The maximum number of ordinary shares that can be issued on an exchange is 17,689,525.

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

As at 31 March 2017, the remaining principal liability related to the ECS was $US250 million (31 March 2016: $US250 million).

Subsequent to 31 March 2017, MBL announced that it intends to buy back $US250 million ECS in June 2017.

Macquarie Additional Capital Securities (MACS)

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

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

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

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

No MACS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if all MACS were exchanged at 31 March 2017 would be 11,189,774. The maximum number of ordinary shares that can be issued on an exchange is 57,498,886.

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

As at 31 March 2017, the remaining principal liability related to the MACS was $US750 million.

[redacted]

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NOTE 26
Loan Capital continued

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Maturity of Loan Capital:				
Instruments upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows:				
Less than 12 months	94	100	11	12
30 May 2019	1	3	–	–
21 September 2020	689	754	–	–
7 April 2021	1,149	1,456	–	–
10 June 2025	978	1,037	–	–
Instruments with conditional repayment obligations:				
MCN	600	600	600	600
MCN2	531	531	531	531
BCN	430	430	–	–
ECS	327	326	–	–
MACS	980	–	–	–
	5,779	5,237	1,142	1,143
Less directly attributable issue cost	(31)	(28)	(12)	(17)
Total loan capital[1]	5,748	5,209	1,130	1,126
Reconciliation of loan capital by major currency:				
(In Australian dollar equivalent)				
United States dollars	3,498	2,889	–	–
Australian dollars	1,572	1,573	1,142	1,143
Euro	709	775	–	–
	5,779	5,237	1,142	1,143
Less directly attributable issue cost	(31)	(28)	(12)	(17)
Total loan capital[1]	5,748	5,209	1,130	1,126

(1) The balance includes fair value hedge accounting adjustments

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

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

NOTE 27
Contributed equity

		2017 Number of shares	2016 Number of shares	2017 $m	2016 $m
				CONSOLIDATED	
Ordinary share capital(1)					
Opening balance of fully paid ordinary shares		340,302,389	333,457,777	7,446	6,901
Issue of shares on exercise of MEREP awards		19,126	12,961	1	1
Issue of shares pursuant to Employee Share Plan (ESP) at $nil (2016: $82.13) per share		–	13,284	–	1
Issue of shares pursuant to Institutional Private Placement at $nil (2016: $80.00) per share, net of transaction costs		–	5,000,000	–	393
Issue of shares pursuant to Share Purchase Plan (SPP) at $nil (2016: $78.40) per share		–	1,747,944	–	137
Issue of shares on retraction of exchangeable shares		30,216	70,423	2	5
For employee MEREP awards:					
Transfer of MEREP expense from share-based payments reserve on vesting	28	–	–	277	271
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	28	–	–	39	55
Transfer from treasury shares for shares withdrawn/exercised		–	–	(284)	(298)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	28	–	–	(14)	(20)
Closing balance of fully paid ordinary shares		340,351,731	340,302,389	7,467	7,446
Treasury shares(2)					
Opening balance		(20,053,879)	(23,244,122)	(1,036)	(971)
Purchase of shares for employee MEREP awards		(6,045,273)	(4,746,421)	(433)	(383)
Transfer to ordinary share capital for shares withdrawn/exercised		6,791,529	7,611,890	284	298
Sale of shares for cash settled awards by MEREP Trust		7,094	324,774	–	20
Purchase of shares for allocation under DRP scheme		(1,550,824)	(1,423,673)	(121)	(116)
Allocation of shares under DRP scheme		1,550,824	1,423,673	121	116
Purchase of shares for allocation under ESP scheme		(10,670)	–	(1)	–
Allocation of shares under ESP scheme		10,670	–	1	–
Valuation adjustment on treasury shares		–	–	(2)	–
Closing balance of treasury shares		(19,300,529)	(20,053,879)	(1,187)	(1,036)
Exchangeable shares(3)					
Opening balance		170,846	245,455	12	17
Retraction of exchangeable shares		(32,011)	(74,609)	(2)	(5)
Closing balance of exchangeable shares		138,835	170,846	10	12
Contributed equity				6,290	6,422

(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 $378 million commencing on 16 May 2017. Ordinary shares will be issued if purchasing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 32 – Employee equity participation.
(3) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity in accordance with AASB 132 Financial Instruments: Presentation. As per the terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in the Company (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to the Company's dividends during their legal life. However, subsequent to the approval of consolidation of the Company's ordinary shares by the Company's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in the Company.

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NOTE 27
Contributed equity continued

	Notes	2017 Number of shares	2016 Number of shares	2017 $m	2016 $m
				COMPANY	
Ordinary share capital[1]					
Opening balance of fully paid ordinary shares		340,302,389	333,457,777	10,135	9,637
Issue of shares on exercise of MEREP awards		19,126	12,961	1	1
Issue of shares pursuant to Employee Share Plan (ESP) at $nil (2016: $82.13) per share		–	13,284	–	1
Issue of shares pursuant to Institutional Private Placement at $nil (2016: $80.00) per share, net of transaction costs		–	5,000,000	–	393
Issue of shares pursuant to Share Purchase Plan (SPP) at $nil (2016: $78.40) per share		–	1,747,944	–	137
Issue of shares on retraction of exchangeable shares		30,216	70,423	2	6
For employee MEREP awards:					
Transfer of MEREP expense from share-based payments reserve on vesting	28	–	–	277	271
Transfer of additional deferred tax on MEREP expense from share-based payments reserve	28	–	–	3	7
Transfer from treasury shares for shares withdrawn/exercised		–	–	(284)	(298)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	28	–	–	(14)	(20)
Closing balance of fully paid ordinary shares		340,351,731	340,302,389	10,120	10,135
Treasury shares[2]					
Opening balance		(20,053,879)	(23,244,122)	(1,038)	(970)
Purchase of shares for employee MEREP awards		(6,045,273)	(4,746,421)	(433)	(383)
Transfer to ordinary share capital for shares withdrawn/exercised		6,791,529	7,611,890	284	298
Sale of shares for cash settled awards by MEREP Trust		7,094	324,774	–	17
Closing balance of treasury shares		19,300,529	(20,053,879)	(1,187)	(1,038)
Contributed equity				8,933	9,097

(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 $378 million commencing on 16 May 2017. Ordinary shares will be issued if purchasing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 32 – Employee equity participation.

NOTE 28

Reserves, retained earnings and non-controlling interests

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	377	555	–	–
Exchange differences on translation of foreign operations, net of hedge and tax	(129)	(178)	–	–
Balance at the end of the financial year	248	377	–	–
Available for sale reserve				
Balance at the beginning of the financial year	555	443	–	–
Revaluation movement for the financial year, net of tax	107	152	–	–
Transfer to income statement on impairment, net of tax	32	86	–	–
Transfer to income statement on realisation, net of tax	(301)	(126)	–	–
Balance at the end of the financial year	393	555	–	–
Share-based payments reserve				
Balance at the beginning of the financial year	754	795	719	707
MEREP expense for the financial year	382	298	–	–
Additional deferred tax benefit on MEREP expense	57	4	2	9
MEREP issued to employees of subsidiaries (Note 30)	–	–	382	298
Transfer to other liabilities on vesting or reclassification of MEREP awards[1]	–	(17)	–	(17)
Transfer to ordinary share capital on vesting of MEREP awards	(277)	(271)	(277)	(271)
Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards	(39)	(55)	(3)	(7)
Balance at the end of the financial year	877	754	823	719
Share-based payments capital reduction reserve				
Balance at the beginning of the financial year	(33)	(53)	(33)	(53)
Transfer to ordinary share capital on vested and forfeited awards	14	20	14	20
Balance at the end of the financial year	(19)	(33)	(19)	(33)
Cash flow hedging reserve				
Balance at the beginning of the financial year	(118)	(84)	–	–
Revaluation movement for the financial year, net of tax	15	(34)	–	–
Balance at the end of the financial year	(103)	(118)	–	–
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	1	–	–	–
Share of other comprehensive (expense)/ income of associates and joint ventures during the year, net of tax	(1)	1	–	–
Balance at the end of the financial year	–	1	–	–
Total reserves at the end of the financial year	1,396	1,536	804	686
Retained earnings				
Balance at the beginning of the financial year	7,158	6,306	10,047	6,864
Profit attributable to ordinary equity holders of MGL	2,217	2,063	4,009	4,379
Dividends paid on ordinary share capital (Note 5)	(1,462)	(1,208)	(1,449)	(1,196)
Loss on change in non-controlling ownership interest	(6)	(3)	–	–
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	(30)	–	–	–
Balance at the end of the financial year	7,877	7,158	12,607	10,047

(1) Represents vested MEREP awards settled through cash

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CONTINUED

NOTE 28

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Securities

The MIS issued by MBL, a subsidiary, were listed for trading on the Australian Securities Exchange (ASX) on 19 October 1999 and 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 (2016: 1.7% per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m
Macquarie Income Securities				
4,000,000 Macquarie Income Securities of $100 each	400	400	–	–
Less transaction costs for original placement	(9)	(9)	–	–
Total Macquarie Income Securities	391	391	–	–
Other non-controlling interests[1]				
Share capital and partnership interests[2]	1,360	212	–	–
Foreign currency translation reserve	(12)	(11)	–	–
Accumulated losses	(32)	(44)	–	–
Total other non-controlling interests	1,316	157	–	–
Total non-controlling interests	1,707	548	–	–

(1) Other non-controlling interests represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

(2) Includes non-controlling interest of $1,171m representing amounts contributed by external investors to a consortium vehicle that forms part of the Consolidated Entity. The consortium vehicle holds an indirect investment in a gas distribution network in the United Kingdom that is classified by the Consolidated Entity as held for sale, as disclosed in Note 10 - Other assets.

NOTE 29

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year are reflected in the related items in the statements of financial position as follows:

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Receivables from financial institutions[1]	9,135	9,110	–	–
Trading portfolio assets[2]	1,102	288	–	–
Debt investment securities available for sale[3]	324	1,491	–	–
Loan assets held at amortised cost[4]	1,193	3,431	–	–
Cash and cash equivalents at the end of the financial year[5]	**11,754**	**14,320**	–	–

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.
(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.
(3) Includes short-term debt securities.
(4) Includes margin balances at call.
(5) Cash and cash equivalents include $5,173 million (2016: $5,559 million) in escrow accounts which are restricted for use and held by collateralised securitisation vehicles in segregated deposit fund.

Reconciliation of profit after income tax to net cash flows (used in)/from operating activities

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m	COMPANY 2017 $m	COMPANY 2016 $m
Profit after income tax	2,236	2,088	4,009	4,379
Adjustments to profit after income tax:				
Depreciation and amortisation	876	835	–	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and transfer of available for sale reserve to income statement on realisation of investment	(618)	452	21	(14)
Provision and impairment charge on financial and non-financial assets	488	819	–	–
In specie distribution received	–	–	–	(2,121)
Impairment reversal in subsidiary	–	–	(2,300)	–
Interest on available for sale debt securities	–	(11)	–	–
Net gain on sale of investment securities available for sale, associates and joint ventures and assets under operating lease	(1,334)	(528)	–	–
Share-based payments expense	382	298	–	–
Capitalisation of development costs of intangible assets	(10)	(79)	–	–
Share of net profit of associates and joint ventures accounted for using the equity method	(51)	(4)	–	–
Changes in assets and liabilities:				
Change in amount due from subsidiaries under tax funding agreement	–	–	(84)	96
Change in carrying values of associates and joint ventures due to dividends received	113	70	–	–
Change in fees and non-interest income receivable	40	95	–	–
Change in fees and commissions payable	(57)	57	–	–
Change in tax balances	147	(251)	(171)	(176)
Change in provisions for employee entitlements	–	(1)	–	–
Change in assets under operating lease, net of depreciation and foreign exchange movements	(320)	(711)	–	–
Change in loan assets	1,013	(1,013)	1,522	191
Change in margin money placed	(1,104)	314	–	–
Change in debtors, prepayments, accrued charges and creditors	612	(339)	–	(12)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	2,746	(4,637)	7	(7)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	(10,867)	15,369	(1,122)	514
Net cash flows (used in)/from operating activities	**(5,708)**	**12,823**	**1,882**	**2,850**

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 30
Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services and the provision of guarantees. Significant transactions between the Company and its subsidiaries are disclosed below.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms.

All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Company except when the parties have the legal right and intention to offset.

Balances arising from lending and borrowing activities between the Company and its subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

A list of material subsidiaries is set out in Note 17 – Investments in subsidiaries.

The Company as the ultimate parent entity of the Consolidated Entity, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in Note 1(vii) – Taxation. Due from subsidiaries in the Company's separate statement of financial position includes the amount of current tax asset assumed by MGL as the head entity and amount receivable by the Company under the tax funding agreement of the tax consolidated group.

	CONSOLIDATED		COMPANY	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
The following income/(expense) resulted from transactions with subsidiaries during the financial year:				
Interest income	–	–	445,826	514,264
Interest expense	–	–	(57,720)	(27,874)
Share-based payments to employees of subsidiaries (Note 28)	–	–	(382,280)	(298,129)
Fee and commission income	–	–	9,747	–
Dividends and distributions (Note 2)	–	–	1,787,000	4,320,243
The following balances with subsidiaries were outstanding as at financial year end[(1)]:				
Amounts receivable	–	–	10,009,030	10,852,883
Amounts payable	–	–	(944,584)	(872,880)

(1) As described in Note 1(xxiii) – Performance based remuneration, the Company has recognised a liability as at 31 March 2017 of $398,731 thousand (2016: $353,255 thousand) for amounts received in advance as at 31 March 2017 from subsidiaries for MEREP offered to their employees and yet to be recognised as a share-based payment expense by the subsidiary. To the extent that the awards vest, this amount will be retained by the Company as compensation for issuing and releasing the shares to the subsidiary employees.

NOTE 30

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures that are equity accounted are eliminated where they are unrealised, to the extent of ownership interests held by the Consolidated Entity, in the consolidated income statement.

During the financial year, the following amounts of income/(expense) resulted from transactions with associates and joint ventures:

	CONSOLIDATED		COMPANY	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Interest income	12,130	124,953	–	–
Fee and commission income	609,157	777,143	–	–
Brokerage, commission and trading-related expenses	(9,482)	(9,963)	–	–
Dividends and distributions(1)	112,599	70,128	–	–
Other income/(expense)	2,220	(5,389)	–	–

(1) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 15 – Interests in associates and joint ventures accounted for using the equity method):

Amounts receivable	463,890	1,041,870	–	–
Amounts payable	(14,591)	(9,732)	–	–

Balances arising from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures are typically extended on a term basis and where appropriate may be either subordinated or collateralised.

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 31
Key Management Personnel disclosure

Key Management Personnel

The following persons were Directors of the Company during the financial years ended 31 March 2017 and 31 March 2016, unless indicated.

Executive Voting Director[1]

N.W. Moore	Managing Director and CEO

Non-Executive Directors

P.H. Warne[2]	Chairman
G.R. Banks AO	
G.M. Cairns	
M.J. Coleman	
P.A. Cross	
D.J. Grady AM	
M. J. Hawker AM	
N.M. Wakefield Evans	

Former Non-Executive Director

H.K. McCann AM	(retired effective 31 March 2016)

In addition to the Executive Director listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL during the past two financial years ended 31 March 2017 and 31 March 2016, unless otherwise indicated.

Current Executives[1]

S.D. Allen	CRO, Head of RMG
T.C. Bishop	Head of Macquarie Capital
B.A. Brazil	Co-Head of CAF
A.J. Downe	Head of CGM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, United States of America
M.J. Reemst	Macquarie Bank Managing Director and CEO
N. Sorbara	COO, Head of COG
P.C. Upfold	CFO, Head of FMG
G.C. Ward	Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

Former Executive

S. Vrcelj	Former Head of MSG (ceased to be a member of the Executive Committee on 29 November 2016)

The remuneration arrangements for all of the persons listed above are described on pages 56 to 63 of the Remuneration Report, contained in the Directors' Report.

(1) The CEO and all current Executives are members of the Consolidated Entity's Executive Committee as at 5 May 2017
(2) P H Warne commenced as Chairman of the MGL Board effective 1 April 2016

NOTE 31

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for KMP:

	Short-term Employee Benefits				Long-term Employee Benefits	Share-based Payments		
	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								
2017	**9,661,034**	**37,547,256**	**–**	**47,208,290**	**14,423,080**	**40,720,130**	**24,110,081**	**126,461,581**
2016	9,855,167	40,496,453	–	50,351,620	10,807,318	32,742,061	22,380,977	116,281,976
Non-Executive Remuneration								
2017	**3,491,914**	**–**	**3,000**	**3,494,914**	**–**	**–**	**–**	**3,494,914**
2016	3,694,000	–	12,000	3,706,000	–	–	–	3,706,000

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.
(2) The amount of retained profit share held via the Post-2009 DPS plan including earnings on notional investments from retained profit share in prior financial years.
(3) The current year amortisation for retained profit share calculated as described in Note 1(xxiii) – Performance based remuneration.
(4) The current year amortisation for PSUs calculated as described in Note 1(xxiii) – Performance based remuneration. Adjustments were made during the current and prior financial years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

Equity holdings of KMP and their related parties

The following tables set out details of MGL ordinary shares held during the financial year by KMP including their related parties, on a Consolidated Entity basis.

	Number of shares held at 1 April	Number of shares held at appointment/ retirement date (after 1 April)	Shares received on withdrawal from MEREP	Other changes[1]	Number of shares held by former KMP at date of resignation/ retirement (prior to 31 March)	Number of shares held at 31 March
2017	**2,729,089**	**–**	**1,103,328**	**(817,997)**	**–**	**3,014,420**
2016	2,230,072	–	1,012,208	(498,664)	–	2,743,616

(1) Includes on-market acquisitions and disposals.

[redacted]

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NOTE 31
Key Management Personnel disclosure continued

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 3 of the Remuneration Report, contained in the Directors' Report from pages 75 to 81. Further details in relation to the MEREP RSU awards are disclosed in Note 32 – Employee equity participation.

	Number of RSU awards held at 1 April	Number of RSU awards held at appointment/ retirement date (after 1 April)	RSU awards granted during the financial year(1)	Vested RSU awards withdrawn from the MEREP during the financial year(2)	Number of RSU awards held by former KMP at date of resignation/ retirement (prior to 31 March)	Number of RSU awards held at 31 March
2017	**2,941,721**	**80,406**	**662,377**	**(689,639)**	**91,254**	**2,903,611**
2016	3,078,344	–	533,365	(589,582)	–	3,022,127

(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 2017 relate to the Company's performance in 2016.
(2) Vested RSUs transferred to the KMP's shareholding.

MEREP PSU Awards of KMP and their related parties(1)

The following tables set out details of MEREP PSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report on page 79 to 80. Further details in relation to the MEREP PSU awards are disclosed in Note 32 – Employee equity participation.

	Number of PSU awards held at 1 April	Number of PSU awards held at appointment/ retirement date (after 1 April)	PSU awards granted during the financial year(1)	Vested PSU awards exchanged during the financial year	PSU awards not able to be exercised due to performance hurdles not met(2)	Number of PSU awards held by former KMP at date of resignation/ retirement (prior to 31 March)	Number of PSU awards held at 31 March(3)
2017	**1,502,467**	**101,963**	**415,168**	**(413,211)**	**(16,908)**	**112,231**	**1,477,248**
2016	1,704,414	–	409,866	(422,626)	(87,224)	–	1,604,430

(1) PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above for 2017 relate to the Company's performance in 2016.
(2) Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2016 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.
(3) PSU awards vested and not exercised at 31 March 2017: 70,211 (2016: Nil).

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 32
Employee equity participation

MEREP

The Consolidated Entity continues to operate the MEREP in conjunction with other remuneration arrangements.

During the financial year, the Consolidated Entity made changes to align the buying and selling of Macquarie shares in relation to the MEREP. The Consolidated Entity may elect to implement a similar arrangement in future periods.

Award Types under the MEREP

Restricted Share Units (RSUs)

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

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

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by the Company in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. The Company may issue shares to the Trustee or direct the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs. Generally 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 eight years.

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

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.

NOTE 32

Employee equity participation continued

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

	Number of RSU Awards 2017	Number of RSU Awards 2016
RSUs on issue at the beginning of the financial year	**16,762,504**	19,726,827
Granted during the financial year	**5,210,587**	4,307,294
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(5,564,965)**	(6,668,791)
Forfeited during the financial year	**(550,162)**	(602,826)
RSUs on issue at the end of the financial year	**15,857,964**	16,762,504
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**6,945**	1,391

The weighted average fair value of the RSU awards granted during the financial year was $72.77 (2016: $81.12).

	Number of DSU Awards 2017	Number of DSU Awards 2016
DSUs on issue at the beginning of the financial year	**3,036,458**	3,632,298
Granted during the financial year	**1,112,093**	758,955
Exercised during the financial year	**(1,061,207)**	(1,281,518)
Forfeited during the financial year	**(84,309)**	(73,277)
DSUs on issue at the end of the financial year	**3,003,035**	3,036,458
DSUs exercisable at the end of the financial year	**487,800**	539,951

The weighted average fair value of the DSU awards granted during the financial year was $72.50 (2016: $81.42).

	Number of PSU Awards 2017	Number of PSU Awards 2016
PSUs on issue at the beginning of the financial year	**1,629,738**	1,824,542
Granted during the financial year	**415,168**	409,866
Exercised during the financial year	**(437,000)**	(498,607)
Expired during the financial year	**(18,427)**	(106,063)
PSUs on issue at the end of the financial year	**1,589,479**	1,629,738
PSUs exercisable at the end of the financial year	**70,211**	–

The weighted average fair value of the PSU awards granted during the financial year was $65.53 (2016: $66.77).

	Number of Restricted Share Awards 2017	Number of Restricted Share Awards 2016
Restricted shares on issue at the beginning of the financial year	**118,155**	71,032
Granted during the financial year	**48,594**	125,621
Forfeited during the financial year	**(7,069)**	–
Released during the financial year	**(105,030)**	(78,498)
Restricted shares on issue at the end of the financial year	**54,650**	118,155

The weighted average fair value of the Restricted Shares granted during the financial year was $69.73 (2016: $78.93).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 32
Employee equity participation continued

The awards are measured at their grant dates based on their fair value and for each PSU, the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution to the subsidiary where the Company is not reimbursed or as a prepaid asset in advance where the Company is reimbursed.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of 2016. 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: 1.84% per annum
- expected vesting dates of PSUs: 1 July 2019 and 1 July 2020
- dividend yield: 4.76% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2017 will be granted during FY2018, the Consolidated Entity begins recognising an expense for these awards (based on an initial estimate) from 1 April 2016. The expense is estimated using the price of MGL ordinary shares as at 31 March 2017 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.19% per annum, expected vesting dates of PSUs of 1 July 2020 and 1 July 2021, and a dividend yield of 4.94% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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

For the financial year ended 31 March 2017, compensation expense relating to the MEREP totalled $412,246 thousand (2016: $333,991 thousand).

For the equity settled awards, the estimated future withholding tax outflow is $258,494 thousand (2016: $201,721 thousand).
Participation in the MEREP is currently provided to the following Eligible Employees:

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie staff with retained commission (Commission Awards)
- Macquarie staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards)
- new Macquarie staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
- members of the MGL and MBL Executive Committees who are eligible for PSUs
- in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Consolidated Entity upon the acquisition of their employer by a Macquarie entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

NOTE 32

Employee equity participation continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
Retained DPS Awards representing 2009 retention	Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3rd in the 3rd, 4th and 5th year following the year of grant(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	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
Incentive Awards	All Macquarie Group staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation

(1) Vesting will occur during an eligible staff trading window
(2) Vesting will occur during an eligible staff trading window. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.
(3) Subject to achieving certain performance hurdles – refer below.

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

For Retained Profit Share awards representing 2016 retention, the allocation price was the weighted average price of the shares acquired for the 2016 purchase period, which was 17 May 2016 to 17 June 2016. That price was calculated to be $71.55 (2015 retention: $80.68).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 32
Employee equity participation continued

PSUs

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically reviewed by the Board Remuneration Committee (BRC) to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for this financial year.

The hurdles are outlined below.

Performance hurdle 1

	Reference group	
Hurdle	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three to four years) compared with a reference group of global financial institutions. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG.	The reference group comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).

Performance hurdle 2

	Required result	
Hurdle	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9% and 100% at EPS CAGR of 13%. For example, if EPS CAGR were 11%, 75% of the relevant awards would become exercisable.

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

Other arrangements

There are certain arrangements with employees which take the form of a share-based payment but which are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2017 was $463 thousand (2016: $604 thousand).

NOTE 32

Employee equity participation continued

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 payment.

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 2016. A total of 970 (2016: 1,107) staff participated in this offer. On 1 December 2016, the participants were each allocated 11 (2016:12) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $84.13 (2016: $82.13); a total of 10,670 (2016: 13,284) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2017, compensation expense relating to the ESP totalled $893 thousand (2016: $1,090 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 2017, the Consolidated Entity purchased 1,728,065 shares on-market (2016: 4,746,421 shares) and 4,317,208 shares via off-market transfer (2016: nil) for the MEREP. A further 10,670 shares were purchased on-market for the ESP (2016: nil). The average price of all share purchases during the financial year was $71.57 (2016: $80.68) and the average price of the purchases made on-market was $72.04 (2016: $80.68).

[redacted]

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	CONSOLIDATED		COMPANY	
	2017 $m	2016 $m	2017 $m	2016 $m

NOTE 33
Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	2017 $m	2016 $m	2017 $m	2016 $m
Contingent liabilities exist in respect of: [(1),(2)]				
Letters of credit	843	765	–	–
Guarantees[(3)]	289	249	3,442	3,289
Performance related contingents	305	315	–	–
Indemnities	56	84	–	–
Total contingent liabilities	1,493	1,413	3,442	3,289
Commitments exist in respect of:				
Undrawn credit facilities and securities underwriting[(4)]	9,156	7,417	–	–
Forward asset purchases	816	760	–	–
Total commitments	9,972	8,177	–	–
Total contingent liabilities and commitments	11,465	9,590	3,442	3,289

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity and the Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

(2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

(3) The Company guaranteed $1,964 million (2016: 1,986 million) of performance obligations of a consolidated structured entity in relation to their external obligations disclosed in Note 35 – Structured entities.

(4) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

NOTE 34
Lease commitments

	2017 $m	2016 $m	2017 $m	2016 $m
Non-cancellable operating leases expiring:				
Not later than one year	170	170	–	–
Later than one year and not later than five years	498	582	–	–
Later than five years	116	204	–	–
Total operating lease commitments	784	956	–	–

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

NOTE 35

Structured entities

The Consolidated Entity engages in various transactions with SEs. SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (for example decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets, including mortgages, finance leases, credit card receivables of the Consolidated Entity or of its clients.

Macquarie may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Asset-backed financing

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

The Consolidated Entity engages in raising finance for assets such as aircraft, rail cars, electronic and IT equipment. The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

SE's are consolidated when they meet the criteria described in Note 1 (ii) - Principles of consolidation.

Macquarie has contractually guaranteed the performance obligations of a consolidated SE that has borrowings from third parties. The notional value of the guarantee is $1,964 million (2016: $1,986 million), which is included in amounts of MGL guarantees disclosed in Note 33 – Contingent liabilities and commitments. For the Consolidated Entity, this contingent liability is replaced with the SE's borrowing of $1,912 million (2016: $1,922 million) owing to third parties, included in Note 23 – Debt issued at amortised cost

Interests held in unconsolidated structured entities

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

(i) creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)

(ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and

(iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to interest, management fees, servicing fees, dividends and gains or losses from revaluing financial instruments.

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NOTE 35
Structured entities continued

The following tables present 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:

	Nature of activity	
	Securitisations $m	Asset-backed financing $m
	CONSOLIDATED 2017	
Carrying value of assets		
Trading portfolio assets	**507**	**364**
Derivative assets	**33**	**6**
Investment securities available for sale[1]	**1,068**	**47**
Loan assets held at amortised cost	**520**	**418**
Total carrying value of assets[2]	**2,128**	**835**
Maximum exposure to loss[3]		
Debt, equity and derivatives held	**2,128**	**835**
Undrawn commitments	**3**	**37**
Total maximum exposure to loss	**2,131**	**872**
	CONSOLIDATED 2016	
Carrying value of assets		
Trading portfolio assets	367	795
Derivative assets	36	3
Investment securities available for sale[1]	1,407	120
Loan assets held at amortised cost	342	331
Total carrying value of assets[2]	2,152	1,249
Maximum exposure to loss[3]		
Debt, equity and derivatives held	2,152	1,249
Undrawn commitments	448	-
Total maximum exposure to loss	2,600	1,249

(1) Securitisations includes $702 million (2016: $924 million) of investments that are managed by the Consolidated Entity under the liquid assets holdings policy described in Note 37.2 – Liquidity risk.
(2) Total carrying value of assets includes $718 million (2016: $445 million) in subordinated interests, of which $397 million (2016: $113 million) is included in securitisation activities and $321 million (2016: $332 million) included in asset backed financing activities. Of the subordinated asset-backed interests, the potential loss borne by others whose interests rank lower is $9 million (2016: $7 million).
(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments. The amounts for commitments are reduced for any liabilities already recognised.

The subordinated securitisation interests are primarily trading positions that are typically managed under market risk described in Note 37.3 - Market risk. For these reasons, information on size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented. The subordinated asset backed interests that are included within investments available for sale and loan assets, involve unconsolidated SEs with a total size of $546 million (2016: $595 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

NOTE 36

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price-maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price-making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in Note 1(xii) – Hedge accounting:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the Consolidated Entity, which is hedged with interest rate swaps. The Consolidated Entity is also exposed to foreign currency exchange risk from foreign currency denominated issued debt and foreign currency denominated assets which are hedged with cross-currency swaps.

At 31 March 2017, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $150 million negative value (2016: $165 million negative value).

During the financial year the Consolidated Entity recognised a $3 million gain (2016: $1 million loss) in the income statement due to hedge ineffectiveness on cash flow hedges.

Fair value hedges: The Consolidated Entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates, and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2017, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $1 million negative value (2016: $451 million positive value).

During the financial year, a fair value loss from hedging instruments of $452 million was recognised (2016: $525 million gain), offset by a $436 million gain (2016: $525 million loss) on the hedged items.

Net investment in foreign operations hedges: The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its foreign operations.

At 31 March 2017, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $176 million positive value (2016: $195 million positive value). During the financial year the Consolidated Entity recognised $nil (2016: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to $8,699 million (2016: $8,531 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of $67 million (2016: $286 million gain) on translation of the foreign currency borrowing to Australian dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

[redacted]

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NOTE 37

Financial risk management

Risk Management Group (RMG)

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are credit, liquidity, market, equity, conduct, regulatory and compliance, reputation, operational, legal, tax, model, cyber and environmental and social risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of this Annual Report.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately.

RMG is independent of all other areas of the Consolidated Entity. RMG approval is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee.

NOTE 37.1

Credit risk

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

Analysis and limit approval

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

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Derivative exposures are measured using high confidence potential future underlying asset prices. To mitigate credit risk, where appropriate, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance).

Ratings and reviews

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate which reflects the estimated economic loss in the event of default occurring.

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

Credit Grading	Internal Rating	External Equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default[(1)]	MQ99	Default

(1) The default category primarily correlates to the 'past due more than 90 days not impaired' and 'individually impaired' balances disclosed in the following pages

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

Portfolio and country risk

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

The Consolidated Entity has a country risk management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is mitigated by political risk insurance.

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 37.1
Credit risk continued

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

Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Consolidated Entity's financial assets, credit commitments and contingent liabilities by significant geographical locations and counterparty type. The maximum credit exposure is to each counterparty and does not take into consideration collateral or other credit enhancements (refer to section on collateral and credit enhancements). The geographical location is determined by the domicile and industry type of the counterparty.

	Receivables from financial institutions[1] $m	Trading Portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia				
Governments	–	4,868	461	852
Financial institutions	6,327	126	1,754	2,554
Other	–	3	1,194	58
Total Australia	6,327	4,997	3,409	3,464
Asia Pacific				
Governments	–	1,065	3	54
Financial institutions	2,031	383	174	394
Other	–	315	326	13
Total Asia Pacific	2,031	1,763	503	461
Europe, Middle East and Africa				
Governments	–	508	3	42
Financial institutions	5,608	160	3,192	316
Other	–	80	1,605	19
Total Europe, Middle East and Africa	5,608	748	4,800	377
Americas				
Governments	–	672	142	–
Financial institutions	13,505	132	2,127	383
Other	–	888	1,125	166
Total Americas	13,505	1,692	3,394	549
Total gross credit risk	27,471	9,200	12,106	4,851

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.
(2) This balance excludes other non-financial assets of $4,784 million and Life Investment Linked contracts and other unitholder assets $721 million which are included in Note 10 – Other assets.

Other financial assets[3] $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
				CONSOLIDATED 2017
11	56	–	–	6,248
687	1,822	1	213	13,484
388	52,950	121	2,331	57,045
1,086	54,828	122	2,544	76,777
636	12	75	–	1,845
381	590	–	10	3,963
1,349	771	7	74	2,855
2,366	1,373	82	84	8,663
52	2	–	12	619
2,060	2,726	237	185	14,484
1,676	5,858	51	3,007	12,296
3,788	8,586	288	3,204	27,399
38	90	–	3	945
2,320	2,692	–	431	21,590
1,455	9,094	141	5,199	18,068
3,813	11,876	141	5,633	40,603
11,053	76,663	633	11,465	153,442

 [redacted]

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 37.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions[1] $m	Trading Portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia				
Governments	–	4,858	452	1,379
Financial institutions	5,595	241	1,851	5,768
Other	–	–	776	90
Total Australia	5,595	5,099	3,079	7,237
Asia Pacific				
Governments	–	1,154	1	53
Financial institutions	3,669	336	215	264
Other	–	247	415	–
Total Asia Pacific	3,669	1,737	631	317
Europe, Middle East and Africa				
Governments	–	680	53	–
Financial institutions	11,797	51	4,672	409
Other	–	63	3,765	83
Total Europe, Middle East and Africa	11,797	794	8,490	492
Americas				
Governments	–	376	194	–
Financial institutions	12,067	345	3,012	648
Other	–	905	2,577	384
Total Americas	12,067	1,626	5,783	1,032
Total gross credit risk	33,128	9,256	17,983	9,078

(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 $2,537 million and Life Investment Linked contracts and other unitholder assets $850 million which are included in Note 10 – Other assets

Other financial assets[2] $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
				CONSOLIDATED 2016
4	105	–	–	6,798
387	1,514	10	182	15,548
592	53,244	17	2,876	57,595
983	54,863	27	3,058	79,941
697	8	72	–	1,985
545	373	–	4	5,406
940	787	15	192	2,596
2,182	1,168	87	196	9,987
79	12	–	13	837
1,803	2,260	268	570	21,830
1,042	7,758	158	2,185	15,054
2,924	10,030	426	2,768	37,721
29	107	–	–	706
2,151	4,949	–	349	23,521
840	9,249	–	3,219	17,174
3,020	14,305	–	3,568	41,401
9,109	80,366	540	9,590	169,050

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 37.1
Credit risk continued

Maximum exposure to credit risk continued

	Other financial assets $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
				COMPANY 2017
Australia				
Financial institutions	–	11	–	11
Other	–	9,956	381	10,337
Total Australia	–	9,967	381	10,348
Asia Pacific				
Financial institutions	–	–	–	–
Other	–	20	425	445
Total Asia Pacific	–	20	425	445
Europe, Middle East and Africa				
Financial institutions	–	–	91	91
Other	–	–	492	492
Total Europe, Middle East and Africa	–	–	583	583
Americas				
Financial institutions	–	–	–	–
Other	–	22	2,053	2,075
Total Americas	–	22	2,053	2,075
Total gross credit risk	–	10,009	3,442	13,451
				COMPANY 2016
Australia				
Financial institutions	–	66	–	66
Other	–	10,752	454	11,206
Total Australia	–	10,818	454	11,272
Asia Pacific				
Financial institutions	–	1	–	1
Other	–	13	292	305
Total Asia Pacific	–	14	292	306
Europe, Middle East and Africa				
Financial institutions	–	–	77	77
Other	–	–	389	389
Total Europe, Middle East and Africa	–	–	466	466
Americas				
Financial institutions	–	–	–	–
Other	–	21	2,077	2,098
Total Americas	–	21	2,077	2,098
Total gross credit risk	–	10,853	3,289	14,142

NOTE 37.1

Credit risk continued

Credit quality of financial assets

The table below details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer to section on collateral and credit enhancements).

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[4] $m	Individually impaired $m	Total $m
					CONSOLIDATED 2017
Receivables from financial institutions[1]	24,685	2,786	–	–	27,471
Trading portfolio assets					9,200
Governments	6,979	134	–	–	7,113
Financial institutions	618	183	–	–	801
Other	309	937	40	–	1,286
Derivative assets					12,106
Governments	609	–	–	–	609
Financial institutions	7,049	198	–	–	7,247
Other	2,681	1,569	–	–	4,250
Debt investment securities available for sale					4,851
Governments	948	–	–	–	948
Financial institutions	3,456	191	–	–	3,647
Other	12	243	–	1	256
Other financial assets[2]					11,053
Governments	695	–	42	–	737
Financial institutions	3,460	1,926	62	–	5,448
Other	2,463	2,303	80	22	4,868
Loan assets held at amortised cost[3],[5]					76,663
Governments	139	21	–	–	160
Financial institutions	6,157	1,673	–	–	7,830
Other	31,902	33,886	2,338	547	68,673
Other financial assets at fair value through profit or loss					633
Governments	75	–	–	–	75
Financial institutions	–	238	–	–	238
Other	122	190	7	1	320
Total	92,359	46,478	2,569	571	141,977

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.
(2) This balance excludes other non-financial assets of $4,784 million and Life Investment Linked contracts and other unitholder assets $721 million which are included in Note 10 – Other assets.
(3) Includes residential mortgages $24,025 million classified as investment grade where the Consolidated Entity has obtained LMI from an investment grade counterparty.
(4) Included in the past due category are balances which were overdue by one day or more.
(5) For the year ended 31 March 2017, various loan assets at amortised cost previously classified as investment grade have been classified as below investment grade. Prior year comparatives have been restated to reflect these changes.

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 37.1
Credit risk continued

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[4] $m	Individually impaired $m	Total $m
					CONSOLIDATED 2016
Receivables from financial institutions[1]	28,680	4,448	–	–	33,128
Trading portfolio assets					9,256
Governments	6,468	600	–	–	7,068
Financial institutions	768	205	–	–	973
Other	273	921	21	–	1,215
Derivative assets					17,983
Governments	697	3	–	–	700
Financial institutions	9,557	193	–	–	9,750
Other	4,521	3,012	–	–	7,533
Debt investment securities available for sale					9,078
Governments	1,432	–	–	–	1,432
Financial institutions	6,755	334	–	–	7,089
Other	18	476	–	63	557
Other financial assets[2]					9,109
Governments	604	166	39	–	809
Financial institutions	3,534	1,294	58	–	4,886
Other	1,579	1,748	77	10	3,414
Loan assets held at amortised cost[3],[5]					80,366
Governments	191	41	–	–	232
Financial institutions	7,702	1,394	–	–	9,096
Other	31,948	35,378	3,294	418	71,038
Other financial assets at fair value through profit or loss					540
Governments	72	–	–	–	72
Financial institutions	268	10	–	–	278
Other	5	178	3	4	190
Total	105,072	50,401	3,492	495	159,460

(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 $2 537 million and Life Investment Linked contracts and other unitholder assets $850 million which are included in Note 10 – Other assets
(3) Includes residential mortgages $21,909 million classified as investment grade where the Consolidated Entity has obtained LMI from an investment grade counterparty
(4) Included in the past due category are balances which were overdue by one day or more
(5) For the year ended 31 March 2017, various loan assets at amortised cost previously classified as investment grade have been classified as below investment grade Prior year comparatives have been restated to reflect these changes

NOTE 37.1

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	Below Investment Grade $m	Past due but not individually impaired $m	Individually impaired $m	Total $m
					COMPANY 2017
Due from subsidiaries					
Financial institutions	**11**	**–**	**–**	**–**	**11**
Other	**9,998**	**–**	**–**	**–**	**9,998**
Total	**10,009**	**–**	**–**	**–**	**10,009**
					COMPANY 2016
Due from subsidiaries					
Financial institutions	67	–	–	–	67
Other	10,786	–	–	–	10,786
Total	10,853	–	–	–	10,853

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 37.1

Credit risk continued

Ageing analysis of assets past due but not individually impaired and individually impaired assets

Class of financial asset	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 2017
Debt investment securities available for sale							
Other	–	–	–	–	–	1	1
Other financial assets							
Government	12	4	3	23	42	–	42
Financial institutions	50	2	1	9	62	–	62
Other	52	12	3	13	80	22	102
Loan assets held at amortised cost							
Other	1,333	314	132	559	2,338	547	2,885
Trading portfolio assets							
Other	–	–	–	40	40	–	40
Other financial assets at fair value through profit or loss							
Other	–	7	–	–	7	1	8
Total	**1,447**	**339**	**139**	**644**	**2,569**	**571**	**3,140**
							CONSOLIDATED 2016
Debt investment securities available for sale							
Other	–	–	–	–	–	63	63
Other financial assets							
Government	39	–	–	–	39	–	39
Financial institutions	48	4	6	–	58	–	58
Other	50	15	4	8	77	10	87
Loan assets held at amortised cost							
Other	1,605	390	168	1,131	3,294	418	3,712
Trading portfolio assets							
Other	–	–	–	21	21	–	21
Other financial assets at fair value through profit or loss							
Other	–	2	1	–	3	4	7
Total	1,742	411	179	1,160	3,492	495	3,987

NOTE 37.1
Credit risk continued

Ageing analysis of assets past due but not individually impaired and individually impaired assets continued

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in Note 1(xv) – Impairment.

Of the collateral held against past due or impaired balances for loan assets held at amortised cost, $1,704 million (2016: $1,663 million) relates to collateral held against past due or impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due or impaired balances for other assets represents equity securities held as security against failed trade settlements.

Repossessed collateral

In the event of a customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. During the financial year, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of $50 million (2016: $10 million).

Collateral and credit enhancements held

Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balances are included in receivables from financial institutions. For details, refer to Note 7 – Receivables from financial institutions.

Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

Loan assets held at amortised cost

Residential mortgage loans

Residential mortgages are secured by fixed charges over a borrower's property. Further, the Consolidated Entity has obtained LMI from an investment grade counterparty to cover a substantial portion of the mortgage portfolio to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. During the year, the Americas mortgages portfolio was sold and the Canadian mortgage book has been classified as disposal group held for sale. The mortgage loan balance includes $16,332 million (2016: $18,087 million) which has been securitised by consolidated SPEs.

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the most recent valuation of mortgaged assets in response to variation in the loan request.

	2017				2016			
	Australia $m	Americas $m	EMEA $m	Total $m	Australia $m	Americas $m	EMEA $m	Total $m
Fully collateralised								
Loan to value ratio								
Less than 25%	1,004	–	13	1,017	922	15	14	951
25% to 50%	4,367	–	168	4,535	4,078	72	103	4,253
51% to 70%	8,087	–	464	8,551	7,649	306	375	8,330
71% to 80%	10,290	–	225	10,515	10,015	497	219	10,731
81% to 90%	4,490	–	132	4,622	5,060	541	49	5,650
91% to 100%	959	–	123	1,082	1,305	99	30	1,434
Partly collateralised	13	–	–	13	15	–	–	15
Total mortgages	29,210	–	1,125	30,335	29,044	1,530	790	31,364

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
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CONTINUED

NOTE 37.1

Credit risk continued

Lease and retail financing

The Consolidated Entity leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by the Consolidated Entity as collateral. Of the lease and retail finance portfolio of $19,706 million (2016: $19,425 million), the credit exposure after considering the depreciated value of collateral is $8,648 million (2016: $8,939 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. Of the term lending of $16,514 million (2016: $18,308 million), the credit exposure after the estimated value of collateral and credit enhancements is $3,915 million (2016: $4,755 million).

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Business Banking provides residential and commercial mortgages to clients in Australia, which are usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property.

	2017 $m	2016 $m
Fully collateralised		
Loan to value ratio		
Less than 50%	**182**	158
51% to 70%	**967**	762
71% to 80%	**1,112**	1,076
81% to 90%	**135**	187
91% to 100%	**26**	43
Partly collateralised by real estate	**31**	15
Total mortgages	**2,453**	2,241

Investment and insurance premium lending

The Consolidated Entity lends to clients for investment, and insurance premium financing. Where the Consolidated Entity lends for investment, it holds the underlying investment and/or alternative acceptable assets as collateral, or holds security by way of a registered pledge over the underlying investment. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. Of the investment and insurance premium lending portfolio of $736 million (2016: $1,022 million), $735 million (2016: $990 million) is fully collateralised.

Additional collateral

The Consolidated Entity excludes other types of collateral, such as unsupported guarantees. While such mitigants have value, as a credit risk mitigant, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit or loss include financing provided to clients for investing. Financing may be unsecured or secured (partially or fully). Collateral is generally comprised of underlying securities investments or cash deposits of the investors.

NOTE 37.1

Credit risk continued

Derivative financial instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over The Counter (OTC) derivatives. The Consolidated Entity's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house. The clearing house is responsible for managing the risk associated with the process on behalf of their members and ensuring it has adequate resources to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values as at 31 March 2017 of $1,418 million (2016: $1,794 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 2017, the Consolidated Entity held OTC contracts with a positive replacement value of $10,688 million (2016: $16,189 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $6,670 million (2016: $8,823 million) and margins held (excluding the impact of over-collateralisation) of $1,344 million (2016: $2,432 million).

Debt investment securities available for sale

This classification mainly includes debt securities held by Group Treasury for liquidity management purposes as well as certain asset-backed securities.

The Consolidated Entity utilises Credit Default Swaps (CDS), Guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to credit risk.

Other assets

Security settlements of $6,529 million (2016: $5,961 million) are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Security settlements are collateralised with the underlying equity securities or cash held by the Consolidated Entity until date of settlement.

Credit commitments and contingent liabilities

Undrawn facilities and lending commitments of $5,670 million (2016: $4,336 million) is secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of $ 9,156 million (2016: $7,417 million).

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 37.2
Liquidity risk
Governance and oversight

Macquarie's liquidity risk management framework ensures 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 policies are approved by the Board after endorsement by the ALCO and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The ALCO includes the CEO, MBL CEO, the CFO, CRO, the Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent prudential oversight of liquidity risk management, including validating liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Liquidity policy and risk appetite

MGL provides funding predominantly to the MFHPL Consolidated Entity. As such, the *MGL Liquidity Policy* outlines the liquidity requirements for the MFHPL Consolidated Entity. MGL's liquidity risk appetite ensures that it is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with no access to funding markets and with only a limited reduction in franchise businesses.

Reflecting the longer-term nature of the MFHPL Consolidated Entity asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding.

The *MBL Liquidity Policy* outlines the liquidity requirements for Macquarie Bank. MBL's liquidity risk appetite ensures that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets and with only a limited reduction in franchise businesses.

MBL is an ADI and is funded mainly with capital, long-term liabilities and deposits.

Liquidity contingency plan

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

Specifically, the plan details:

- factors that may constitute a crisis
- the officer responsible for enacting the contingency management
- a committee of senior executives responsible for managing a crisis
- the information required to effectively manage a crisis,
- a communications strategy
- a high level check list 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 its 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 Board 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 Board.

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 firm-specific crises.

The scenarios are run over a number of timeframes and a range of conservative assumptions are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

NOTE 37.2

Liquidity risk continued

Scenario analysis continued

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 12 month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. Macquarie's minimum level of cash and liquid assets is calculated with reference to internal scenario projections and minimum regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets (HQLA) or be an asset type that is eligible as collateral in the Reserve Bank of Australia's (RBA) Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for the group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

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FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 37.2
Liquidity risk continued

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivative liabilities (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
						CONSOLIDATED 2017
Trading portfolio liabilities	–	5,067	–	–	–	5,067
Derivative liabilities (trading)	–	10,386	–	–	–	10,386
Derivative liabilities (hedging relationship)						
Contractual amounts payable	–	3,111	2,611	4,873	1,712	12,307
Contractual amounts receivable	–	(2,944)	(2,404)	(4,039)	(1,426)	(10,813)
Deposits	50,418	4,228	2,580	470	66	57,762
Other financial liabilities[1]	–	9,396	–	–	–	9,396
Payables to financial institutions	5,065	2,476	1,858	6,194	2,322	17,915
Debt issued at amortised cost[2]	–	7,379	9,131	26,411	16,154	59,075
Other financial liabilities at fair value through profit or loss	–	160	366	278	2,379	3,183
Loan capital[3]	–	477	297	4,238	2,412	7,424
Total undiscounted cash flows	**55,483**	**39,736**	**14,439**	**38,425**	**23,619**	**171,702**
Contingent liabilities	–	1,493	–	–	–	1,493
Commitments	2,745	2,595	559	2,308	1,765	9,972
Total undiscounted contingent liabilities and commitments[4]	**2,745**	**4,088**	**559**	**2,308**	**1,765**	**11,465**

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Includes $18,192 million (2016: $22,642 million) payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.
(3) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 26 – Loan capital.
(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

NOTE 37.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
						CONSOLIDATED 2016
Trading portfolio liabilities	–	5,030	–	–	–	5,030
Derivative liabilities (trading)	–	13,718	–	–	–	13,718
Derivative liabilities (hedging relationship)						
Contractual amounts payable	–	800	1,046	4,094	1,154	7,094
Contractual amounts receivable	–	(655)	(743)	(3,182)	(941)	(5,521)
Deposits	43,220	4,897	3,553	585	77	52,332
Other financial liabilities[1]	–	8,576	–	–	–	8,576
Payables to financial institutions[2]	7,949	3,529	371	12,288	424	24,561
Debt issued at amortised cost[3]	–	12,544	9,149	32,397	21,687	75,777
Other financial liabilities at fair value through profit or loss	6	108	275	307	2,461	3,157
Loan capital[4]	–	161	263	3,550	2,478	6,452
Total undiscounted cash flows	51,175	48,708	13,914	50,039	27,340	191,176
Contingent liabilities	–	1,413	–	–	–	1,413
Commitments	2,456	1,188	355	3,549	629	8,177
Total undiscounted contingent liabilities and commitments[5]	2,456	2,601	355	3,549	629	9,590

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) In April 2016, the Consolidated Entity exercised its right to repay $3,000 million of payables to financial institutions that was contractually due to mature more than 12 months after balance date on 1 May 2017.
(3) Includes $22,642 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.
(4) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 26 – Loan capital.
(5) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

[redacted]

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CONTINUED

NOTE 37.2
Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
						COMPANY 2017
Payables to financial institutions	–	14	43	2,107	415	2,579
Deposits	–	–	–	11	–	11
Due to subsidiaries[1]	–	546	–	–	–	546
Debt issued at amortised cost	–	71	984	5,196	165	6,416
Loan Capital[2]	–	15	47	1,242	–	1,304
Total undiscounted cash flows	–	646	1,074	8,556	580	10,856
Contingent liabilities	–	3,442	–	–	–	3,442
Total undiscounted contingent liabilities[3]	–	3,442	–	–	–	3,442
						COMPANY 2016
Payables to financial institutions	4	13	40	2,937	–	2,994
Due to subsidiaries[1]	–	522	–	–	–	522
Debt issued at amortised cost	–	96	969	5,866	583	7,514
Loan capital[2]	–	16	51	1,318	–	1,385
Total undiscounted cash flows	4	647	1,060	10,121	583	12,415
Contingent liabilities	–	3,289	–	–	–	3,289
Total undiscounted contingent liabilities[3]	–	3,289	–	–	–	3,289

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 26 – Loan capital.
(3) Cash flows on contingent liabilities are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

NOTE 37.3

Market risk continued

Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading portfolios from changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion:** changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices
- **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices
- **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products

The Consolidated Entity is also exposed to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Value-at-Risk figures (1-day, 99% confidence level)

The 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.

	2017			2016		
	Average $m	Maximum $m	Minimum $m	Average $m	Maximum $m	Minimum $m
Equities	**9.72**	**12.93**	**5.31**	10.92	16.44	5.88
Interest rates	**5.60**	**8.59**	**3.26**	5.62	9.13	4.16
Foreign exchange and bullion	**1.94**	**4.04**	**0.66**	2.23	6.06	1.13
Commodities	**6.81**	**16.03**	**3.74**	11.66	18.37	6.69
Aggregate	**11.71**	**19.39**	**6.69**	16.35	22.18	9.56

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.

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CONTINUED

NOTE 37.3
Market risk continued

Interest rate risk

The Consolidated Entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred into the trading books of CGM and Group Treasury Division which are managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book due to factors outside the interest rate market or due to timing differences in accumulating exposures large enough to hedge. These residual risks have independent limits that are monitored by RMG and regularly reported to Senior Management.

Foreign currency risk

The Consolidated Entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of its investments in foreign operations. Movements in foreign currency exchange rates will result in gain or loss in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to manage this risk, the Consolidated Entity has a policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards. They offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading divisions is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below. Other than this there is no material non-trading foreign exchange risk in the profit and loss.

The hedging policy of the Consolidated Entity is designed to reduce the sensitivity of the Consolidated Entity's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

NOTE 37.3

Market risk continued

Foreign currency risk continued

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally, those with the most impact on the sensitivity analysis are United States dollar, Great British pound, Euro and Canadian dollar as shown below.

	2017		2016	
	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	(488)	+10	(487)
Great British pound	+10	(73)	+10	(84)
Euro	+10	(33)	+10	(35)
Canadian dollar	+10	(17)	+10	(27)
Total		**(611)**		**(633)**
United States dollar	-10	597	–10	595
Great British pound	-10	90	–10	102
Euro	-10	40	–10	43
Canadian dollar	-10	21	–10	33
Total		748		773

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NOTE 37.3
Market risk continued

Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure at 31 March on its non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement (as a result of a change in fair value of financial assets designated at fair value) due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	2017			2016		
Geographic region	Movement in exchange rates %	Sensitivity of profit after tax $m	Sensitivity of equity after tax $m	Movement in exchange rates %	Sensitivity of profit after tax $m	Sensitivity of equity after tax $m
						CONSOLIDATED
Listed						
Australia	+10	–	24	+10	–	40
Americas	+10	4	31	+10	2	32
Europe, Middle East and Africa	+10	2	4	+10	3	2
Asia Pacific	+10	2	–	+10	–	–
Unlisted	+10	16	85	+10	11	90
Total		24	144		16	164
Listed						
Australia	-10	–	(24)	–10	–	(40)
Americas	-10	(4)	(31)	–10	(2)	(32)
Europe, Middle East and Africa	-10	(2)	(4)	–10	(3)	(2)
Asia Pacific	-10	(2)	–	–10	–	–
Unlisted	-10	(16)	(85)	–10	(11)	(90)
Total		(24)	(144)		(16)	(164)

NOTE 38

Fair value of financial assets and financial liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair Value Measurement* requires use of the price within the bid-offer spread that is most representative of fair value. Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

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.

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FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 38

Fair value of financial assets and financial liabilities
continued

The fair values calculated for financial assets which are carried on the statement of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described below, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower
- the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread, and
- 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.

NOTE 38

Fair value of financial assets and financial liabilities continued

The tables below summarise the carrying value and fair value of financial assets and financial liabilities held at amortised cost. Fair values are calculated for disclosure purpose only.

	2017 Carrying value $m	2017 Fair value $m	2016 Carrying value $m	2016 Fair value $m
				CONSOLIDATED
Assets				
Receivables from financial institutions	27,471	27,471	33,128	33,128
Other financial assets[1]	11,053	11,053	9,109	9,109
Loan assets held at amortised cost	76,663	77,060	80,366	80,665
Total assets	115,187	115,584	122,603	122,902
Liabilities				
Deposits	57,708	57,722	52,245	52,267
Other financial liabilities[2]	9,396	9,396	7,805	7,805
Payables to financial institutions	17,072	17,157	23,860	23,820
Debt issued at amortised cost	50,828	51,468	63,685	63,642
Loan capital	5,748	5,965	5,209	5,158
Total liabilities	140,752	141,708	152,804	152,692
				COMPANY
Assets				
Due from subsidiaries	9,613	10,020	10,853	11,159
Total assets	9,613	10,020	10,853	11,159
Liabilities				
Deposits	11	11	–	–
Payables to financial institutions	2,413	2,442	2,850	2,824
Due to subsidiaries	911	911	873	873
Debt issued at amortised cost	5,746	6,112	6,425	6,776
Loan capital	1,130	1,187	1,126	1,107
Total liabilities	10,211	10,663	11,274	11,580

(1) This balance excludes other non-financial assets of $4,784 million (2016: $2,537 million) and Life investment linked contracts and other unitholder assets of $721 million (2016: $850 million) which are included in Note 10 - Other assets.
(2) This balance excludes other non-financial liabilities of $4,921 million (2016: $4,527 million) and Life investment linked contracts and other unitholder liabilities of $714 million (2016: $771 million) which are included in Note 21 - Other liabilities.

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
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NOTE 38

Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2017
Assets				
Receivables from financial institutions	9,298	18,173	–	27,471
Other financial assets	–	11,053	–	11,053
Loan assets held at amortised cost	7,376	7,101	62,583	77,060
Total assets	16,674	36,327	62,583	115,584
Liabilities				
Deposits	50,568	7,154	–	57,722
Other financial liabilities	–	9,396	–	9,396
Payables to financial institutions	1,054	13,496	2,607	17,157
Debt issued at amortised cost	–	45,505	5,963	51,468
Loan capital	2,933	3,032	–	5,965
Total liabilities	54,555	78,583	8,570	141,708
				CONSOLIDATED 2016
Assets				
Receivables from financial institutions	9,175	23,953	–	33,128
Other financial assets	–	9,109	–	9,109
Loan assets held at amortised cost	8,486	8,293	63,886	80,665
Total assets	17,661	41,355	63,886	122,902
Liabilities				
Deposits	43,383	8,884	–	52,267
Other financial liabilities	–	7,805	–	7,805
Payables to financial institutions	1,579	19,467	2,774	23,820
Debt issued at amortised cost	–	56,670	6,972	63,642
Loan capital	1,845	3,313	–	5,158
Total liabilities	46,807	96,139	9,746	152,692

The financial assets and liabilities held at amortised cost in the Company as at 31 March 2017 are predominantly classified as Level 2 in the fair value hierarchy except for 'Loan capital' classified as Level 1.

NOTE 38

Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2017
Assets				
Trading portfolio assets	**18,075**	**8,444**	**414**	**26,933**
Derivative assets	**770**	**10,987**	**349**	**12,106**
Investment securities available for sale	**3,997**	**1,640**	**1,256**	**6,893**
Other financial assets at fair value through profit or loss	**109**	**1,325**	**68**	**1,502**
Other financial assets(1)	**23**	**691**	**7**	**721**
Total assets	**22,974**	**23,087**	**2,094**	**48,155**
Liabilities				
Trading portfolio liabilities	**3,250**	**1,817**	**–**	**5,067**
Derivative liabilities	**686**	**10,239**	**203**	**11,128**
Other financial liabilities at fair value through profit or loss	**–**	**2,347**	**57**	**2,404**
Other financial liabilities(2)	**–**	**707**	**7**	**714**
Total liabilities	**3,936**	**15,110**	**267**	**19,313**
				CONSOLIDATED 2016
Assets				
Trading portfolio assets	15,121	7,609	807	23,537
Derivative assets	940	16,633	410	17,983
Investment securities available for sale	7,698	1,790	1,968	11,456
Other financial assets at fair value through profit or loss	74	1,529	46	1,649
Other financial assets(1)	71	772	79	922
Total assets	23,904	28,333	3,310	55,547
Liabilities				
Trading portfolio liabilities	2,829	2,201	–	5,030
Derivative liabilities	1,169	13,374	201	14,744
Other financial liabilities at fair value through profit or loss	–	2,618	54	2,672
Other financial liabilities(2)	–	764	7	771
Total liabilities	3,998	18,957	262	23,217

(1) This balance represents $721 million (2016: $850 million) of life investment linked contracts and other unitholder assets and $nil (2016: $72 million) of other fair value financial assets which are included in Note 10 – Other assets.

(2) This balance represents $714 million (2016: $771 million) of life investment linked contracts and other unitholder liabilities which are included in Note 21 – Other liabilities.

The Company does not hold financial instruments measured at fair value.

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 38

Fair value of financial assets and financial liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial years ended 31 March 2017 and 31 March 2016:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance as at 1 April 2015	697	2,201
Purchases	391	302
Sales	(207)	(566)
Settlements	–	(89)
Transfers into Level 3	81	230
Transfers out of Level 3	(56)	(152)
Reclassifications	–	–
Fair value (losses)/gains recognised in the income statement(1)	(99)	6
Fair value gains recognised in other comprehensive income(1)	–	36
Balance as at 31 March 2016	807	1,968
Fair value (losses)/gains for the financial year included in the income statements for assets and liabilities held at the end of the financial year(1)	(99)	(54)
Balance as at 1 April 2016	**807**	**1,968**
Purchases	**224**	**162**
Sales	**(521)**	**(387)**
Settlements	**–**	**(237)**
Transfers into Level 3	**126**	**2**
Transfers out of Level 3	**(218)**	**(177)**
Fair value (losses)/gains recognised in the income statement(1)	**(4)**	**87**
Fair value gains recognised in other comprehensive income(1)	**–**	**(162)**
Balance as at 31 March 2017	**414**	**1,256**
Fair value (losses)/gains for the financial year included in the income statements for assets and liabilities held at the end of the financial year(1)	**–**	**(7)**

(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 $354 million (2016: $410 million) and derivative liabilities are $203 million (2016: $201 million).

Other financial assets at fair value through profit or loss $m	Other financial assets $m	Other financial liabilities at fair value through profit or loss $m	Other financial liabilities $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
					CONSOLIDATED 2016
190	–	(22)	–	94	3,160
1	–	(45)	–	114	763
(6)	–	8	–	(151)	(922)
–	–	–	–	–	(89)
7	7	–	(7)	10	328
(75)	–	–	–	28	(255)
(65)	65	–	–	–	–
(6)	7	5	–	114	27
–	–	–	–	–	36
46	79	(54)	(7)	209	3,048
1	7	5	–	124	(16)
					CONSOLIDATED 2017
46	79	(54)	(7)	209	3,048
29	–	–	–	92	507
(8)	(72)	–	–	(124)	(1,112)
–	–	–	–	–	(237)
–	–	–	–	8	136
–	–	–	–	(35)	(430)
1	–	(3)	–	(4)	77
–	–	–	–	–	(162)
68	7	(57)	(7)	146	1,827
5	–	(5)	–	(3)	(10)

[redacted]

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 38

Fair value of financial assets and financial liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity did not have significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year.

Unrecognised gain

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	CONSOLIDATED 2017 $m	CONSOLIDATED 2016 $m
Balance at the beginning of the financial year	**112**	56
Deferral on new transactions	**67**	108
Amounts recognised in the income statements during the financial year	**(52)**	(52)
Balance at the end of the financial year	**127**	112

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
				CONSOLIDATED 2017
Product type				
Equity and equity linked products	**9**	**89**	**(9)**	**(82)**
Commodities and other products	**105**	**8**	**(127)**	**(8)**
Total	**114**	**97**	**(136)**	**(90)**
				CONSOLIDATED 2016
Product type				
Equity and equity linked products	6	117	(6)	(114)
Commodities and other products	204	39	(154)	(32)
Total	210	156	(160)	(146)

NOTE 38

Fair value of financial assets and financial liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Range of inputs Maximum value
						CONSOLIDATED 2017
Equity and equity linked products	855	19	Discounted cash flows	Discount rate	8.0%	11.0%
			Pricing model	Earnings multiple	8x	21.2x
			Market comparability	Price in %[1]		
Commodities and other products	1,239	248	Discounted cash flows	Discount rate	4.0%	10.0%
			Pricing model	Volatility	6.0%	108.0%
				Correlation	10.0%	100.0%
			Market comparability	Price in %[1]		
Total	2,094	267				
						CONSOLIDATED 2016
Equity and equity linked products	1,540	20	Discounted cash flows	Discount rate	7.0%	14.0%
			Pricing model	Earnings multiple	0.6x	13.5x
			Market comparability	Price in %[1]		
Commodities and other products	1,770	242	Discounted cash flows	Discount rate	7.0%	20.0%
			Pricing model	Volatility	(51.0%)	200.0%
				Correlation	(60%)	100%
			Market comparability	Price in %[1]		
Total	3,310	262				

(1) The range of inputs relating to market comparability is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple, discount rate and forecast earnings of the investee companies.

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 39

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the statement of financial position when they meet the criteria described in Note 1(xxvii) – Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity and Company's financial position in that circumstance is to settle as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity, refer to Note 37.1 – Credit risk for information on credit risk management.

	Amounts subject to enforceable netting arrangements							
	Subject to offsetting in the statement of financial position			Related amounts not offset[7]				
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments[5] $m	Cash and other financial collateral[6] $m	Net amount $m	Amounts not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2017
Receivables from financial institutions[1]	17,558	–	17,558	(1,075)	(16,217)	266	9,913	27,471
Derivative assets	16,907	(5,354)	11,553	(6,670)	(2,762)	2,121	553	12,106
Other assets[2]	5,835	(3,059)	2,776	(29)	–	2,747	8,998	11,774
Loan assets held at amortised cost	632	(28)	604	(65)	–	539	76,059	76,663
Other financial assets at fair value through profit or loss	442	(314)	128	–	–	128	1,374	1,502
Total assets	**41,374**	**(8,755)**	**32,619**	**(7,839)**	**(18,979)**	**5,801**	**96,897**	**129,516**
Derivative liabilities	(15,378)	5,354	(10,024)	6,670	2,350	(1,004)	(1,104)	(11,128)
Deposits	(575)	219	(356)	65	–	(291)	(57,352)	(57,708)
Other liabilities[3]	(5,560)	3,059	(2,501)	29	–	(2,472)	(7,609)	(10,110)
Payables to financial institutions[4]	(6,921)	–	(6,921)	1,075	5,596	(250)	(10,151)	(17,072)
Other financial liabilities at fair value through profit or loss	(97)	95	(2)	–	–	(2)	(2,402)	(2,404)
Debt issued at amortised cost	(28)	28	–	–	–	–	(50,828)	(50,828)
Total liabilities	**(28,559)**	**8,755**	**(19,804)**	**7,839**	**7,946**	**(4,019)**	**(129,446)**	**(149,250)**

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending
(2) This balance excludes other non-financial assets of $4,784 million which is included in Note 10 - Other assets
(3) This balance excludes other non-financial liabilities of $4,921 million which is included in Note 21 - Other liabilities
(4) Included within this balance are repurchase arrangements and other similar secured borrowing
(5) Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation
(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities
(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over- collateralisation

NOTE 39

Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements							
	Subject to offsetting in the statement of financial position			Related amounts not offset[7]				
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments[5] $m	Cash and other financial collateral[6] $m	Net amount $m	Amounts not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2016
Receivables from financial institutions[1]	23,833	–	23,833	(277)	(22,800)	756	9,295	33,128
Derivative assets	23,539	(7,121)	16,418	(10,617)	(2,432)	3,369	1,565	17,983
Other assets[2]	5,164	(2,899)	2,265	(28)	–	2,237	7,694	9,959
Loan assets held at amortised cost	38	(38)	–	–	–	–	80,366	80,366
Other financial assets at fair value through profit or loss	448	(272)	176	–	–	176	1,473	1,649
Total assets	53,022	(10,330)	42,692	(10,922)	(25,232)	6,538	100,393	143,085
Derivative liabilities	(21,089)	7,121	(13,968)	10,617	1,573	(1,778)	(776)	(14,744)
Deposits	(314)	263	(51)	–	–	(51)	(52,194)	(52,245)
Other liabilities[3]	(5,354)	2,899	(2,455)	28	–	(2,427)	(6,121)	(8,576)
Payables to financial institutions[4]	(8,158)	–	(8,158)	277	7,749	(132)	(15,702)	(23,860)
Other financial liabilities at fair value through profit or loss	(9)	9	–	–	–	–	(2,672)	(2,672)
Debt issued at amortised cost	(38)	38	–	–	–	–	(63,685)	(63,685)
Total liabilities	(34,962)	10,330	(24,632)	10,922	9,322	(4,388)	(141,150)	(165,782)

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) This balance excludes other non-financial assets of $2,537 million which is included in Note 10 - Other assets.
(3) This balance excludes other non-financial liabilities of $4,527 million which is included in Note 21 - Other liabilities.
(4) Included within this balance are repurchase arrangements and other similar secured borrowing.
(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.
(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.
(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

	Amounts subject to enforceable netting arrangements							
	Subject to offsetting in the statement of financial position			Related amounts not offset				
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m	Amounts not subject to enforceable netting arrangements $m	Statement of financial position total $m
								COMPANY 2017
Due from subsidiaries	**12,702**	**(2,714)**	**9,988**	**–**	**–**	**9,988**	**21**	**10,009**
Due to subsidiaries	**(3,629)**	**2,714**	**(915)**	**–**	**–**	**(915)**	**(30)**	**(945)**
								COMPANY 2016
Due from subsidiaries	14,147	(3,309)	10,838	–	–	10,838	15	10,853
Due to subsidiaries	(4,176)	3,309	(867)	–	–	(867)	(6)	(873)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 40

Transfers of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets recognised in the statement of financial position to other entities. Depending on the criteria discussed in Note 1 (ix) - Recognition and derecognition of financial instruments, the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of continuing involvement.

Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. For the years ending 31 March 2017 and 31 March 2016, there were no material transfers of financial assets where the Consolidated Entity or Company retained a continuing involvement in the transferred asset.

Transferred financial assets that are not derecognised

The Consolidated Entity and the Company did not recognise financial assets only to the extent of continuing involvement in the years ending 31 March 2017 and 31 March 2016. The following transactions typically result in the transferred assets continuing to be recognised in full.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the required collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

			For those liabilities that only have recourse to the transferred assets		
	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	Fair Value of transferred assets $m	Fair Value of associated liabilities $m	Net Fair value $m
					CONSOLIDATED 2017
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading portfolio assets	4,874	(4,997)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Investment securities available for sale	509	(475)	–	–	–
Other financial assets not derecognised:					
Loan assets held at amortised cost	594	(594)	606	(588)	18
Total financial assets not derecognised	5,977	(6,066)	606	(588)	18
					CONSOLIDATED 2016
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading portfolio assets	3,133	(3,044)	–	–	–
Investment securities available for sale	599	(502)	–	–	–
Loan assets held at amortised cost	811	(884)	817	(884)	(67)
Financial assets not derecognised due to total return/asset swaps:					
Loan assets held at amortised cost	175	(124)	163	(163)	–
Investment securities available for sale	479	(506)	–	–	–
Other financial assets not derecognised:					
Loan assets held at amortised cost	232	(232)	232	(232)	–
Total financial assets not derecognised	5,429	(5,292)	1,212	(1,279)	(67)

There were no material transfers of financial assets for the Company where the financial assets are not derecognised as at 31 March 2017 and at 31 March 2016.

NOTE 41

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity and the Company, PwC and its network firms earned the following remuneration:

	CONSOLIDATED		COMPANY	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
PwC – Australia				
Audit of the Group and controlled entities	**11,586**	11,174	**–**	–
Other assurance services[1]	**3,863**	4,025	**–**	–
Advisory services	**32**	49	**–**	–
Taxation	**484**	525	**–**	–
Total non-audit services	**4,379**	**4,599**	**–**	**–**
Total remuneration paid to PwC Australia	**15,965**	**15,773**	**–**	**–**
Network firms of PwC Australia				
Audit of the Group and controlled entities	**14,001**	13,917	**–**	–
Other assurance services[1]	**1,220**	777	**–**	–
Advisory services	**1,359**	546	**–**	–
Taxation	**3,082**	3,297	**–**	–
Total non-audit services	**5,661**	**4,620**	**–**	**–**
Total remuneration paid to network firms of PwC Australia	**19,662**	**18,537**	**–**	**–**
Total Audit Services remuneration paid to PwC	**25,587**	**25,091**	**–**	**–**
Total Non-Audit Services remuneration paid to PwC	**10,040**	**9,219**	**–**	**–**
Total remuneration paid to PwC (Note 2)	**35,627**	**34,310**	**–**	**–**

(1) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports, the services include regulatory compliance, due diligence, accounting advice and review of controls and procedures.

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects.

 [redacted]

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017
CONTINUED

NOTE 42
Acquisitions and disposals of subsidiaries and businesses

Significant entities or businesses acquired or consolidated due to acquisition of control:

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the current financial year.

Other entities or businesses acquired or consolidated due to acquisition of control:

Re-Clean Co. Ltd, Sparks Battery Holdings, LLC, Hybrid- Electric Building Technologies Irvine 1, LLC, Hybrid- Electric Building Technologies Irvine 2, LLC, Hybrid- Electric Building Technologies West Los Angeles 1, LLC and Hybrid- Electric Building Technologies West Los Angeles 2, LLC.

Aggregate details of the entities and businesses acquired or consolidated due to acquisition of control are as follows:

	2017 $m	2016 $m
Fair value of net assets acquired		
Receivables from financial institutions	6	59
Other assets	2	249
Loan assets held at amortised cost	–	7,875
Property, plant and equipment	3	4,999
Intangible assets	80	–
Deposits	–	(95)
Other liabilities	(16)	(415)
Payables to financial institutions	–	(441)
Deferred tax liabilities	(11)	(75)
Non-controlling interests	–	(17)
Total fair value of net assets acquired	64	12,139
Goodwill recognised on acquisition	12	–
Consideration		
Cash consideration	72	12,099
Deferred consideration	4	–
Fair value of equity interest held before the acquisition date	–	40
Total consideration	76	12,139
Net cash flow		
Cash consideration	(72)	(12,099)
Less: cash and cash equivalents acquired	6	39
Net cash outflow	(66)	(12,060)

There were no significant entities or businesses acquired or consolidated due to acquisition of control in the 31 March 2016 comparatives. The 31 March 2016 comparatives principally relate to the following entities or businesses acquired or consolidated due to acquisition of control:

AWAS Aviation Capital Portfolio, Esanda Dealer Finance Portfolio, Energetics Topco Limited, Advantage Funding Management Co. Inc., Macquarie Beteiligungs Nr 4 Gmbh & Co. KG, Macquarie Holdings South Africa (Pty) Limited, Macquarie Equities South Africa (Pty) Limited, Macquarie Capital South Africa (Pty) Limited and NewZoom Inc.

NOTE 42

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities or businesses disposed of or deconsolidated due to loss of control:

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

Other entities or businesses disposed of or deconsolidated due to loss of control:

Firebolt RB Holdings Limited, Macquarie Life's risk insurance business, US Mortgages, Macquarie Equities New Zealand Limited, Macquarie Equity Custodians Limited, International Life Solutions Proprietary Limited, Macquarie APTT Management PTE Limited, Noctua Square Investments B.V, NACH B.V, Brek Manufacturing Co, Godo Kaisha ACMP2 and Godo Kaisha ACMP3.

Aggregate details of the entities or businesses disposed of or deconsolidated are as follows:

	2017 $m	2016 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Receivables from financial institutions	**48**	31
Trading portfolio assets	**77**	–
Other assets	**174**	45
Loan assets held at amortised cost	**458**	82
Property, plant and equipment	**17**	183
Interests in associates and joint ventures accounted for using the equity method	**1,294**	80
Intangible assets	**50**	64
Deferred tax assets	**1**	–
Other liabilities	**(156)**	(72)
Payables to financial institutions	**(996)**	(239)
Debt issued at amortised cost	**(1)**	–
Non-controlling interests	**(174)**	(2)
Total carrying value of net assets disposed of or deconsolidated	**792**	172
Consideration		
Cash consideration	**937**	208
Consideration receivable	**151**	17
Consideration received in equity	**–**	2
Fair value remeasurement of investment retained	**133**	109
Total consideration	**1,221**	336
Direct costs relating to disposal	**(21)**	–
Net cash flow		
Cash consideration	**937**	208
Less cash and cash equivalents disposed of or deconsolidated	**(46)**	(31)
Cash outflow on direct costs related to disposal	**(10)**	–
Net cash inflow	**881**	177

The 31 March 2016 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control:

IHS Lothian Investments Limited, IHS Lothian Corporate Limited, IHS Lothian Corporate Holdings Limited, MJL Bay Limited, Macquarie Almond Orchard business and Vineyard business, EduWest Equity Trust, EduWest Project Holding Trust, EduWest Project Trust, M-Icheon Company Limited, GGB inBalans Investco B.V, GGB inBalans B.V, Vineyards business, Dacuri Investco Limited, Macquarie Water Heater Rentals Holdings 2, Wala Holdings 2 Limited, Juris Partnership MCHPL Project Holding Trust and Juris Partnership MCHPL Project Trust.

NOTE 43

Events after the reporting date

There were no material events subsequent to 31 March 2017 that have not been reflected in the financial statements.

[redacted]

MACQUARIE GROUP LIMITED
DIRECTORS' DECLARATION

In the Directors' opinion:

a) the financial statements and notes set out on pages 86 to 193 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 2017 and their performance for the financial year ended on that date, and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(i) includes a statement that the financial report complies with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth).

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

Peter Warne
Independent Director and Chairman

Nicholas Moore
Managing Director and Chief Executive Officer

Sydney
5 May 2017

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF MACQUARIE GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Our opinion

In our opinion, the accompanying financial report of Macquarie Group Limited (the Company) and its controlled entities (together the 'Consolidated Entity') is in accordance with the *Corporations Act 2001* (Cth), including:

a) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2017 and of their financial performance for the year then ended; and
b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

What we have audited

Macquarie Group Limited's financial report comprises:

- the Company and the Consolidated Entity statements of financial position as at 31 March 2017
- the Company and the Consolidated Entity income statements for the year then ended
- the Company and the Consolidated Entity statements of comprehensive income for the year then ended
- the Company and the Consolidated Entity statements of changes in equity for the year then ended
- the Company and the Consolidated Entity statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies, and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

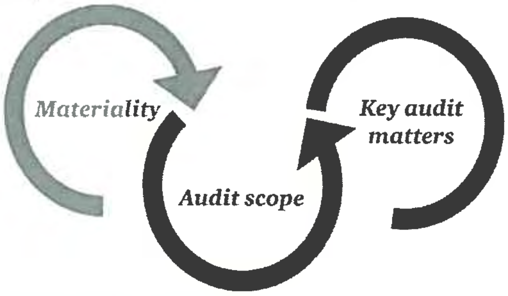
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

The Consolidated Entity is structured into five global operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram, Jacksonville and Manila which undertake operational activities that are important to the financial reporting processes.

The Consolidated Entity's financial report is a consolidation of the five global operating groups and the corporate segment.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls, and the industry in which it operates.



Consolidated Entity materiality

For the purpose of our Consolidated Entity audit we used overall materiality of $150 million, which represents approximately 5% of the Consolidated Entity's profit before tax. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Consolidated Entity is most commonly measured. We selected 5% based on our professional judgement, noting it is within the range of commonly accepted thresholds.

Consolidated Entity audit scope

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial report, including areas where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of key controls.

We aligned our audit to the Consolidated Entity's structure by instructing a divisional audit team for each of the five global operating groups and the corporate segment. These divisional audit teams established an audit strategy tailored for each operating group and the corporate segment, in consultation with the central audit team.

Given the extent of the overseas operations of the Consolidated Entity, the divisional audit teams instructed a number of audit teams in overseas locations to perform audit procedures ranging

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF MACQUARIE GROUP LIMITED
CONTINUED

from an audit of financial information to specified risk focussed audit procedures. The central audit team determined the level of supervision and direction it needed to have over the audit work performed by the divisional audit teams, including over the divisional 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 central audit team or the divisional audit teams also visited overseas locations, including Gurugram, Houston, Jacksonville, London, Manila, New York, Philadelphia, San Francisco and Singapore.

The work performed by the divisional audit teams and the overseas audit teams, together with additional audit procedures performed by the central audit team such as procedures over the Consolidated Entity consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity financial report as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We have communicated the key audit matters to the Board Audit Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. The key audit matters identified below relate to the Consolidated Entity audit, unless otherwise noted.

Key audit matter	How our audit addressed the key audit matter
Provisions for loan losses **Refer to Note 11**	
The Consolidated Entity holds both specific and collective impairment provisions over loan assets. Specific impairment provisions are created when the impairment of an individual loan is recognised. The collective impairment provision is intended to cover losses in the existing overall loan portfolio which have not yet been individually identified. The identification of loans that are deteriorating and the assessment of the present value of expected future cash flows in determining specific impairment provisions are inherently uncertain, involving various assumptions and judgments. In estimating the collective impairment provisions, judgement is required in the design of the models used and the selection of assumptions adopted, such as the estimate of the likelihood of default and the potential loss given default. A management overlay is also included in the overall collective provision to reflect emerging trends or particular situations which are not captured by these models. Given the extent of judgment involved, we considered this to be a key audit matter.	Our procedures included evaluating and testing certain controls relating to the timely recognition and measurement of impairments for loan losses. For specific loan loss provisions, we examined a sample of individual loan exposures. We applied judgment in selecting this sample, including consideration of sectors that may pose an increased risk of uncertainty, including oil and gas, commodities and certain geographic regions of the Australian property market. We also evaluated a sample of loan assets written off or disposed of to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately estimate specific loan loss provisions. For the collective provisions, assisted by our experts, we tested on a sample basis: – the appropriateness of design and use of models used by the Consolidated Entity, and – the appropriateness of the assumptions adopted and data used in the models, by using our knowledge of industry developments and the actual loss experience of the Consolidated Entity. We also examined and assessed the analysis performed by the Consolidated Entity in determining the management overlay. We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.

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Key audit matter	How our audit addressed the key audit matter
Valuation of financial assets and liabilities held at fair value Refer to Note 38	
The Consolidated Entity exercises judgement in valuing certain assets and liabilities at fair value where there is limited supporting external evidence. 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 feeds 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 our 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 methodologies and assumptions where appropriate. We also evaluated a sample of disposals to assess, with the benefit of hindsight, the Consolidated Entity's ability to estimate fair values. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.
Impairment of aircraft assets and recognition and measurement of supplemental income and maintenance liabilities Refer to Note 2, 14 and 21	
The Consolidated Entity holds a portfolio of aircraft assets which it leases to various airlines. At year end, the Consolidated Entity considered whether there were any indicators that these assets might be impaired. The Consolidated Entity then compared carrying amounts of individual aircraft assets to the higher of their value-in-use and fair value less costs of disposal. Value-in-use is the calculation of the net present value of the cash flows expected from the Consolidated Entity's use of an aircraft. This calculation requires an estimation of the expected future cash flows associated with the use of an aircraft and its eventual sale. The Consolidated Entity also obtains independent valuation reports for certain aircraft held by the Consolidated Entity from external appraisers to assist in developing their estimates of the value-in-use and fair value less cost of disposal. Under these aircraft leases, certain lessees are obliged to maintain the condition of the aircraft at specified standards. As part of this arrangement, these lessees make additional payments to the Consolidated Entity based on aircraft utilisation, which are recorded as supplemental income. In some cases, these payments are deferred until the end of the lease. The Consolidated Entity also estimates and accrues for the liability for major maintenance events expected to occur during the lease. Given the extent of judgement required in respect of impairment, and the recognition and measurement of supplemental income and maintenance liabilities over the term of the associated lease, we considered this to be a key audit matter.	Our procedures in relation to impairment included updating our understanding of prevailing market conditions and factors that could materially affect the fair value and usage of aircraft assets, and considering whether these may represent indicators of impairment. Our procedures also included: – evaluating the appropriateness of the impairment assessment methodology and selected assumptions in the value-in-use calculations – assessing the competency, capability and objectivity of external appraisers, as well as the appropriateness of methodologies and assumptions used by the appraisers, and – comparing the realised value of certain aircraft sold during the year against the carrying value to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately make estimates. Our procedures with respect to the recognition and measurement of supplemental income and expense relating to aircraft maintenance included: – performing a retrospective review of a sample of end of lease settlements against projections to assess, with the benefit of hindsight, the Consolidated Entity's ability to estimate supplemental income – evaluating the appropriateness of the maintenance reserve accrual methodology and selected assumptions and inputs used. We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF MACQUARIE GROUP LIMITED
CONTINUED

Key audit matter	How our audit addressed the key audit matter
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 • 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. When considered appropriate we performed alternative audit procedures on the financial information that was key to our audit testing produced by the IT systems.
Provisions for tax payable and deferred tax liabilities **Refer to Note 18 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. We used our understanding of the business, assisted by PwC tax experts and perused a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity to 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 disclosure in the financial report.
Reversal of impairment on investment in subsidiary (Company only) **Refer to Note 17**	
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 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 involved: – evaluating and testing certain controls relating to the recognition and measurement of impairment and reversal of impairment in investment in subsidiaries – evaluating the methodology applied in the impairment reversal assessment conducted, and – validating certain underlying data used in determining the carrying value and recoverable amount for the investment. We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.

Other information

The directors are responsible for the other information. The other information comprises About Macquarie, Chairman's and Managing Director's Letter, Financial Highlights, Operating and Financial Review, Corporate Governance, Diversity Report, ESG Report, Macquarie Group Foundation, Risk Management Report, Directors' Report, Additional Investor Information, 10 year history and Glossary included in the Consolidated Entity's annual report for the year ended 31 March 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and 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 Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_files/ar1.pdf for the Company and at www.auasb.gov.au/auditors_files/ar2.pdf for the Consolidated Entity. This description forms part of our audit report.

REPORT ON THE REMUNERATION REPORT

Our opinion on the remuneration report

We have audited the remuneration report included in pages 54 to 82 of the Directors' Report for the year ended 31 March 2017.

In our opinion, the remuneration report of Macquarie Group Limited for the year ended 31 March 2017 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

PricewaterhouseCoopers

K. G. Smith

K.G. Smith

Partner

Sydney

5 May 2017

Liability limited by a scheme approved under Professional Standards Legislation.

GLOSSARY

Defined term	Definition
A	
AASB	Australian Accounting Standards Board
the Act	Corporations Act 2001 (Cth)
ADI	authorised deposit-taking institution
ADR	American Depository Receipt
AEC	Australian Electoral Commission
AGM	Annual General Meeting
AICD	Australian Institute of Company Directors
ALCO	Asset and Liability Committee
AMA	Advanced Measurement Approach
Annual Report	MGL's 2017 Annual Report
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
ATO	Australian Taxation Office
AUM	assets under management
B	
BAC	Board Audit Committee
Bank Group	MBL and its subsidiaries
Banking Group	the Banking Group comprises BFS, CAF, and certain business activities of CGM and MAM
BBSW	Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc.
BCN	Macquarie Bank Capital Notes
BFS	Banking and Financial Services Group
BGCC	Board Governance and Compliance Committee
BNC	Board Nominating Committee
the Board, Macquarie Board	The Board of Voting Directors of Macquarie Group Limited
BORMs	Business Operational Risk Managers
BRC	Board Remuneration Committee
BRiC	Board Risk Committee
Businesses	the areas within the Operating Groups carrying out various operations
C	
CA	Credit Assurance
CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
CCB	capital conservation buffer
CDP	Carbon Disclosure Project
Central Service Groups	the Central Service Groups consist of RMG, LGL, FMG and COG
CEO	Managing Director and Chief Executive Officer
CER	Certified Emission Reductions
CGM	Commodities and Global Markets Group
CFO	Chief Financial Officer
COG	Corporate Operations Group
the Company, MGL	Macquarie Group Limited ABN 94 122 169 279
Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full year in both FY2017 and FY2016
the Consolidated Entity, Macquarie	MGL and its subsidiaries
Corporate	head office and central support functions including Group Treasury
CRO	Chief Risk Officer
CVA	credit valuation adjustments

[redacted]

GLOSSARY
CONTINUED

Defined term	Definition
D	
Deed	Deed of Access, Indemnity, Insurance and Disclosure
Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
Directors	the Voting Directors of MGL (unless the context indicates otherwise)
Divisions	named divisions within Macquarie
DPS Plan	Director's Profit Share Plan
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
E	
ECAM	Economic Capital Adequacy Model
ECL	expected credit losses
ECM	equity capital markets
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
ERL	Equity Risk Limit
ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
ESR	Environmental and Social Risk
Executive Director	Macquarie's most senior level of employee including Group Heads, Division Heads and senior business unit managers
Executive Key Management Personnel (Executive KMP)	Members of the Executive Committee of MGL
Executive Voting Director	an executive Board member

Defined term	Definition
F	
FIRB	Foundation Internal Ratings Based Approach
FMG	Financial Management Group
the Foundation	Macquarie Group Foundation
Funds	Macquarie-managed fund(s)
FVA	funding value adjustment
G	
GRCC	Group Risk and Compliance Committee
GRI	Global Reporting Initiative
H	
I	
IAD	Internal Audit Division
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPO	initial public offering
J	
JLM	Joint Lead Manager
K	
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of MGL
L	
LGBTI	Lesbian Gay Bisexual Transgender and Intersex
LGL	Legal and Governance Group
LMI	lender's mortgage insurance
Loss Given Default (LGD) Estimate	Macquarie's estimated economic loss should a counterparty default occur
LTIFR	Lost Time Injury Frequency Rate
LuxSE	Luxembourg Stock Exchange
LVR	loan to value ratio

M

Defined term	Definition
M&A	mergers and acquisitions
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board, the Board	the Board of Voting Directors of MGL
Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
MGL ordinary shares, MQG	MGL fully paid ordinary shares
Macquarie, the Consolidated Entity	MGL and its subsidiaries
Macquarie PMI	Macquarie Preferred Membership Interests
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
MBHPL	Macquarie B.H. Pty Limited
MCN	Macquarie Group Capital Notes
MCN2	Macquarie Group Capital Notes 2
MEIF1	Macquarie European Infrastructure Fund 1
MEL	Macro-Economic-Linkages
MEREP	Macquarie Group Employee Retained Equity Plan
MFHPL	Macquarie Financial Holdings Pty Limited
MFHPL Consolidated Entity	MFHPL and its subsidiaries
MGESOP	Macquarie Group Employee Share Option Plan
MGL, the Company	Macquarie Group Limited ABN 94 122 162 279
MIC	Macquarie Infrastructure Company
MIDIS	Macquarie Infrastructure Debt Investment Solutions
MIM	Macquarie Investment Management
MIP	Macquarie Infrastructure Partners Inc.
MIPS	Macquarie Income Preferred Securities
MIRA	Macquarie Infrastructure and Real Assets
MIS	Macquarie Income Securities
MLL	Macquarie Life Limited
MPPM	Macquarie Private Portfolio Management
MSIS	Macquarie Specialised Investment Solutions

N

Defined term	Definition
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NOHC	non-operating holding company
Non-Bank Group	MGL, MFHPL and its subsidiaries
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital and certain business activities of MAM and CGM that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
NUA	net usable area

O

Defined term	Definition
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
ORMF	Operational Risk Management Approach
OTC	over-the-counter

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GLOSSARY
CONTINUED

Defined term	Definition
P	
PINAI	Philippines Investment Alliance for Infrastructure
Post-2009 DPS	retained director's profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity
PPP	Public Private Partnership
PRI	Principles of 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
R	
RAS	Risk Appetite Statement
RMG	Risk Management Group
ROE	return on ordinary equity
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
S	
S&P	Standard & Poor's
Senior Executive	Macquarie's combined Division Director and Executive Director population
Senior Management	Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation
SEs	structured entities
SFE	Sydney Futures Exchange
SGX	Singapore Stock Exchange
SYD	ASX-listed Sydney Airport

Defined term	Definition
P	
SYD Distribution	in-specie distribution of Sydney Airport stapled securities to MGL ordinary shareholders on 13 January 2014
SYD Securities	SYD stapled securities
SPVs	special purpose vehicles
SVA	Social Ventures Australia
T	
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
TMET	telecommunications, media, entertainment and technology
TSR	total shareholder return
U	
V	
VaR	Value-at-Risk
Voting Directors	the Voting Directors of MGL as defined in the MGL Constitution
W	
WHS	Work Health and Safety
WHSE	work health, safety and environmental
X	
Y	
Z	

Contact Details

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