Interim Financial Report

Macquarie Group

Half-year ended 30 September 2017

MACQUARIE GROUP LIMITED ACN 122 169 279

MACQUARIE GROUP 2018 INTERIM FINANCIAL REPORT

This Interim Financial Report has been prepared in accordance with Australian Accounting Standards and does not include all the notes of the type normally included in an annual financial report.

The material in this report has been prepared by Macquarie Group Limited ABN 94 122 169 279 (MGL, the Company) and is current at the date of this report. It is general background information about Macquarie's (MGL and its subsidiaries, the Consolidated Entity) activities, is given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

The Interim Financial Report was authorised for issue by the Directors on 27 October 2017. The Board of Directors has the power to amend and reissue the Financial Report.

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

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DIRECTORS' REPORT

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DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

The Directors of MGL submit their report with the financial report of the Consolidated Entity for the half-year ended 30 September 2017.

DIRECTORS

At the date of this report, the Directors of Macquarie 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 Macquarie throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Result

The financial report for the half-year ended 30 September 2017 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was $A1,248 million (half-year to 31 March 2017: $A1,167 million; half-year to 30 September 2016: $A1,050 million).

OPERATING AND FINANCIAL REVIEW

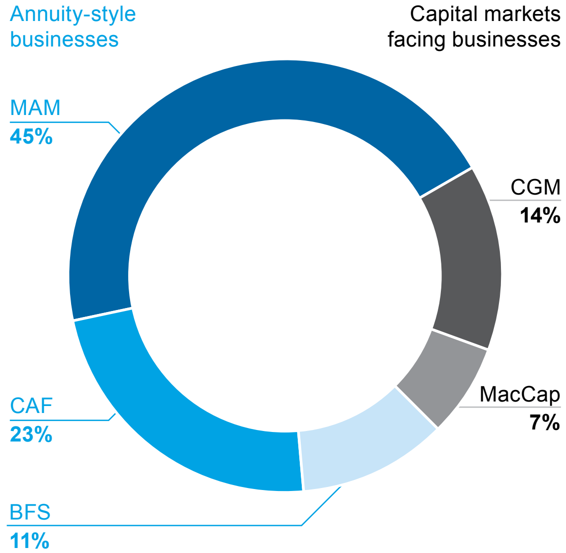
Review of performance and financial position

Overview

Profit attributable to ordinary equity holders of $A1,248 million for the half-year ended 30 September 2017 increased 19% from $A1,050 million in the prior corresponding period[1] and increased 7% from $A1,167 million in the prior period[2].

	Half-year to 30 Sep 17 $Am	Half-year to 30 Sep 16 $Am	*Movement %*
Net operating income	**5,397**	5,218	*3*
Operating expenses	**(3,693)**	(3,733)	*(1)*
Income tax expense	**(448)**	(438)	*2*
(Profit)/loss attributable to non-controlling interests	**(8)**	3	*
Profit attributable to ordinary equity holders	**1,248**	**1,050**	***19***

Net profit contribution[3] by Operating Group



(1) Prior corresponding period (pcp) refers to the six months to 30 September 2016.
(2) Prior period refers to the six months to 31 March 2017.
(3) Where referenced in this document, net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.
* Indicates that the result was a gain in one period and a loss in another, or vice versa.

OPERATING GROUPS

Summary of the Operating Groups' performance for the half-year ended 30 September 2017:

Macquarie's annuity-style businesses

Macquarie Asset Management (MAM), **Corporate and Asset Finance (CAF)** and **Banking and Financial Services (BFS)** generated a combined net profit contribution for the half-year ended 30 September 2017 of $A2,094 million, up 28% on the prior corresponding period.

Key drivers included:

MAM **↑39% on pcp**

- base fees broadly in line
- increased performance fee income
- investment-related income broadly in line.

CAF **↑19% on pcp**

- increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio
- Asset Finance portfolio continued to perform well
- lower charges for provisions and impairments reflecting the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios.

Partially offset by:

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

BFS **↑10% on pcp**

- volume growth in loan and deposit portfolios and improved margins
- the non-recurrence of expenses recognised in the prior corresponding period, including impairment charges predominately on certain equity positions and intangible assets and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform.

Partially offset by:

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

Macquarie's capital markets facing businesses

Commodities and Global Markets (CGM) and **Macquarie Capital** delivered a combined net profit contribution for the half-year ended 30 September 2017 of $A568 million, down 18% on the prior corresponding period.

Key drivers included:

CGM **↓23% on pcp**

- reduced income from the sale of investments, mainly in energy and related sectors
- lower volatility across the commodities platform resulting in reduced client activity and trading opportunities.

Partially offset by:

- strong client flows and revenues from interest rates and foreign exchange
- improved results across the equities platform
- lower operating expenses reflecting reduced commodity-related trading activity, reduced average headcount and associated activity, and realisation of benefits from cost synergies following the merger of Commodities and Financial Markets and Macquarie Securities Group.

Macquarie Capital **↓7% on pcp**

- reduced investment-related income due to lower gains on sale of investments as well as lower interest income from the debt investment portfolio and higher funding costs for principal investments including the acquisition of Green Investment Group (GIG)
- lower mergers and acquisitions fee income in the US and Asia.

Partially offset by:

- higher fee income from debt capital markets in the US due to increased client activity as well as mergers and acquisitions fee income in Australia
- lower provisions and impairment charges compared to the prior corresponding period.

Further information on Macquarie's performance is detailed on pages 5 to 6 and the review of Operating Groups is contained on pages 10 to 11.

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

Net operating income

Net operating income of $A5,397 million for the half-year ended 30 September 2017 increased 3% from $A5,218 million in the prior corresponding period. Increases across fee and commission income, equity accounted income and net interest and trading income as well as reduced charges for provisions and impairments were partially offset by lower other income.

Key drivers included:

Net interest and trading income

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
1,892	2,069	1,874

↑ 1% on prior corresponding period

- volume growth in loan and deposit portfolios and improved margins in BFS
- reduced cost of holding long-term liquidity in Corporate.

Partially offset by:

- reduced interest income from Macquarie Capital's debt investment portfolio and higher funding costs associated with an increase in principal investments, including the acquisition of GIG
- lower trading income in CGM as a result of lower market volatility.

Fee and commission income

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
2,568	2,128	2,203

↑ 17% on prior corresponding period

- increased performance fee income in MAM
- higher fee income from the US debt capital markets business in Macquarie Capital due to increased client activity.

Partially offset by:

- reduced Life Insurance income in BFS after Macquarie Life's risk insurance business was sold to Zurich Australia Limited in September 2016
- lower mergers and acquisitions fee income in the US and Asia in Macquarie Capital
- reduced CGM brokerage and commissions income, mainly in equities due to continued low volatility across global equity markets and reduced brokerage commission rates due to the trend towards lower margin platforms.

Net operating lease income

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
469	445	476

↓ 1% on prior corresponding period

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

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

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
103	59	(8)

↑ significantly on prior corresponding period

- increase was primarily due to the improved underlying performance of investments held in Macquarie Capital.

Other operating income and charges

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
365	445	673

↓ 46% on prior corresponding period

- lower principal gains in Macquarie Capital and CGM
- the prior corresponding period included BFS' gain on sale of Macquarie Life's risk insurance business to Zurich Australia Limited.

Partially offset by:

- lower charges for provisions and impairments across most Operating Groups.

Operating expenses

Total operating expenses of $A3,693 million for the half-year ended 30 September 2017 decreased 1% from $A3,733 million in the prior corresponding period.

Key drivers included:

Employment expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
2,261	2,089	2,290

↓ 1% on prior corresponding period

– lower average headcount
– favourable foreign currency movements.

Partially offset by:

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

Brokerage, commission and trading-related expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
422	434	418

↑ 1% on prior corresponding period

– broadly in line with the prior corresponding period.

Non-salary technology expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
295	300	344

↓ 14% on prior corresponding period

– the prior corresponding period included elevated project activity and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in BFS.

Occupancy and Other operating expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
715	704	681

↑ 5% on prior corresponding period

– transaction, integration and ongoing costs associated with the acquisition of GIG in Macquarie Capital
– occupancy expenses broadly in line with prior corresponding period.

Income tax expense

Income tax expense for the half-year ended 30 September 2017 was $A448 million, a 2% increase from $A438 million in the prior corresponding period. The increase was mainly due to higher profit before tax.

The effective tax rate for the half-year ended 30 September 2017 was 26.4%, down from 29.4% in the prior corresponding period and broadly in line with the prior period rate of 26.9% reflecting the geographic mix and nature of earnings.

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
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FINANCIAL POSITION

Balance sheet

Macquarie's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half-year ended 30 September 2017.

Total assets

AS AT 30 Sep 17 $Ab	31 Mar 17 $Ab
189.8	182.9

↑ 4% on 31 Mar 17

- Receivables from financial institutions of $A40.3 billion at 30 September 2017 increased 47% from $A27.5 billion at 31 March 2017 mainly due to an increase in reverse repurchase and stock borrowing trades in CGM, and Treasury's funding and liquidity management activities during the half-year ended 30 September 2017
- Other assets of $A19.0 billion at 30 September 2017 increased 15% from $A16.6 billion at 31 March 2017 mainly due to an increase in Held for sale investments in MAM and Macquarie Capital, partially offset by the sale of the Canadian mortgages portfolio in BFS
- Interests in associates and joint ventures accounted for using the equity method of $A3.6 billion increased 73% from $A2.1 billion at 31 March 2017 mainly due to the reclassification of several investments in MAM and CAF from Available for sale to Associates
- Trading portfolio assets of $A18.6 billion at 30 September 2017 decreased 31% from $A26.9 billion at 31 March 2017 mainly due to a decline in long equity positions and a reduction in holdings of physical commodities, particularly metals
- Investment securities available for sale of $A4.8 billion at 30 September 2017 decreased 31% from $A6.9 billion at 31 March 2017 mainly due to the reclassification of investments in MAM and CAF from Available for sale to Associates
- Loan assets held at amortised cost of $A76.9 billion at 30 September 2017 slightly increased from $A76.7 billion at 31 March 2017 mainly due to net new loans written in BFS' mortgages and business lending portfolios, partially offset by a reduction in volumes in:
  - CGM's short and long term lending in structured commodity finance and reduced positions held with exchanges and clearing institutions; and
  - CAF's loan and finance lease portfolio decreasing 3% to $A25.6 billion at 30 September 2017 from $A26.5 billion at 31 March 2017 primarily due to repayments in Principal Finance transactions.

Total liabilities

AS AT 30 Sep 17 $Ab	31 Mar 17 $Ab
172.7	165.6

↑ 4% on 31 Mar 17

- Trading portfolio liabilities of $A7.5 billion at 30 September 2017 increased 47% from $A5.1 billion at 31 March 2017 mainly due to an increase in short equity positions and the revaluation of hedge positions
- Payables to financial institutions of $A19.1 billion at 30 September 2017 increased 12% from $A17.1 billion at 31 March 2017 mainly due to an increase in stock lending activity, partially offset by repayment of funding facilities
- Debt issued at amortised cost of $A52.3 billion at 30 September 2017 increased 3% from $A50.8 billion at 31 March 2017, mainly driven by Treasury's funding and liquidity management activities which included new commercial paper issuances, partially offset by the repayment of long-term debt
- Deposits of $A59.0 billion at 30 September 2017 increased 2% from $A57.7 billion at 31 March 2017 mainly due to an increase in retail cash management deposits in BFS
- Loan capital of $A5.4 billion decreased 6% from $A5.7 billion mainly due to the redemption of Exchangeable Capital Securities notes during the period.

Total equity

AS AT 30 Sep 17 $Ab	31 Mar 17 $Ab
17.1	17.3

↓ 1% on 31 Mar 17

- the decrease was mainly due to the payment of the 2017 final dividend of $A1.0 billion and the on-market purchase of shares for the 2017 Macquarie Group Employee Retained Equity Plan of $A0.4 billion.

Partially offset by:

- the profit for the half-year ended 30 September 2017.

Funding

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

Macquarie has a funding base that is stable with minimal reliance on short term wholesale funding markets. At 30 September 2017, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

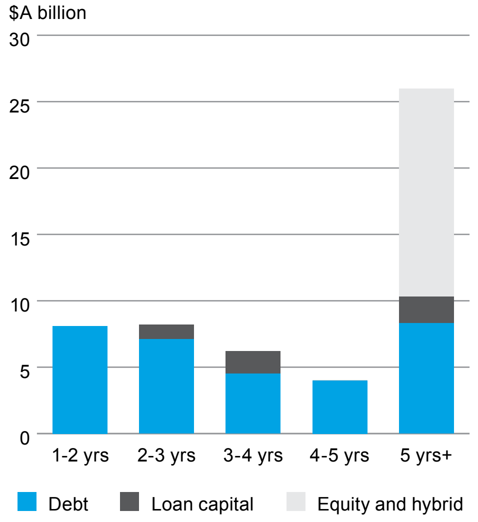
The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.2 years at 30 September 2017.

4.2yrs

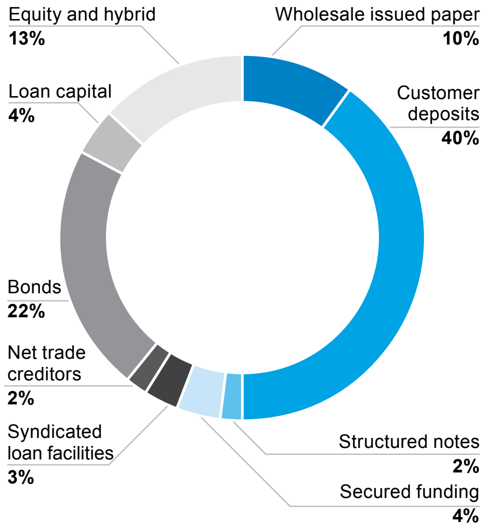
The weighted average term to maturity of term funding maturing beyond one year at 30 September 2017

Term funding profile

Detail of drawn funding maturing beyond one year



Diversity of funding sources



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

Details of term funding raised between 1 April 2017 and 30 September 2017:

			Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Secured Funding	–	Term securitisation and other secured finance	2.2	0.8	**3.0**
Issued paper	–	Senior and subordinated	1.9	-	**1.9**
Loan facilities	–	MGL and MBL loan facilities	-	3.3	**3.3**
Total			**4.1**	**4.1**	**8.2**

Macquarie has continued to develop its major funding markets and products during the half-year ended 30 September 2017.

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

Capital

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

– the Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA authorised deposit-taking institution (ADI) Prudential Standards

– the Non-Bank Group's capital requirement, calculated using Macquarie's Board approved Economic Capital Adequacy Model (ECAM). Transactions internal to Macquarie are eliminated.

$A4.2b
Group capital surplus

Macquarie remains well capitalised with APRA Basel III Group capital of $A18.1 billion at 30 September 2017, with a Group surplus of $A4.2 billion ($A6.2 billion on a Harmonised[1] Basel III basis). Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer (CCB), with at least 7% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110.

In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum BCBS Basel III leverage ratio requirement of 3% is effective from 1 Jan 2018[2].

As at 30 September 2017, the Bank Group had the following capital adequacy ratios:

Bank Group Basell III ratios as at 30 September 2017	Harmonised Basel III	APRA Basel III
Common Equity Tier 1 Capital Ratio	13.3%	11.0%
Tier 1 Capital Ratio	15.2%	12.9%
Leverage Ratio	6.9%	6.1%

▶ For further information relating to the capital adequacy of Macquarie, refer to section 6.0 Capital of the Management Discussion and Analysis at macq.co/1H18MDA.

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

(2) APRA has not yet prescribed a minimum capital requirement for the leverage ratio.

For internal reporting and risk management purposes, Macquarie is divided into five Operating Groups and a corporate segment. The Operating Groups are split between annuity-style businesses and capital markets facing businesses.

A summary of the Operating Groups' performance for the half-year ended 30 September 2017 and medium term outlook is provided below.

Macquarie's annuity-style businesses

Macquarie Asset Management (MAM)	Corporate and Asset Finance (CAF)	Banking and Financial Services (BFS)
Description MAM is Macquarie's asset management business, offering a diverse range of products through three divisions: **Macquarie Infrastructure and Real Assets (MIRA)**: a leader in alternative asset management worldwide, specialising in infrastructure, real estate, agriculture and energy via public and private funds, co-investments, partnerships and separately managed accounts. **Macquarie Investment Management (MIM):** offering securities investment management capabilities across a number of asset classes including fixed income, currencies, equities, infrastructure securities, hedge funds and multi-asset solutions. **Macquarie Specialised Investment Solutions (MSIS):** offering a range of investment solutions with an alternate fixed income focus, for its fiduciary clients within the infrastructure debt sector and balance sheet lending to shipping, export credit agency backed debt, hedge funds and private equity investors.	**Description** CAF consists of an Asset Finance business and a Principal Finance business. CAF services clients in over 50 countries and manages an asset and loan portfolio of $A35.5 billion as at 30 September 2017. CAF is comprised of the following businesses: **Asset Finance:** Provider of tailored finance and asset management solutions to clients across specialised assets through the cycles, with asset finance expertise in aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment. **Principal Finance:** Provider of flexible primary financing solutions and engages in secondary market investing across the capital structure. It operates globally in both corporate and real estate sectors.	**Description** BFS serves the Australian market, and is organised into the following three business divisions: **Personal Banking:** Provides a full retail banking product suite to clients with mortgages, credit cards, transaction and savings accounts. **Wealth Management:** Provides clients with a wide range of wrap platform and cash management services, investment and superannuation products, financial advice, private banking and stockbroking. **Business Banking:** Provides a full range of deposit, lending and payment solutions, as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms
Performance MAM delivered a net profit contribution of $A1,189 million for the half-year ended 30 September 2017, up 39% from $A857 million in the prior corresponding period. Performance fee income of $A537 million, from Macquarie European Infrastructure Fund 3 (MEIF3), Macquarie Atlas Roads (MQA) and other MIRA managed funds and co-investors, was up from $A170 million in the prior corresponding period. Base fees of $A795 million were broadly in line with the prior corresponding period, as investments made by MIRA-managed funds, growth in the MSIS Infrastructure Debt business and positive market movements in MIM AUM were partially offset by asset realisations in MIRA-managed funds, net flow impacts in the MIM business and foreign exchange impacts. Investment-related income was broadly in line with the prior corresponding period and included gains on reclassification of certain infrastructure investments.	**Performance** CAF delivered a net profit contribution of $A619 million for the half-year ended 30 September 2017, up 19% from $A521 million in the prior corresponding period. The increase was mainly driven by increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio and lower provisions for impairment, partially offset by lower interest income as a result of the reduction in the Principal Finance portfolio. The Asset Finance portfolio continued to perform well.	**Performance** BFS delivered a net profit contribution of $A286 million for the half-year ended 30 September 2017, up 10% from $A261 million in the prior corresponding period. The improved result reflects increased income from volume growth in the loan and deposit portfolios and improved margins. The prior corresponding period included the gain on sale of Macquarie Life's risk insurance business net of expenses including impairment charges predominately on equity investments and intangible assets, and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform. BFS deposits of $A46.4 billion increased 4% on 31 March 2017 and funds on platform of $A78.9 billion increased 9% on 31 March 2017. The Australian mortgage portfolio of $A29.9 billion increased 4% on 31 March 2017, representing approximately 2% of the Australian mortgage market.
Medium-term MAM is an annuity-style business that is diversified across regions, products, asset classes and investor types. This diversification of capabilities allows for the business to be well placed to grow assets under management in different market conditions. MAM is also well positioned for organic growth with several strongly performing products and an efficient operating platform.	**Medium-term** CAF's medium-term focus is to leverage its deep industry expertise to maximise growth potential in asset and loan portfolios. CAF is positioned for further asset acquisitions and realisations, subject to market conditions, with funding from asset securitisations expected throughout the cycle.	**Medium-term** BFS remains focused on: strong growth opportunities through intermediary and direct retail client distribution, white labelling, platforms and client service; opportunities to increase financial services engagement with existing business banking clients and extend into adjacent segments; and modernising technology to improve client experience and support growth.
Assets under management as at 30 September 2017 **$A471.9b**	Asset and loan portfolio as at 30 September 2017 **$A35.5b**	Australian client numbers **More than 1 million**

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
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Macquarie's capital markets facing businesses	
Commodities and Global Markets (CGM)	**Macquarie Capital**
Description CGM provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities. The platform covers more than 25 markets and over 160 products, and has evolved over more than three decades to provide clients with access to markets, financing, financial hedging, research and market analysis and physical execution. CGM comprises seven divisions: Cash Equities, Commodity Markets and Finance, Credit Markets, Equity Derivatives and Trading, Fixed Income and Currencies, Futures, and Central (CGM-wide services).	**Description** Macquarie Capital provides corporate finance advisory and capital market services to corporate and government clients involved in public and private M&A, debt and equity fund raisings, private equity raisings and corporate restructuring. It also undertakes principal investing activities globally to support clients. Its activities are aligned with expertise in Infrastructure, Utilities and Renewables; Real Estate; Telecommunications, Media, Entertainment & Technology; Resources; Industrials; and Financial Institutions.
Performance CGM delivered a net profit contribution of $A378 million for the half-year ended 30 September 2017, down 23% from $A490 million in the prior corresponding period. The result primarily reflects reduced income from the sale of investments, mainly in energy and related sectors, and lower volatility across the commodities platform resulting in reduced client activity and trading opportunities. This was partially offset by strong client flows and revenues from interest rates and foreign exchange, improved results across the equities platform, and lower operating expenses reflecting reduced commodity-related trading activity, reduced average headcount and associated activity, and realisation of benefits from cost synergies following the merger of Commodities and Financial Markets and Macquarie Securities Group.	**Performance** Macquarie Capital delivered a net profit contribution of $A190 million for the half-year ended 30 September 2017, down 7% from $A205 million in the prior corresponding period. The result reflects reduced investment-income and lower M&A fee income in the US and Asia, partially offset by higher fee income from debt capital markets in the US and lower provision and impairment charges. During the half-year ended 30 September 2017, Macquarie Capital advised on 152 transactions valued at $A73 billion including being defence adviser to DUET Group in response to the $A13.4 billion acquisition by Cheung Kong Infrastructure; and financial advisor and equity investor in the restructuring and acquisition of the 907MW Norte III combined cycle gas plant in Juarez, Mexico. During the half-year ended 30 September 2017, Macquarie completed the acquisition of the UK Green Investment Bank plc from HM Government for £2.3 billion. The Green Investment Bank, rebranded to Green Investment Group, is one of Europe's largest teams of green energy investment specialists, with expertise in project finance and development, construction, investment and asset management of green energy infrastructure.
Medium-term CGM remains focused on: opportunities to grow the commodities business, both organically and through acquisition; the development of institutional coverage for specialised credit, rates and foreign exchange products; increasing financing activities; growing the client base across all regions; being well positioned for a recovery in equity markets activity by leveraging a strong market position in Asia-Pacific through investment in the equities platform and further integration of the business across CGM.	**Medium-term** Macquarie Capital is positioned to benefit from any improvement in M&A and capital markets activity. It also continues to tailor the business offering to current opportunities, market conditions and strengths in each region.
Ranked by Platts **No.2** US Physical Gas Marketer in North America in Q2 CY17	Advised on **152 transactions** valued at **$A73b** during the half-year ended 30 September 2017

- For more details on the financial performance of the Operating Groups, see section 3.0 Segment Analysis of the Management Discussion and Analysis available at macq.co/1H18MDA
- For more details on the operational performance of the Operating Groups, see slides 13 to 17 of the Investors presentation available at macq.co/1H18investorpresentation

Business strategy

Consistent with our *What We Stand For* principles Macquarie adopts a business strategy focused on the medium-term with the following key aspects:

Risk Management Approach	Strong Balance Sheet	Business Mix
Adopting a conservative approach to risk management. Macquarie's robust risk management framework is embedded across all Operating and Central Service Groups. This equips the business for unanticipated disruptions and ensures that both the relevant business and Macquarie can survive a worst case outcome from any new or existing activity.	Maintaining a strong and conservative balance sheet. This is consistent with Macquarie's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie remains well funded, with diversified funding sources. It continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.	Conducting a mix of annuity-style and capital markets facing businesses that deliver solid returns in a range of market conditions. Macquarie has dynamically developed its annuity-style businesses, providing steady returns to the business and Macquarie shareholders, and certainty to clients.

Diversification	Proven Expertise	Adjacencies	Pursuit Of Growth Opportunities
Operating a diversified set of businesses across different locations and service offerings: asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie, as highlighted in the challenging global markets of recent years.	Utilising proven deep expertise has allowed Macquarie to establish leading market positions as a global specialist in sectors including infrastructure, resources and commodities, energy, financial institutions and real estate. This is coupled with deep knowledge of Asia-Pacific financial markets.	Expanding progressively by pursuing adjacencies through organic opportunities and selective acquisitions. These include products and geographies adjacent to Macquarie's established areas of expertise. This results in sustainable evolutionary growth.	Targeting continued evolution and growth through innovation. Macquarie starts with real knowledge and skill, and encourages ingenuity and entrepreneurial spirit coupled with accountability. Ideas for new businesses are typically generated in the Operating Groups. Additionally, there are no specific businesses, markets, or regions in which Macquarie's strategy demands it operates. This means it retains operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the *Risk Appetite Statement* (RAS) approved by the Board.

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

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

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OUTLOOK

Macquarie currently expects the combined net profit contribution from Operating Groups for the financial year ending 31 March 2018 to be slightly up on the financial year ended 31 March 2017.

The tax rate for the financial year ending 31 March 2018 is currently expected to be broadly in line with the half-year ended 30 September 2017.

Given substantial performance fees were recognised in the half-year ended 30 September 2017, Macquarie expects the result for the half-year ended 31 March 2018 to be down on the half-year ended 30 September 2017 and broadly in line with the half-year ended 31 March 2017.

Accordingly, the Group's result for the financial year ending 31 March 2018 is currently expected to be slightly up on the financial year ended 31 March 2017.

The Group's short-term outlook remains subject to market conditions, the impact of foreign exchange and potential regulatory changes and tax uncertainties.

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

EVENTS AFTER THE REPORTING DATE

There were no material events subsequent to 30 September 2017 that have not been reflected in the financial statements.

INTERIM DIVIDEND

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2017 of $A2.05 per fully paid ordinary MGL share on issue at 8 November 2017.

The dividend will be 45% franked and paid on 13 December 2017.

SHARE BUYBACK

To provide additional flexibility to manage the Group's capital position going forward, the Board has approved an on-market buyback of up to $A1 billion, subject to a number of factors including the Group's surplus capital position, market conditions and opportunities to deploy capital by the businesses. This buyback has received the necessary regulatory approvals.

ROUNDING OF AMOUNTS

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

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

Peter H Warne
Independent Director and Chairman

Nicholas Moore
Managing Director and Chief Executive Officer

Sydney
27 October 2017

pwc

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Macquarie Group Limited for the half-year ended 30 September 2017, I declare that to the best of my knowledge and belief, there have been:

– no contraventions of the auditor independence requirements of the *Corporations Act 2001* (Cth) in relation to the review; and
– no contraventions of any applicable code of professional conduct in relation to the review.

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

K. G. Smith.

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
27 October 2017

Liability is limited by a scheme approved under Professional Standards Legislation

FINANCIAL REPORT

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CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Interest and similar income	2	**2,462**	2,523	2,615
Interest expense and similar charges	2	**(1,451)**	(1,436)	(1,517)
Net interest income		**1,011**	1,087	1,098
Fee and commission income	2	**2,568**	2,128	2,203
Net trading income	2	**881**	982	776
Net operating lease income	2	**469**	445	476
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	**103**	59	(8)
Other operating income and charges	2	**365**	445	673
Net operating income		**5,397**	5,146	5,218
Employment expenses	2	**(2,261)**	(2,089)	(2,290)
Brokerage, commission and trading-related expenses	2	**(422)**	(434)	(418)
Occupancy expenses	2	**(199)**	(191)	(201)
Non-salary technology expenses	2	**(295)**	(300)	(344)
Other operating expenses	2	**(516)**	(513)	(480)
Total operating expenses		**(3,693)**	(3,527)	(3,733)
Operating profit before income tax		**1,704**	1,619	1,485
Income tax expense	4	**(448)**	(430)	(438)
Profit after income tax		**1,256**	1,189	1,047
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Securities	5	**(7)**	(7)	(8)
Other non-controlling interests		**(1)**	(15)	11
(Profit)/loss attributable to non-controlling interests		**(8)**	(22)	3
Profit attributable to ordinary equity holders of Macquarie Group Limited		**1,248**	1,167	1,050
				Cents per share
Basic earnings per share	6	**370.4**	345.8	311.8
Diluted earnings per share	6	**360.2**	337.2	304.8

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Profit after income tax		**1,256**	1,189	1,047
Other comprehensive (expense)/income:				
Movement in items that may be subsequently reclassified to profit or loss:				
Available for sale reserve, net of tax:				
Revaluation (losses)/gains transferred to equity	17	**(86)**	(27)	156
Transferred to income statement on:				
Impairment	17	**7**	13	19
Sale or reclassification	17	**(238)**	(70)	(253)
Cash flow hedges, revaluation gains/(losses) taken to equity, net of tax	17	**36**	85	(70)
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	17	**7**	1	(2)
Exchange differences on translation of foreign operations, net of hedge and tax		**(10)**	(50)	(80)
Movement 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	17	**(3)**	(30)	–
Total other comprehensive expense		**(287)**	(78)	(230)
Total comprehensive income		**969**	1,111	817
Total comprehensive (income)/expense attributable to non-controlling interests:				
Macquarie Income Securities holders		**(7)**	(7)	(8)
Other non-controlling interests		**(50)**	(15)	12
Total comprehensive (income)/expense attributable to non-controlling interests		**(57)**	(22)	4
Total comprehensive income attributable to ordinary equity holders of Macquarie Group Limited		**912**	1,089	821

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017

	Notes	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Assets				
Receivables from financial institutions		**40,345**	27,471	33,260
Trading portfolio assets	7	**18,634**	26,933	27,207
Derivative assets		**12,360**	12,106	15,233
Investment securities available for sale	8	**4,752**	6,893	7,857
Other assets	9	**19,008**	16,558	15,421
Loan assets held at amortised cost	10	**76,889**	76,663	77,976
Other financial assets at fair value through profit or loss		**1,510**	1,502	1,378
Property, plant and equipment		**10,960**	11,009	10,957
Interests in associates and joint ventures accounted for using the equity method	12	**3,622**	2,095	2,048
Intangible assets		**991**	1,009	993
Deferred tax assets		**689**	638	763
Total assets		**189,760**	182,877	193,093
Liabilities				
Trading portfolio liabilities	13	**7,451**	5,067	5,714
Derivative liabilities		**10,717**	11,128	12,949
Deposits		**59,006**	57,708	55,438
Other liabilities	14	**15,745**	15,031	13,676
Payables to financial institutions		**19,065**	17,072	23,736
Debt issued at amortised cost	15	**52,283**	50,828	57,617
Other financial liabilities at fair value through profit or loss		**2,268**	2,404	3,018
Deferred tax liabilities		**746**	621	540
Total liabilities excluding loan capital		**167,281**	159,859	172,688
Loan capital		**5,380**	5,748	4,942
Total liabilities		**172,661**	165,607	177,630
Net assets		**17,099**	17,270	15,463
Equity				
Contributed equity	16	**6,188**	6,290	6,234
Reserves	17	**999**	1,396	1,295
Retained earnings	17	**8,170**	7,877	7,392
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**15,357**	15,563	14,921
Non-controlling interests	17	**1,742**	1,707	542
Total equity		**17,099**	17,270	15,463

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 1 April 2016		6,422	1,536	7,158	15,116	548	15,664
Profit/(loss) after income tax		–	–	1,050	1,050	(3)	1,047
Other comprehensive expense, net of tax		–	(229)	–	(229)	(1)	(230)
Total comprehensive (expense)/income		–	(229)	1,050	821	(4)	817
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs	16	1	–	–	1	–	1
Dividends paid	5,17	–	–	(816)	(816)	–	(816)
Purchase of shares by MEREP Trust	16	(433)	–	–	(433)	–	(433)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	–	–	8	8
Dividends and distributions paid or provided for		–	–	–	–	(10)	(10)
Other equity movements:							
MEREP expense	17	–	214	–	214	–	214
Additional deferred tax benefit on MEREP expense	17	–	18	–	18	–	18
Transfer from share-based payments reserve to contributed equity for equity settled awards	16,17	240	(240)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity	16,17	17	(17)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	16,17	(13)	13	–	–	–	–
		(188)	(12)	(816)	(1,016)	(2)	(1,018)
Balance as at 30 September 2016		6,234	1,295	7,392	14,921	542	15,463
Profit after income tax		–	–	1,167	1,167	22	1,189
Other comprehensive expense, net of tax		–	(48)	(30)	(78)	–	(78)
Total comprehensive (expense)/income		–	(48)	1,137	1,089	22	1,111
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,17	–	–	(646)	(646)	–	(646)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(6)	(6)	1,152	1,146
Dividends and distributions paid or provided for		–	–	–	–	(9)	(9)
Other equity movements:							
MEREP expense	17	–	168	–	168	–	168
Additional deferred tax expense on MEREP expense	17	–	39	–	39	–	39
Net other movements in treasury shares	16	(2)	–	–	(2)	–	(2)
Transfer from share-based payments reserve to contributed equity for equity settled awards	16,17	37	(37)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity	16,17	22	(22)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	16,17	(1)	1	–	–	–	–
		56	149	(652)	(447)	1,143	696
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 $m	Non-controlling interests $m	Total equity $m
Balance as at 1 April 2017		**6,290**	**1,396**	**7,877**	**15,563**	**1,707**	**17,270**
Profit after income tax		**–**	**–**	**1,248**	**1,248**	**8**	**1,256**
Other comprehensive (expense)/income, net of tax		**–**	**(333)**	**(3)**	**(336)**	**49**	**(287)**
Total comprehensive (expense)/income		**–**	**(333)**	**1,245**	**912**	**57**	**969**
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,17	**–**	**–**	**(952)**	**(952)**	**–**	**(952)**
Purchase of shares by MEREP Trust	16	**(373)**	**–**	**–**	**(373)**	**–**	**(373)**
Non-controlling interests:							
Change in non-controlling ownership interest		**–**	**–**	**–**	**–**	**(9)**	**(9)**
Dividends and distributions paid or provided for		**–**	**–**	**–**	**–**	**(13)**	**(13)**
Other equity movements:							
MEREP expense	17	**–**	**200**	**–**	**200**	**–**	**200**
Additional deferred tax benefit on MEREP expense	17	**–**	**7**	**–**	**7**	**–**	**7**
Transfer from share-based payments reserve to contributed equity for equity settled awards	16,17	**250**	**(250)**	**–**	**–**	**–**	**–**
Transfer of additional deferred tax benefit on MEREP expense to contributed equity	16,17	**28**	**(28)**	**–**	**–**	**–**	**–**
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	16,17	**(7)**	**7**	**–**	**–**	**–**	**–**
		(102)	**(64)**	**(952)**	**(1,118)**	**(22)**	**(1,140)**
Balance as at 30 September 2017		**6,188**	**999**	**8,170**	**15,357**	**1,742**	**17,099**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Cash flows from/(used in) operating activities				
Interest and similar income received		**2,465**	2,543	2,618
Interest expense and similar charges paid		**(1,494)**	(1,491)	(1,352)
Fees and other operating income received		**2,165**	2,156	2,328
Fees and commissions paid		**(402)**	(447)	(462)
Operating lease income received		**862**	761	846
Dividends and distributions received		**80**	99	110
Employment expenses paid		**(2,491)**	(1,346)	(2,539)
Operating expenses paid		**(849)**	(599)	(802)
Income tax paid		**(308)**	(201)	(522)
Changes in operating assets and liabilities:				
Net (payments for)/proceeds from trading portfolio assets and other financial assets/liabilities		**(1,508)**	1,873	2,028
Net movement in deposits		**1,358**	2,347	3,214
Net movement in debt issued at amortised cost		**1,675**	(5,997)	(6,306)
Net movement in payables to financial institutions and other borrowings		**(257)**	(549)	(3,710)
Net loan assets (granted)/realised		**(926)**	679	333
Net margin money received/(paid)		**861**	(1,462)	358
Net (payments for)/proceeds from assets under operating lease		**(530)**	(433)	113
Life business:				
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		**619**	498	683
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		**(611)**	(507)	(570)
Net cash flows from/(used in) operating activities	18	**709**	(2,076)	(3,632)
Cash flows (used in)/from investing activities				
Net proceeds from investment securities available for sale		**1,190**	118	3,094
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		**1,317**	1,470	1,399
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		**(2,604)**	(2,312)	(307)
Payments for the acquisition of property, plant and equipment and intangible assets		**(75)**	(182)	(147)
Net cash flows (used in)/from investing activities		**(172)**	(906)	4,039
Cash flows (used in)/from financing activities				
(Payments to)/proceeds from non-controlling interests		**(15)**	1,154	6
Proceeds from the issue of loan capital		**–**	980	–
Payments on redemption of loan capital		**(330)**	–	(221)
Dividends and distributions paid		**(959)**	(653)	(824)
Payments for treasury shares		**(373)**	–	(433)
Net cash flows (used in)/from financing activities		**(1,677)**	1,481	(1,472)
Net decrease in cash and cash equivalents		**(1,140)**	(1,501)	(1,065)
Cash and cash equivalents at the beginning of the period		**11,754**	13,255	14,320
Cash and cash equivalents at the end of the period	18	**10,614**	11,754	13,255

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

NOTE 1

Summary of significant accounting policies

(i) Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2017 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

This half-year financial report comprises the consolidated financial report of Macquarie Group Limited (MGL or the Company) and the entities it controlled at the end of, or during, the period (the Consolidated Entity).

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2017 and any public announcements made by MGL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The Consolidated Entity is of a kind referred to in Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the rounding off of amounts in the financial report for a financial year or half-year. Amounts in the Directors' Report and the half-year financial report have been rounded off in accordance with that Legislative Instrument to the nearest million dollars unless otherwise indicated.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of the Group for the year ended 31 March 2017 other than where disclosed. Where necessary, certain comparatives have been restated for consistency in presentation at 30 September 2017.

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. In preparing this half-year financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 March 2017.

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 Macquarie's assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

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

Information on future accounting developments and their potential effect of the financial statements of the Consolidated Entity are disclosed in the 2017 Annual Report on pages 93 to 96.

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 project to manage the implementation of AASB 9 has focused on the preparation for a parallel run of AASB 9 that will begin in the six months ending 31 March 2018. The project includes the definition of significant business models and cash flow characteristics for all financial assets under the scope of AASB 9, the design and development of the Expected Credit Loss (ECL) impairment models and development of the technology solution for tracking credit migration and calculating ECL.

Until this work is sufficiently advanced, the Consolidated Entity is unable to provide a quantitative impact of the adoption of the standard, however, based on estimates on 30 September 2017 balances, the adoption 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.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all current guidance on revenue recognition from contracts with customers with an effective date for Macquarie of 1 April 2018.

An assessment has been performed on revenue streams existing in the prior financial year in addition to new revenue streams arising in the six months to 30 September 2017. Based on this assessment, the adoption of AASB 15 is not expected to have a material impact on Macquarie's equity. This assessment is ongoing and any transition adjustment to retained earnings is subject to the revenue streams existing at the date of transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 1

Summary of significant accounting policies continued

AASB 16 Leases

AASB 16 replaces the current AASB 117 *Leases* standard with a mandatory effective date for Macquarie of 1 April 2019. Macquarie has the option to early adopt in the financial year beginning 1 April 2018.

An initial impact assessment has been performed based on leases existing in the prior financial year in addition to new leases entered into in the six months to 30 September 2017. Based on this assessment, the adoption of AASB 16 is not expected to have a material impact on the statement of financial position or equity. This assessment is subject to the composition of leases at the date of transition.

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

The requirements are effective for Macquarie on 1 April 2018. The Consolidated Entity has early adopted this amendment beginning 1 April 2016. Retrospective application did not have a material impact on the financial position nor performance of the Consolidated Entity.

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

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

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

(ii) Comparatives

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

NOTE 2

Profit for the period

	Half-year to 30 Sep 17 $m	Half-year to 31 Mar 17 $m	Half-year to 30 Sep 16 $m
Net interest income			
Interest and similar income received/receivable	**2,462**	2,523	2,615
Interest expense and similar charges paid/payable	**(1,451)**	(1,436)	(1,517)
Net interest income	**1,011**	1,087	1,098
Fee and commission income			
Base fees	**804**	786	794
Performance fees(1)	**537**	94	170
Mergers and acquisitions, advisory and underwriting fees	**458**	492	471
Brokerage and commissions	**386**	394	419
Other fee and commission income(2)	**383**	362	349
Total fee and commission income	**2,568**	2,128	2,203
Net trading income(3)			
Equities	**310**	225	216
Commodities(4)	**436**	653	510
Credit, interest rate and foreign exchange products	**135**	104	50
Net trading income	**881**	982	776
Net operating lease income			
Rental income(5)	**900**	813	833
Depreciation on operating lease assets	**(431)**	(368)	(357)
Net operating lease income	**469**	445	476
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**103**	59	(8)

(1) Includes $420 million (half-year to 31 March 2017: $68 million; half-year to 30 September 2016: $50 million) earned from the Consolidated Entity's associates.

(2) Includes life investment income and insurance premium income of $19 million (half-year to 31 March 2017: $12 million; half-year to 30 September 2016: $149 million) and related expenses of $13 million (half-year to 31 March 2017: $13 million; half-year to 30 September 2016: $115 million).

(3) Includes net fair value loss of $46 million (half-year to 31 March 2017: $172 million gain; half-year to 30 September 2016: $108 million loss) relating to financial assets and financial liabilities designated at fair value through profit or loss. Half-year to 30 September 2016 includes $31 million loss in relation to changes in the fair value of financial 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 economically hedge the Consolidated Entity's interest rate risk where hedge accounting requirements are not met.

(4) Includes transportation and storage costs of $124 million (half-year to 31 March 2017: $136 million; half-year to 30 September 2016: $130 million).

(5) Includes net supplemental rent on aircraft of $79 million (half-year to 31 March 2017: $59 million; half-year to 30 September 2016: $69 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 2

Profit for the period continued

	Half-year to 30 Sep 17 $m	Half-year to 31 Mar 17 $m	Half-year to 30 Sep 16 $m
Other operating income and charges			
Investment income			
Net gain on sale of investment securities available for sale	**38**	74	345
Net (loss)/gain on sale of interests in associates and joint ventures	**(17)**	30	256
Net gain on acquisition, disposal, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale(1)	**304**	374	239
Net gain on financial instruments designated at fair value	**91**	11	–
Dividends/distributions from investment securities available for sale	**30**	50	45
Total investment income	**446**	539	885
Impairments			
Investment securities available for sale	**(10)**	(11)	(36)
Interests in associates and joint ventures	**(15)**	(7)	(20)
Intangible assets and other non-financial assets	**(45)**	(24)	(75)
Total impairments	**(70)**	(42)	(131)
Loan impairments and provisions			
Individually assessed provisions for impairment:			
Loan assets (Note 10)	**(49)**	(72)	(129)
Other receivables	**(2)**	(8)	(1)
Recovery of individually assessed impairment previously provided for:			
Loan assets (Note 10)	**2**	6	13
Other receivables	**7**	1	18
Collective allowance for credit losses reversed/(provided for):			
Loan assets (Note 10)	**37**	23	(3)
Other assets	**(16)**	(4)	(11)
Loans written off	**(68)**	(97)	(51)
Recovery of loans previously written off	**17**	29	15
Total loan impairments and provisions	**(72)**	(122)	(149)
Other income	**61**	70	68
Total other operating income and charges	**365**	445	673
Net operating income(2)	**5,397**	5,146	5,218

(1) Includes gains on reclassification of investments of $268 million (half-year to 31 March 2017: $80 million; half-year to 30 September 2016: $nil).

(2) Prior comparative periods have been reclassified to conform to current period presentation.

NOTE 2

Profit for the period continued

	Half-year to 30 Sep 17 $m	Half-year to 31 Mar 17 $m	Half-year to 30 Sep 16 $m
Employment expenses			
Salary and related costs including commissions, superannuation and performance-related profit share	**(1,908)**	(1,795)	(1,896)
Share-based payments(1)	**(208)**	(185)	(231)
Provision for long service leave and annual leave	**(14)**	–	(14)
Total compensation expenses	**(2,130)**	(1,980)	(2,141)
Other employment expenses including on-costs, staff procurement and staff training	**(131)**	(109)	(149)
Total employment expenses	**(2,261)**	(2,089)	(2,290)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(338)**	(348)	(326)
Other fee and commission expenses	**(84)**	(86)	(92)
Total brokerage, commission and trading-related expenses	**(422)**	(434)	(418)
Occupancy expenses			
Operating lease rentals	**(115)**	(107)	(112)
Depreciation: buildings, furniture, fittings and leasehold improvements	**(37)**	(37)	(36)
Other occupancy expenses	**(47)**	(47)	(53)
Total occupancy expenses	**(199)**	(191)	(201)
Non-salary technology expenses			
Information services	**(90)**	(91)	(98)
Depreciation: equipment	**(12)**	(13)	(14)
Service provider and other non-salary technology expenses	**(193)**	(196)	(232)
Total non-salary technology expenses	**(295)**	(300)	(344)
Other operating expenses			
Professional fees	**(191)**	(215)	(170)
Travel and entertainment expenses	**(74)**	(77)	(77)
Advertising and promotional expenses	**(43)**	(42)	(38)
Amortisation of intangible assets	**(21)**	(18)	(17)
Auditor's remuneration	**(17)**	(19)	(17)
Communication expenses	**(16)**	(15)	(20)
Depreciation: infrastructure assets	**(10)**	(8)	(8)
Other expenses	**(144)**	(119)	(133)
Total other operating expenses	**(516)**	(513)	(480)
Total operating expenses	**(3,693)**	(3,527)	(3,733)

(1) Includes $8 million (half-year to 31 March 2017: $16 million; half-year to 30 September 2016: $17 million) of share-based payment expense for cash settled awards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 3

Segment reporting

(i) Operating segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into five Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. There were previously six Operating Groups and during the prior period 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, real assets, equities, fixed income, liquid alternatives and multi-asset investment management solutions.

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

BFS provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisors, 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 mergers and acquisitions, debt and equity capital markets and principal investments, which are aligned with specialist sectors including Infrastructure, Utilities and Renewables; Real Estate; Telecommunications, Media, Entertainment and Technology; Resources; Industrials; Financial Institutions.

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 Chief Executive Officer (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 total Consolidated Entity level.

NOTE 3

Segment reporting continued

Central service groups

Central service groups recover their costs from Operating Groups on either a time and effort allocation basis or a fee for service basis. Central service groups include Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance (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 Macquarie Group Employee Retained Equity Plan (MEREP) is recognised in the Corporate segment and not allocated to Operating Groups.

Income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

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 period.
Prior comparative period information has been reclassified to conform to current period presentation.

	Macquarie Asset Management $m
Net interest and trading (expense)/income	**(17)**
Fee and commission income/(expense)	**1,446**
Net operating lease income	**3**
Share of net profits of associates and joint ventures accounted for using the equity method	**42**
Other operating income and charges:	
Impairment charges, write-offs and provisions, net of recoveries	**(1)**
Other operating income and charges	**257**
Internal management revenue/(charge)	**–**
Net operating income	**1,730**
Total operating expenses	**(543)**
Operating profit/(loss) before income tax	**1,187**
Income tax expense	**–**
Loss/(profit) attributable to non-controlling interests	**2**
Net profit/(loss) contribution attributable to ordinary equity holders	**1,189**
Reportable segment assets	**9,351**
Net interest and trading (expense)/income	(20)
Fee and commission income/(expense)	1,002
Net operating lease income	8
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	4
Other operating income and charges:	
Impairment charges, write-offs and provisions, net of recoveries	–
Other operating income and charges	199
Internal management revenue/(charge)	30
Net operating income	1,223
Total operating expenses	(541)
Operating profit/(loss) before income tax	682
Income tax expense	–
Profit attributable to non-controlling interests	(1)
Net profit/(loss) contribution attributable to ordinary equity holders	681
Reportable segment assets	8,017
Net interest and trading (expense)/income	(22)
Fee and commission income/(expense)	1,065
Net operating lease income	6
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	41
Other operating income and charges:	
Impairment charges, write-offs and provisions, net of recoveries	14
Other operating income and charges	255
Internal management revenue/(charge)	14
Net operating income	1,373
Total operating expenses	(516)
Operating profit/(loss) before income tax	857
Income tax expense	–
Loss/(profit) attributable to non-controlling interests	–
Net profit/(loss) contribution attributable to ordinary equity holders	857
Reportable segment assets	6,086

Corporate and Asset Finance $m	Banking and Financial Services $m	Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
					Half-year to 30 September 2017
336	**584**	**904**	**(57)**	**142**	**1,892**
22	**234**	**436**	**436**	**(6)**	**2,568**
465	**–**	**–**	**–**	**1**	**469**
–	**1**	**8**	**52**	**–**	**103**
1	**(8)**	**(56)**	**(20)**	**(58)**	**(142)**
106	**8**	**22**	**170**	**(56)**	**507**
1	**3**	**7**	**1**	**(12)**	**–**
931	**822**	**1,321**	**582**	**11**	**5,397**
(312)	**(536)**	**(943)**	**(390)**	**(969)**	**(3,693)**
619	**286**	**378**	**192**	**(958)**	**1,704**
–	**–**	**–**	**–**	**(448)**	**(448)**
–	**–**	**–**	**(2)**	**(8)**	**(8)**
619	**286**	**378**	**190**	**(1,414)**	**1,248**
37,457	**39,278**	**89,202**	**4,990**	**9,482**	**189,760**
					Half-year to 31 March 2017
358	551	1,125	(8)	63	2,069
32	216	410	471	(3)	2,128
437	–	–	–	–	445
–	5	10	48	(8)	59
(50)	(13)	(98)	(5)	2	(164)
182	6	25	135	62	609
37	4	(9)	(4)	(58)	–
996	769	1,463	637	58	5,146
(319)	(517)	(982)	(347)	(821)	(3,527)
677	252	481	290	(763)	1,619
–	–	–	–	(430)	(430)
–	–	–	(12)	(9)	(22)
677	252	481	278	(1,202)	1,167
38,159	38,106	86,107	3,521	8,967	182,877
					Half-year to 30 September 2016
354	498	935	11	98	1,874
21	256	447	416	(2)	2,203
467	–	–	–	3	476
–	1	(10)	(20)	(20)	(8)
(61)	(78)	(51)	(92)	(12)	(280)
51	201	156	244	46	953
3	1	8	10	(36)	–
835	879	1,485	569	77	5,218
(315)	(618)	(994)	(375)	(915)	(3,733)
520	261	491	194	(838)	1,485
–	–	–	–	(438)	(438)
1	–	(1)	11	(8)	3
521	261	490	205	(1,284)	1,050
39,726	38,648	95,342	4,560	8,731	193,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 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.

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Revenues from external customers			
Lending	**2,893**	2,854	2,858
Financial Markets	**1,716**	1,905	1,713
Asset and Wealth Management	**1,674**	1,215	1,699
Capital Markets	**1,272**	1,292	1,346
Total revenue from external customers(1)	**7,555**	7,266	7,616

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

(iii) Geographical areas

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

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Revenues from external customers			
Australia	**2,920**	2,629	3,340
Europe, Middle East and Africa(1)	**2,307**	1,876	1,913
Americas(2)	**1,734**	2,045	1,705
Asia Pacific	**594**	716	658
Total	**7,555**	7,266	7,616

(1) Includes external revenue generated in the United Kingdom of $1,905 million (half-year to 31 March 2017: $1,443 million; half-year to 30 September 2016: $1,455 million).

(2) Includes external revenue generated in the United States of America of $1,689 million (half-year to 31 March 2017: $1,970 million; half-year to 30 September 2016: $1,562 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customers.

NOTE 4

Income tax expense

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
(i) Numerical reconciliation of income tax expense to prima facie tax payable			
Prima facie income tax expense on operating profit[1]	**(511)**	(485)	(446)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**76**	51	24
Other items	**(13)**	4	(16)
Total income tax expense	**(448)**	(430)	(438)
(ii) Tax benefit/(expense) relating to items of other comprehensive income			
Available for sale reserves	**121**	49	5
Own credit risk	**14**	–	–
Cash flow hedges	**(8)**	(5)	(8)
Share of other comprehensive (income)/expense of associates and joint ventures	**(1)**	(1)	1
Foreign currency translation reserve	**–**	2	–
Total tax benefit/(expense) relating to items of other comprehensive income	**126**	45	(2)

(1) Prima facie income tax expense on operating profit is calculated at the rate of 30% (half-year to 31 March 2017: 30%; half-year to 30 September 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 5

Dividends and distributions paid or provided for

(i) Dividends paid

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Ordinary share capital and exchangeable shares			
Final dividend paid (2017: $2.80 (2016: $2.40) per share)(1)	**952**	–	816
Interim dividend paid (2017: $1.90 per share)(2)	**–**	646	–
Total dividends paid (Note 17)	**952**	646	816

(1) Final dividend paid by the Consolidated Entity includes $8 million (half-year to 30 September 2016: $7 million) of dividend equivalent amount paid to Deferred Share Units (DSUs) holders.

(2) Interim dividend paid by the Consolidated Entity during the half-year ended 31 March 2017 includes $6 million of dividend equivalent amount paid to DSUs holders.

The final dividend paid during the period was franked at 45% based on tax paid at 30% (half-year to 31 March 2017: franked at 45% based on tax paid at 30%; half-year to 30 September 2016: franked at 40% based on tax paid at 30%). The dividends paid to the holders of the 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 16 – Contributed equity.

(ii) Dividends not recognised at the end of the period

Since the end of the period, the Directors have resolved to pay an interim dividend for the half-year ended 30 September 2017 of $2.05 per fully paid ordinary share, franked at 45% based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 13 December 2017 from retained profits at 30 September 2017, but not recognised as a liability at the end of the period is $697 million (net of $1 million to be received on treasury shares (refer to Note 16 – Contributed Equity for further details on these instruments). This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 30 September 2017.

	Half-year to 30 Sep 2017	Half-year to 31 Mar 2017	Half-year to 30 Sep 2016
			$ per share
Cash dividend per ordinary share (distribution of current period profits)	**2.05**	2.80	1.90

(iii) Distributions paid or provided for

Macquarie Income Securities(1)	$m	$m	$m
Distributions paid (net of distributions previously provided for)	**4**	4	5
Distributions provided for	**3**	3	3
Total distributions paid or provided for	**7**	7	8

(1) The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Refer to Note 17 – Reserves, retained earnings and non-controlling interests for further details on MIS.

NOTE 6

Earnings per share

	Half-year to 30 Sep 2017	Half-year to 31 Mar 2017	Half-year to 30 Sep 2016
			Cents per share
Basic earnings per share	**370.4**	345.8	311.8
Diluted earnings per share	**360.2**	337.2	304.8
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	$m	$m	$m
Profit after income tax	**1,256**	1,189	1,047
(Profit)/loss attributable to non-controlling interests:			
Macquarie Income Securities	**(7)**	(7)	(8)
Other non-controlling interests	**(1)**	(15)	11
Total profit attributable to ordinary equity holders of MGL	**1,248**	1,167	1,050
Less profit attributable to participating unvested MEREP awards	**(55)**	(56)	(49)
Total earnings used in the calculation of basic earnings per share	**1,193**	1,111	1,001
Add back:			
Profit attributable to dilutive participating unvested MEREP awards	**35**	36	29
Interest expense on loan capital, net of tax	**48**	57	58
Total earnings used in the calculation of diluted earnings per share	**1,276**	1,204	1,088
			Number of shares
Total weighted average number of equity shares (net of treasury shares) used in the calculation of basic earnings per share	**322,124,248**	321,246,133	321,039,695
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)	**322,124,248**	321,246,133	321,039,695
Potential equity shares:			
Weighted average unvested MEREP awards	**12,364,613**	14,024,606	12,203,259
Weighted average loan capital	**19,772,187**	21,795,249	23,724,349
Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share	**354,261,048**	357,065,988	356,967,303

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m

NOTE 7

Trading portfolio assets

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Equities			
Listed	**7,269**	12,121	10,362
Unlisted	**181**	11	43
Commodities	**3,823**	5,601	6,129
Commonwealth government securities	**4,287**	4,862	4,993
Foreign government securities and treasury notes	**2,008**	2,509	3,807
Corporate loans and securities	**1,009**	1,758	1,817
Other	**57**	71	56
Total trading portfolio assets	**18,634**	26,933	27,207

NOTE 8

Investment securities available for sale

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Debt securities	**4,032**	4,851	5,520
Equity securities			
Listed	**77**	899	1,167
Unlisted	**643**	1,143	1,170
Total investment securities available for sale	**4,752**	6,893	7,857

NOTE 9

Other assets

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Security settlements	**7,595**	6,529	7,311
Debtors and prepayments	**5,757**	5,655	5,938
Interests in associates and assets of disposal group classified as held for sale(1)	**4,175**	2,802	590
Life investment linked contracts and other unitholder assets	**677**	721	760
Income tax receivable	**434**	471	539
Investment properties(2)	**370**	380	283
Total other assets	**19,008**	16,558	15,421

(1) Includes $1,802 million (31 March 2017: $1,733 million; 30 September 2016: $nil) relating to an indirect investment in a gas distribution network in the United Kingdom acquired during the half-year to 31 March 2017 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 $1,219 million (31 March 2017: $1,171 million; 30 September 2016: $nil) are included in Note 17 – 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 20 – Fair value of financial assets and financial liabilities).

NOTE 10

Loan assets held at amortised cost

	As at 30 Sep 2017			As at 31 Mar 2017			As at 30 Sep 2016		
	Gross $m	Individually assessed provisions for impairment $m	Net $m	Gross $m	Individually assessed provisions for impairment $m	Net $m	Gross $m	Individually assessed provisions for impairment $m	Net $m
Residential mortgage loans[1]	**31,382**	**(3)**	**31,379**	30,338	(3)	30,335	30,622	(5)	30,617
Lease and retail financing[1]	**19,994**	**(60)**	**19,934**	19,772	(66)	19,706	19,962	(76)	19,886
Corporate and commercial lending	**16,126**	**(338)**	**15,788**	16,861	(347)	16,514	17,686	(438)	17,248
Margin money placed	**6,896**	**–**	**6,896**	7,376	–	7,376	7,451	–	7,451
Relationship banking mortgages	**2,615**	**–**	**2,615**	2,453	–	2,453	2,365	–	2,365
Investment and insurance premium lending	**693**	**(1)**	**692**	737	(1)	736	900	(1)	899
Total loan assets before collective allowance for credit losses	**77,706**	**(402)**	**77,304**	77,537	(417)	77,120	78,986	(520)	78,466
Less collective allowance for credit losses			**(415)**			(457)			(490)
Total loan assets held at amortised cost			**76,889**			76,663			77,976

(1) Includes loans of $14,066 million (31 March 2017: $16,332 million; 30 September 2016: $16,637 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	**417**	520	413
Provided for during the period (Note 2)	**49**	72	129
Loan assets written off or sold, previously provided for	**(58)**	(175)	(31)
Recovery of loans previously provided for (Note 2)	**(2)**	(6)	(13)
Net transfer from collective provisions	**2**	7	23
Foreign exchange movements	**(6)**	(1)	(1)
Balance at the end of the period	**402**	417	520
Individually assessed provisions as a percentage of total gross loan assets	**0.52%**	0.54%	0.66%
Collective allowance for credit losses			
Balance at the beginning of the period	**457**	490	520
(Reversed)/Provided for during the period (Note 2)	**(37)**	(23)	3
Sale during the period	**(2)**	–	(7)
Net transfer to specific provisions	**(2)**	(7)	(23)
Foreign exchange movements	**(1)**	(3)	(3)
Balance at the end of the period	**415**	457	490

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

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FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
NOTE 11			
Impaired financial assets			
Debt investment securities available for sale before cumulative impairment loss	**40**	49	68
Cumulative impairment loss	**(39)**	(48)	(65)
Debt investment securities available for sale	**1**	1	3
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**929**	1,071	1,262
Less individually assessed provisions for impairment	**(478)**	(501)	(596)
Loan assets and other financial assets after individually assessed provisions for impairment	**451**	570	666
Total net impaired financial assets	**452**	571	669
NOTE 12			
Interests in associates and joint ventures accounted for using the equity method			
Loans and investments without provisions for impairment	**3,513**	1,998	1,943
Loans and investments with provisions for impairment	**268**	241	298
Less provisions for impairment	**(159)**	(144)	(193)
Loans and investments with provisions for impairment at recoverable amount	**109**	97	105
Total interests in associates and joint ventures accounted for using the equity method[(1),(2)]	**3,622**	2,095	2,048

(1) Includes $3,071 million (31 March 2017: $1,690 million; 30 September 2016: $1,613 million) relating to interests in associates and $551 million (31 March 2017: $405 million; 30 September 2016: $435 million) relating to interests in joint ventures.

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

NOTE 13

Trading portfolio liabilities

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Listed equity securities	**6,790**	4,404	4,851
Foreign government securities	**537**	592	789
Corporate loan and securities	**70**	71	74
Commodities	**54**	–	–
Total trading portfolio liabilities	**7,451**	5,067	5,714

NOTE 14

Other liabilities

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Due to brokers and customers	**7,504**	6,588	7,065
Creditors	**3,057**	3,103	2,175
Accrued charges, income received in advance and other liabilities	**2,766**	3,112	2,556
Liabilities of disposal groups classified as held for sale	**813**	520	–
Aircraft and rail maintenance liabilities	**770**	782	788
Life investment linked contracts and other unitholder liabilities	**674**	714	754
Income tax payable	**161**	212	338
Total other liabilities	**15,745**	15,031	13,676

NOTE 15

Debt issued at amortised cost

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Debt issued at amortised cost[1]	**52,283**	50,828	57,617
Total debt issued at amortised cost	**52,283**	50,828	57,617

(1) Includes amounts payable to SPE note holders and debt holders of $11,148 million (31 March 2017: $13,430 million; 30 September 2016: $13,629 million).

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

Reconciliation of debt issued at amortised cost by major currency:

(In Australian dollar equivalent)

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
United States dollar	**30,253**	25,536	30,501
Australian dollar	**13,384**	14,887	15,405
Euro	**4,543**	5,650	6,127
Swiss franc	**1,453**	1,912	1,997
Japanese yen	**1,050**	1,222	1,425
Great British pound	**817**	767	1,185
Yuan renminbi	**221**	218	225
Hong Kong dollar	**168**	222	226
Norwegian krone	**163**	153	171
Canadian dollar	**129**	125	127
Korean won	**102**	107	109
South African rand	**–**	17	76
Singapore dollar	**–**	12	–
New Zealand dollar	**–**	–	43
Total	**52,283**	50,828	57,617

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16

Contributed equity

	Number of shares	Total $m
Ordinary share capital[(1)]		
Balance as at 1 April 2016	340,302,389	7,446
Issue of shares on exercise of MEREP awards	19,126	1
Issue of shares on retraction of exchangeable shares	16,959	1
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting	–	240
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	–	17
Transfer from treasury shares for shares withdrawn/exercised	–	(248)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	–	(13)
Balance as at 30 September 2016	340,338,474	7,444
Issue of shares on retraction of exchangeable shares	13,257	1
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting	–	37
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	–	22
Transfer from treasury shares for shares withdrawn/exercised	–	(36)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	–	(1)
Balance as at 31 March 2017	340,351,731	7,467
Issue of shares on retraction of exchangeable shares	**6,172**	**–**
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting	**–**	**250**
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	**–**	**28**
Transfer from treasury shares for shares withdrawn/exercised	**–**	**(253)**
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	**–**	**(7)**
Balance as at 30 September 2017[(2)]	**340,357,903**	**7,485**

(1) Ordinary shares are fully-paid and have no par value.

(2) Subsequent to 30 September 2017, the Board has approved an on-market buyback of up to $1 billion, subject to a number of factors including the Group's surplus capital position, market conditions and opportunities to deploy capital by the businesses. This buyback has received the necessary regulatory approvals.

NOTE 16

Contributed equity continued

	Number of shares	Total $m
Treasury shares[(1)]		
Balance as at 1 April 2016	(20,053,879)	(1,036)
Purchase of shares for employee MEREP awards	(6,045,273)	(433)
Transfer to ordinary share capital for shares withdrawn/exercised	6,119,201	248
Sale of shares for cash settled awards by MEREP trust	7,094	–
Purchase of shares for allocation under DRP scheme	(871,590)	(64)
Allocation of shares under DRP scheme	871,590	64
Balance at 30 September 2016	(19,972,857)	(1,221)
Transfer to ordinary share capital for shares withdrawn/exercised	672,328	36
Purchase of shares for allocation under DRP scheme	(679,234)	(57)
Allocation of shares under DRP scheme	679,234	57
Purchase of shares for allocation under Macquarie Group Employee Share Plan (ESP) scheme	(10,670)	(1)
Allocation of shares under ESP scheme	10,670	1
Valuation adjustment on treasury shares	–	(2)
Balance as at 31 March 2017	(19,300,529)	(1,187)
Purchase of shares for employee MEREP awards	**(4,182,548)**	**(373)**
Transfer to ordinary share capital for shares withdrawn/exercised	**4,937,520**	**253**
Purchase of shares for allocation under DRP scheme	**(832,807)**	**(74)**
Allocation of shares under DRP scheme	**832,807**	**74**
Balance as at 30 September 2017	**(18,545,557)**	**(1,307)**

(1) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares.

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NOTE 16

Contributed equity continued

	Number of shares	Total $m
Exchangeable shares[1]		
Balance as at 1 April 2016	170,846	12
Retraction of exchangeable shares	(17,967)	(1)
Balance as at 30 September 2016	152,879	11
Retraction of exchangeable shares	(14,044)	(1)
Balance as at 31 March 2017	138,835	10
Retraction of exchangeable shares	**(6,539)**	**–**
Balance as at 30 September 2017	**132,296**	**10**

(1) 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 terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at MGL's discretion and will pay dividends equal to MGL's dividends during their legal life. However, subsequent to the approval of consolidation of MGL ordinary shares by MGL's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in MGL.

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Contributed equity	**6,188**	6,290	6,234

NOTE 17

Reserves, retained earnings and non-controlling interests

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**248**	298	377
Exchange differences on translation of foreign operations, net of hedge and tax	**(59)**	(50)	(79)
Balance at the end of the period	**189**	248	298
Available for sale reserve			
Balance at the beginning of the period	**393**	477	555
Revaluation (losses)/gains, net of tax	**(86)**	(27)	156
Transfer to income statement on:			
Impairment, net of tax	**7**	13	19
Sale or reclassification, net of tax	**(238)**	(70)	(253)
Balance at the end of the period	**76**	393	477
Share-based payments reserve			
Balance at the beginning of the period	**877**	729	754
MEREP expense for the period	**200**	168	214
Additional deferred tax benefit on MEREP expense	**7**	39	18
Transfer to ordinary share capital on vesting of MEREP awards	**(250)**	(37)	(240)
Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards	**(28)**	(22)	(17)
Balance at the end of the period	**806**	877	729
Share-based payments capital reduction reserve			
Balance at the beginning of the period	**(19)**	(20)	(33)
Transfer to ordinary share capital related to vested and forfeited awards	**7**	1	13
Balance at the end of the period	**(12)**	(19)	(20)
Cash flow hedging reserve			
Balance at the beginning of the period	**(103)**	(188)	(118)
Revaluation gains/(losses) for the period, net of tax	**36**	85	(70)
Balance at the end of the period	**(67)**	(103)	(188)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**–**	(1)	1
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	**7**	1	(2)
Balance at the end of the period	**7**	–	(1)
Total reserves at the end of the period	**999**	1,396	1,295
Retained earnings			
Balance at the beginning of the period	**7,877**	7,392	7,158
Profit attributable to ordinary equity holders of MGL	**1,248**	1,167	1,050
Dividends paid on ordinary share capital (Note 5)	**(952)**	(646)	(816)
Loss on change in non-controlling interest	**–**	(6)	–
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	**(3)**	(30)	–
Balance at the end of the period	**8,170**	7,877	7,392

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NOTE 17

Reserves, retained earnings and non-controlling interests continued

Non-controlling securities

Macquarie Income Securities

The MIS issued by MBL, a subsidiary, were listed for trading on the Australian Securities Exchange 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 (31 March 2017: 1.7% per annum; 30 September 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.

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Macquarie Income Securities			
4,000,000 Macquarie Income Securities of $100 each	**400**	400	400
Less transaction costs for original placement	**(9)**	(9)	(9)
Total Macquarie Income Securities	**391**	391	391
Other non-controlling interests(1),(2)			
Share capital and partnership interests	**1,351**	1,360	220
Foreign currency translation reserve	**37**	(12)	(12)
Accumulated losses	**(37)**	(32)	(57)
Total other non-controlling interests	**1,351**	1,316	151
Total non-controlling interests	**1,742**	1,707	542

(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 $1,219 million (31 March 2017: $1,171 million; 30 September 2016: $nil) 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 9 – Other assets.

NOTE 18

Notes to the consolidated statement of cash flows

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Reconciliation of cash and cash equivalents			
Cash and cash equivalents at the end of the period are reflected in the related items in the consolidated statement of financial position as follows:			
Receivables from financial institutions(1)	**8,083**	9,135	8,923
Trading portfolio assets(2)	**309**	1,102	906
Debt investment securities available for sale(3)	**842**	324	763
Loan assets held at amortised cost(4)	**1,380**	1,193	2,663
Cash and cash equivalents at the end of the period(5)	**10,614**	11,754	13,255

(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) Includes $3,806 million (31 March 2017: $5,173 million; 30 September 2016: $5,526 million) in escrow accounts which are restricted for use or held by collateralised securitisation vehicles in segregated deposit fund.

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Reconciliation of profit after income tax to net cash flows (used in)/from operating activities			
Profit after income tax	**1,256**	1,189	1,047
Adjustments to profit after income tax:			
Depreciation and amortisation	**511**	444	432
Provision and impairment charge on financial and non-financial assets	**159**	191	297
Net gain on acquisition, disposal, reclassification and change in ownership interests of investments and assets under operating lease	**(334)**	(479)	(855)
Unrealised foreign exchange and fair value movement on financial assets and liabilities	**(436)**	(903)	285
Share of net (profits)/losses of associates and joint ventures accounted for using the equity method	**(103)**	(59)	8
Share-based payments expense	**200**	168	214
(Capitalisation)/write-off of development costs of intangible assets	**–**	(24)	14
Interest on available for sale debt securities	**(2)**	20	(20)
Changes in assets and liabilities:			
Change in fees and non-interest income receivable	**(458)**	(59)	99
Change in fees and commissions payable	**21**	(13)	(44)
Change in carrying values of associates and joint ventures due to dividends received	**50**	49	64
Change in provisions for employee entitlements	**18**	(10)	10
Change in tax balances	**142**	231	(84)
Change in assets under operating lease, net of depreciation, and foreign exchange movements	**(531)**	(433)	113
Change in loan assets	**(926)**	680	333
Change in margin money placed	**861**	(1,462)	358
Change in debtors, prepayments, accrued charges and creditors	**(403)**	879	(267)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(2,054)**	1,772	974
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**2,738**	(4,257)	(6,610)
Net cash flows from/(used in) operating activities	**709**	(2,076)	(3,632)

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NOTE 19

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2017 $m	As at 31 Mar 2017 $m	As at 30 Sep 2016 $m
Contingent liabilities exist in respect of:			
Letters of credit	**999**	843	805
Guarantees	**283**	289	228
Performance related contingents	**237**	305	299
Indemnities	**158**	56	134
Total contingent liabilities(1),(2)	**1,677**	1,493	1,466
Commitments exist in respect of:			
Undrawn credit facilities and securities underwriting(3)	**8,300**	9,156	7,860
Forward asset purchases	**–**	816	–
Total commitments	**8,300**	9,972	7,860
Total contingent liabilities and commitments	**9,977**	11,465	9,326

(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 is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

(2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

(3) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

NOTE 20

Fair values of financial assets and 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 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 measured at fair value:

– trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
– investment securities classified as available for sale are measured at fair value by reference to 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, reclassified or otherwise disposed of
– fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is calculated 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 over-the-counter derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

The fair values calculated for financial assets which are carried 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

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NOTE 20

Fair values of financial assets and liabilities continued

– 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 calculated 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 20

Fair values of financial assets and 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.

	Carrying value $m	Fair value $m
Assets	**As at 30 September 2017**	
Receivables from financial institutions	**40,345**	**40,345**
Other financial assets(1)	**12,121**	**12,121**
Loan assets held at amortised cost	**76,889**	**77,158**
Total assets	**129,355**	**129,624**
Liabilities		
Deposits	**59,006**	**59,024**
Other financial liabilities(2)	**10,195**	**10,195**
Payables to financial institutions	**19,065**	**19,112**
Debt issued at amortised cost	**52,283**	**53,027**
Loan capital	**5,380**	**5,639**
Total liabilities	**145,929**	**146,997**
Assets	**As at 31 March 2017**	
Receivables from financial institutions	27,471	27,471
Other financial assets(1)	11,053	11,053
Loan assets held at amortised cost	76,663	77,060
Total assets	115,187	115,584
Liabilities		
Deposits	57,708	57,722
Other financial liabilities(2)	9,396	9,396
Payables to financial institutions	17,072	17,157
Debt issued at amortised cost	50,828	51,468
Loan capital	5,748	5,965
Total liabilities	140,752	141,708
Assets	**As at 30 September 2016**	
Receivables from financial institutions	33,260	33,260
Other financial assets(1)	11,658	11,658
Loan assets held at amortised cost	77,976	78,430
Total assets	122,894	123,348
Liabilities		
Deposits	55,438	55,471
Other financial liabilities(2)	9,158	9,158
Payables to financial institutions	23,736	23,810
Debt issued at amortised cost	57,617	58,183
Loan capital	4,942	5,021
Total liabilities	150,891	151,643

(1) Excludes non-financial assets of $6,210 million (31 March 2017: $4,784 million; 30 September 2016: $3,003 million) and Life investment linked contracts and other unitholder assets of $677 million (31 March 2017: $721 million; 30 September 2016: $760 million) which are included in Note 9 – Other assets.

(2) Excludes non-financial liabilities of $4,876 million (31 March 2017: $4,921 million; 30 September 2016: $3,764 million) and Life investment linked contracts and other unitholder liabilities of $674 million (31 March 2017: $714 million; 30 September 2016: $754 million) which are included in Note 14 – Other liabilities.

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NOTE 20

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and financial liabilities held at amortised cost:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				As at 30 September 2017
Receivables from financial institutions	**8,393**	**31,952**	**–**	**40,345**
Other financial assets	**–**	**12,121**	**–**	**12,121**
Loan assets held at amortised cost	**6,885**	**7,006**	**63,267**	**77,158**
Total assets	**15,278**	**51,079**	**63,267**	**129,624**
Liabilities				
Deposits	**52,089**	**6,935**	**–**	**59,024**
Other financial liabilities	**–**	**10,195**	**–**	**10,195**
Payables to financial institutions	**1,544**	**15,104**	**2,464**	**19,112**
Debt issued at amortised cost	**–**	**46,866**	**6,161**	**53,027**
Loan capital	**2,608**	**3,031**	**–**	**5,639**
Total liabilities	**56,241**	**82,131**	**8,625**	**146,997**
Assets				As at 31 March 2017
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
Assets				As at 30 September 2016
Receivables from financial institutions	8,890	24,370	–	33,260
Other financial assets	–	11,658	–	11,658
Loan assets held at amortised cost	7,396	6,706	64,328	78,430
Total assets	16,286	42,734	64,328	123,348
Liabilities				
Deposits	47,596	7,875	–	55,471
Other financial liabilities	–	9,158	–	9,158
Payables to financial institutions	1,769	19,433	2,608	23,810
Debt issued at amortised cost	–	51,665	6,518	58,183
Loan capital	1,924	3,097	–	5,021
Total liabilities	51,289	91,228	9,126	151,643

NOTE 20

Fair values of financial assets and 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
Assets				As at 30 September 2017
Trading portfolio assets	**11,573**	**6,780**	**281**	**18,634**
Derivative assets	**794**	**10,984**	**582**	**12,360**
Investment securities available for sale	**2,399**	**1,153**	**1,200**	**4,752**
Other financial assets at fair value through profit or loss	**191**	**1,202**	**117**	**1,510**
Other financial assets(1)	**24**	**646**	**7**	**677**
Total assets	**14,981**	**20,765**	**2,187**	**37,933**
Liabilities				
Trading portfolio liabilities	**6,292**	**1,159**	**–**	**7,451**
Derivative liabilities	**463**	**9,963**	**291**	**10,717**
Other financial liabilities at fair value through profit or loss	**–**	**2,216**	**52**	**2,268**
Other financial liabilities(2)	**–**	**667**	**7**	**674**
Total liabilities	**6,755**	**14,005**	**350**	**21,110**
Assets				As at 31 March 2017
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
Assets				As at 30 September 2016
Trading portfolio assets	17,099	9,554	554	27,207
Derivative assets	688	14,131	414	15,233
Investment securities available for sale	4,424	1,572	1,861	7,857
Other financial assets at fair value through profit or loss	97	1,244	37	1,378
Other financial assets(1)	82	671	7	760
Total assets	22,390	27,172	2,873	52,435
Liabilities				
Trading portfolio liabilities	3,764	1,950	–	5,714
Derivative liabilities	378	12,304	267	12,949
Other financial liabilities at fair value through profit or loss	–	2,963	55	3,018
Other financial liabilities(2)	–	747	7	754
Total liabilities	4,142	17,964	329	22,435

(1) Includes $677 million (31 March 2017: $721 million; 30 September 2016: $760 million) of life investment linked contracts and other unitholder assets which are included in Note 9 – Other assets.

(2) Includes $674 million (31 March 2017: $714 million; 30 September 2016: $754 million) of life investment linked contracts and other unitholder liabilities which are included in Note 14 – Other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 20

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy
The following table summarises the movements in Level 3 of the fair value hierarchy for the financial instruments measured at fair value:

	Trading portfolio assets $m	Investment securities available for sale $m	Other financial assets at fair value through profit or loss $m
Balance as at 1 April 2016	807	1,968	46
Purchases	163	143	–
Sales	(372)	(168)	–
Settlements	–	(103)	(5)
Transfers into Level 3	74	69	–
Transfers out of Level 3	(76)	(41)	–
Fair value movements recognised in the income statement[1]	(42)	(3)	(4)
Fair value movements recognised in other comprehensive income[1]	–	(4)	–
Balance as at 30 September 2016	554	1,861	37
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[1]	(42)	(17)	1
Balance as at 1 October 2016	554	1,861	37
Purchases	61	84	29
Sales	(149)	(351)	(8)
Settlements	–	(134)	–
Transfers into Level 3	52	–	5
Transfers out of Level 3	(142)	(136)	–
Fair value movements recognised in the income statement[1]	38	90	5
Fair value movements recognised in other comprehensive income[1]	–	(158)	–
Balance as at 31 March 2017	414	1,256	68
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[1]	42	10	4
Balance as at 1 April 2017	**414**	**1,256**	**68**
Purchases	**104**	**117**	**53**
Sales	**(257)**	**(52)**	**(7)**
Transfers into Level 3	**22**	**26**	**34**
Transfers out of Level 3	**(4)**	**(9)**	**(88)**
Fair value movements recognised in the income statement[1]	**2**	**(29)**	**57**
Fair value movements recognised in other comprehensive income[1]	**–**	**(109)**	**–**
Balance as at 30 September 2017	**281**	**1,200**	**117**
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[1]	**(1)**	**(24)**	**3**

(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 for 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 $582 million (31 March 2017: $349 million; 30 September 2016: $414 million) and derivative liabilities are $291 million (31 March 2017: $203 million; 30 September 2016: $267 million).

NOTE 20

Fair values of financial assets and liabilities continued

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
79	(54)	(7)	209	3,048
–	–	–	123	429
(72)	–	–	(108)	(720)
–	1	–	–	(107)
–	–	–	(16)	127
–	–	–	(31)	(148)
–	(2)	–	(30)	(81)
–	–	–	–	(4)
7	(55)	(7)	147	2,544
–	(2)	–	(30)	(90)
7	(55)	(7)	147	2,544
–	–	–	(31)	143
–	–	–	(16)	(524)
–	(1)	–	–	(135)
–	–	–	24	81
–	–	–	(4)	(282)
–	(1)	–	26	158
–	–	–	–	(158)
7	(57)	(7)	146	1,827
–	(3)	–	27	80
7	**(57)**	**(7)**	**146**	**1,827**
–	**–**	**–**	**51**	**325**
–	**–**	**–**	**41**	**(275)**
–	**–**	**–**	**(3)**	**79**
–	**–**	**–**	**(4)**	**(105)**
–	**5**	**–**	**60**	**95**
–	**–**	**–**	**–**	**(109)**
7	**(52)**	**(7)**	**291**	**1,837**
–	**2**	**–**	**57**	**37**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 20

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the period 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 period.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where unobservable data is used, 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:

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Balance at the beginning of the period	**127**	115	112
Deferral on new transactions	**30**	45	22
Amounts recognised in the income statement during the period	**(51)**	(33)	(19)
Balance at the end of the period	**106**	127	115

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
Product type				As at 30 September 2017
Equity and equity linked products	**11**	**63**	**(11)**	**(56)**
Commodities and Other products	**73**	**15**	**(76)**	**(14)**
Total	**84**	**78**	**(87)**	**(70)**
Product type				As at 31 March 2017
Equity and equity linked products	9	89	(9)	(82)
Commodities and Other products	78	8	(102)	(8)
Total	87	97	(111)	(90)
Product type				As at 30 September 2016
Equity and equity linked products	7	102	(24)	(100)
Commodities and Other products	113	26	(97)	(26)
Total	120	128	(121)	(126)

NOTE 20

Fair values of financial assets and 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 values 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	Maximum value
					As at 30 September 2017	
Equity and equity linked products	**817**	**28**	Discounted cash flows	Discount rate	**9.0%**	**11.0%**
			Pricing model	Earnings multiple	**0.8x**	**18.0x**
			Market comparability	Price in %(1)		
Commodities and other products	**1,370**	**322**	Discounted cash flows	Discount rate	**4.0%**	**10.0%**
			Pricing model	Volatility	**0.01%**	**106.0%**
				Correlation	**(40.0%)**	**100.0%**
			Market comparability	Price in %(1)		
Total	**2,187**	**350**				
					As at 31 March 2017	
Equity and equity linked products	855	19	Discounted cash flows	Discount rate	8.0%	11.0%
			Pricing model	Earnings multiple	1.0x	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	(40.0%)	100.0%
			Market comparability	Price in %(1)		
Total	2,094	267				
					As at 30 September 2016	
Equity and equity linked products	1,150	19	Discounted cash flows	Discount rate	8.0%	13.8%
			Pricing model	Earnings multiple	1.3x	12.6x
			Market comparability	Price in %(1)		
Commodities and other products	1,723	310	Discounted cash flows	Discount rate	8.0%	8.0%
			Pricing model	Volatility	10.0%	85.0%
				Correlation	(60.0%)	100.0%
			Market comparability	Price in %(1)		
Total	2,873	329				

(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 the amount 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 21

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 period.

Other entities or businesses acquired or consolidated due to acquisition of control:

UK Green Investment Bank Plc, Cargill, Inc.'s global oil trading business (Cargill Petroleum), Cargill, Inc.'s global natural gas and electricity business (Cargill North American Power and Gas), Acacia Renewables K.K., Hirasawa Power West GK, M-Icheon Company Limited, M-Daon Company Limited, M-Haman Company Limited, Achim Solar Co Ltd. and Norte III Power S.A.P.I. de C.V.

On 17 August 2017, Macquarie acquired UK Green Investment Bank Plc (GIB) from the Government of United Kingdom. GIB comprises of a portfolio of green infrastructure equity and debt investments and wholly owns UK Green Investment Bank Financial Services Ltd, a regulated and licenced fund manager.

The purchase accounting for the business combinations are provisional.

During the half-year ended 31 March 2017, other entities or businesses acquired or consolidated due to acquisition of control was ReClean Co. Ltd.

During the half-year ended 30 September 2016, other entities or businesses acquired or consolidated due to acquisition of control were 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:

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Fair value of net assets acquired			
Receivables from financial institutions	**101**	6	–
Trading portfolio assets	**162**	–	–
Derivative assets	**29**	–	–
Other assets[(1)]	**1,716**	2	–
Loan assets held at amortised cost	**38**	–	–
Other financial assets at fair value through profit or loss	**21**	–	–
Property, plant and equipment	**36**	1	2
Interests in associates and joint ventures accounted for using the equity method	**24**	–	–
Intangible assets	**73**	78	2
Deferred tax assets	**6**	–	–
Other liabilities	**(400)**	(27)	–
Payables to financial institutions	**(16)**	–	–
Debt issued at amortised cost	**(10)**	–	–
Total fair value of net assets acquired	**1,780**	60	4
Consideration			
Cash consideration (including transaction costs)	**1,844**	68	4
Deferred consideration	**11**	4	–
Fair value of equity interest held before the acquisition date	**2**	–	–
Total consideration (including transaction costs)	**1,857**	72	4
Goodwill recognised on acquisition	**77**	12	–
Net cash outflow			
Payments for the acquisition subsidiaries and businesses	**(1,844)**	(68)	(4)
Less cash and cash equivalents acquired	**101**	6	–
Net cash outflow	**(1,743)**	(62)	(4)

(1) Includes assets classified as held for sale.

NOTE 21

Acquisitions and disposals of subsidiaries and businesses

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 period.

Other entities or businesses disposed of or deconsolidated due to loss of control:

Macquarie Financial Ltd.

During the half-year ended 31 March 2017, other entities or businesses disposed of or deconsolidated due to loss of control were Firebolt RB Holdings 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.

During the half-year ended 30 September 2016, other entities or businesses disposed of or deconsolidated due to loss of control were Macquarie Life's risk insurance business, US Mortgages, Macquarie Equities New Zealand Limited and Macquarie Equity Custodians Limited.

Aggregate details of the entities or businesses disposed of or deconsolidated are as follows:

	Half-year to 30 Sep 2017 $m	Half-year to 31 Mar 2017 $m	Half-year to 30 Sep 2016 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Receivables from financial institutions	**34**	9	39
Trading portfolio assets	**–**	–	77
Other assets	**14**	40	134
Loan assets held at amortised cost	**402**	31	427
Property, plant and equipment	**–**	17	–
Interests in associates and joint ventures accounted for using the equity method	**–**	1,294	–
Intangible assets	**–**	50	–
Deferred tax assets	**–**	1	–
Other liabilities	**(1)**	(27)	(129)
Payables to financial institutions	**(99)**	(996)	–
Debt issued at amortised cost	**(337)**	(1)	
Non-controlling interests	**–**	(174)	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**13**	244	548
Consideration			
Cash consideration (net of cost of disposal)	**14**	164	373
Purchase price asset(1)	**–**	–	400
Consideration receivable	**–**	150	1
Fair value remeasurement of Investment retained	**–**	133	–
Total consideration	**14**	447	774
Direct costs relating to disposal	**–**	–	(21)
Net cash (outflow)/inflow			
Cash consideration(1)	**14**	564	373
Less cash and cash equivalents disposed of or deconsolidated	**(34)**	(7)	(39)
Cash outflow on direct costs related to disposal	**–**	(7)	(3)
Net cash (outflow)/inflow	**(20)**	550	331

(1) On the date of loss of control, Macquarie Life's risk insurance business related assets and liabilities were deconsolidated from Consolidated Entity's financial statements and a purchase price asset of $400 million was recorded. This purchase price was subsequently received on 1 October 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 22

Events after the reporting date

There were no material events subsequent to 30 September 2017 that have not been reflected in the financial statements.

MACQUARIE GROUP LIMITED
DIRECTORS' DECLARATION

In the Directors' opinion:

a) the financial statements and notes set out on pages 18 to 59 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 Consolidated Entity's financial position as at 30 September 2017 and performance for the half-year ended on that date, and

b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable.

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

Peter H Warne
Independent Director and Chairman

Nicholas Moore
Managing Director and Chief Executive Officer

Sydney
27 October 2017

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE SHAREHOLDERS OF MACQUARIE GROUP LIMITED

REVIEW ON THE HALF-YEAR FINANCIAL REPORT

We have reviewed the accompanying half-year financial report of Macquarie Group Limited (the Company), which comprises the consolidated statement of financial position as at 30 September 2017, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Consolidated Entity. The Consolidated Entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* (Cth) and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* (Cth) including giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth). As the auditor of Macquarie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001* (Cth).

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macquarie Group Limited is not in accordance with the *Corporations Act 2001* (Cth) including:

– giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2017 and of its performance for the half-year ended on that date;
– complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001* (Cth).

PricewaterhouseCoopers

PricewaterhouseCoopers

K.G. Smith

K.G. Smith
Partner

Sydney
27 October 2017

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PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

TEN YEAR HISTORY

The financial information for the full years ended 31 March 2009–2017 and half-year ended 30 September 2017 is based on the reported results using the Australian Accounting Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Financial years ended 31 March	First half 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Income statement ($A million)										
Total income	**5,397**	10,364	10,158	9,262	8,132	6,657	6,963	7,665	6,638	5,526
Total expenses	**(3,693)**	(7,260)	(7,143)	(6,740)	(6,026)	(5,252)	(5,914)	(6,394)	(5,344)	(4,537)
Operating profit before income tax	**1,704**	3,104	3,015	2,522	2,106	1,405	1,049	1,271	1,294	989
Income tax expense	**(448)**	(868)	(927)	(899)	(827)	(533)	(287)	(282)	(201)	(15)
Profit for the year	**1,256**	2,236	2,088	1,623	1,279	872	762	989	1,093	974
MIS distributions	**(7)**	(15)	(16)	(18)	(18)	(21)	(26)	(26)	(21)	(33)
MIPS distributions	**–**	–	(1)	(5)	(4)	(4)	(4)	(4)	(8)	(45)
Other non-controlling interests	**(1)**	(4)	(8)	4	8	4	(2)	(3)	(14)	(25)
Profit attributable to ordinary equity holders	**1,248**	2,217	2,063	1,604	1,265	851	730	956	1,050	871
Statement of financial position ($A million)										
Total assets	**189,760**	182,877	196,755	187,976	153,904	144,748	153,626	157,568	145,940	149,144
Total liabilities	**172,661**	165,607	181,091	173,580	141,990	132,793	141,894	145,636	134,171	139,584
Net assets	**17,099**	17,270	15,664	14,396	11,914	11,955	11,732	11,932	11,769	9,560
Total loan assets	**76,889**	76,663	80,366	72,762	58,712	50,793	46,380	47,222	45,660	47,080
Impaired loan assets (net of provisions)	**431**	547	418	594	365	368	357	340	551	916
Share information										
Dividends per share (cents per share)										
Interim	**205**	190	160	130	100	75	65	86	86	145
Final	**n/a**	280	240	200	160	125	75	100	100	40
Special(1)	**–**	–	–	–	116	–	–	–	–	–
Total	**205**	470	400	330	376	200	140	186	186	185
Basic EPS (cents per share)	**370.4**	657.6	619.2	502.3	383.6	251.2	210.1	282.5	320.2	309.6
Share price at 31 March ($A)(2)	**90.92**	90.20	66.09	76.67	57.93	37.15	29.08	36.60	47.25	27.05
Ordinary shares (million shares)	**340.4**	340.4	340.3	333.5	321.1	339.5	348.6	346.8	344.2	283.4
Market capitalisation at 31 March (fully paid ordinary shares) ($A million)(2)	**30,945**	30,700	22,491	25,569	18,601	12,613	10,137	12,693	16,263	7,666
Net tangible assets per ordinary share ($A)	**42.19**	42.74	41.23	38.19	31.71	29.94	28.12	28.91	28.40	27.89
Ratios (%)										
Return on average ordinary shareholders' funds	**16.7**	15.2	14.7	14.0	11.1	7.8	6.8	8.8	10.1	9.9
Ordinary dividend payout ratio	**55.9**	72.0	65.7	67.6	66.8	79.0	66.4	67.3	60.4	60.2
Expense/income ratio	**68.4**	70.1	70.3	72.8	74.1	78.9	84.9	83.4	80.5	82.1
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	**0.2**	0.5	1.0	0.7	0.4	0.4	0.5	0.4	0.8	1.9
Assets under management ($A billion)	**473.6**	481.7	478.6	486.3	426.9	347.4	326.9	309.8	325.7	243.1
Staff numbers	**13,966**	13,597	14,372	14,085	13,913	13,663	14,202	15,556	14,657	12,716

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

(2) At 30 September for the first half 2018.

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CONTACT DETAILS

Macquarie Group
Principal Administrative Office

50 Martin Place
Sydney NSW 2000
Australia

Registered Office
Macquarie Group Limited

Level 6, 50 Martin Place
Sydney NSW 2000
Australia