MACQUARIE FINANCIAL HOLDINGS PTY LIMITED AND ITS SUBSIDIARIES
ACN 124 071 398

DIRECTORS' REPORT AND FINANCIAL REPORT
YEAR ENDED 31 MARCH 2018

MACQUARIE

The Company's registered office is:

Level 6, 50 Martin Place

Sydney, NSW 2000

Australia

Directors' Report
for the financial year ended 31 March 2018

The Directors of Macquarie Financial Holdings Pty Limited (the Company or MFHPL) submit their report with the financial report of the Company and its subsidiaries (the Consolidated Entity) for the year ended 31 March 2018.

Directors

At the date of this report, the Directors of MFHPL are:
- S.J. Dyson
- S. Green
- A.J. Lewis

The Directors listed above each held office as a Director of MFHPL throughout the financial year ended 31 March 2018.

Principal activities

The principal activity of the Company is to act as the holding company of the Non-Bank Group(1) within Macquarie(1). The Non-Bank Group mostly comprises of Macquarie Capital and certain activities of Macquarie Asset Management, Commodities and Global Markets and Corporate.

Result

The consolidated profit after income tax attributable to ordinary equity holders, prepared under Australian Accounting Standards, for the financial year ended 31 March 2018 was $974 million (2017: $910 million).

Dividends and distributions

The Company paid a final dividend of $250 million in respect of financial year 31 March 2017 during the year. The Company also paid an interim dividend of $200 million in respect of the financial year 31 March 2018.

The Directors resolved to pay a final ordinary dividend of $300 million during the year. This results in a total ordinary dividend for the year ended 31 March 2018 of $500 million.

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

State of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report.

Review of operations

The profit attributable to ordinary equity holders of the Consolidated Entity for the year ended 31 March 2018 was $974million, an increase of 7 per cent from $910 million in the previous year.

Net operating income for the year ended 31 March 2018 was $4,609 million, an increase of 7 per cent on the prior year.

(1) Macquarie refers to Macquarie Group Limited (MGL) as the main parent entity and its subsidiaries. Further, Macquarie comprises of its Bank Group (Macquarie Bank Limited (MBL) and its subsidiaries), and its Non-Bank Group (MGL, MFHPL and its subsidiaries).

Total operating expenses for the year ended 31 March 2018 were $3,340 million, an increase of 7 per cent on the prior year.

Likely developments, business strategies and prospects

Disclosure of information relating to the future developments in the operations, business strategies and prospects for future financial years of the Consolidated Entity have not been included in the report because the Directors believe it may result in unreasonable prejudice to the Consolidated Entity.

Directors' indemnification

Under the Company's Constitution, the Company indemnifies all past and present Directors and Secretaries of the Company, including at this time the Directors named in this report and the Secretary or Secretaries, against every liability incurred by them in, and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved because of, their respective capacities unless:
- the liability is owed to the Company or to a related body corporate
- the liability did not arise out of the conduct of good faith
- the liability is for a pecuniary penalty order or a compensation order under the Corporations Act 2001 (Cth) (the Act)
- in the case of legal costs, the costs are incurred in defending or resisting a liability excluded above, criminal proceedings in which the person is found guilty or proceedings brought by the Australian Securities & Investments Commission or a liquidator where grounds for a court order are established (but excluding costs relating to investigations before commencement of proceedings for the court order), or the costs are incurred in relation to proceedings for relief to the person under the Act in which the court denies relief
- the Company is forbidden by statute to indemnify the person against the liability or legal costs, or
- an indemnity by the Company of the person against the liability or legal costs would, if given, be made void by statute.

Each of the Directors and Secretaries having the benefit of the indemnity provisions under the Company's Constitution, agreed by deed poll that those indemnities would not apply to the extent to which an indemnity for any liability or legal costs is forbidden by Australian statute or would, if given, be made void by Australian statute. These limitations on the indemnities have subsequently been adopted into the indemnity provisions of the Company's Constitution with the effect that these limitations now apply directly to the Directors and Secretaries.

Environmental regulations

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

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Act, is set out on page 3 of this report.

Rounding

In accordance with Australian Securities & Investments Commission (Rounding in Financial/Director' Report) Instruments 2016/191, amounts in the Directors' Report and Financial Report have been rounded off to the nearest million dollars unless otherwise indicated.

Company disclosures

All amounts relate to the Consolidated Entity unless otherwise stated.

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

Events subsequent to balance date

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

S. Dyson
Director
Sydney
31 May 2018

Auditor's Independence Declaration

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

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

This declaration is in respect of Macquarie Financial Holdings Pty Limited and the entities it controlled during the year.

K.G. Smith

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
31 May 2018

Liability is limited by a scheme approved under Professional Standards Legislation.

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Macquarie Financial Holdings Pty Limited
2018 Financial Report
Contents

The Financial Report was authorised for issue by the Board of Directors on 31 May 2018.
The Board of Directors has the power to amend and reissue the Financial Report.

Consolidated income statement
for the financial year ended 31 March 2018

	Notes	2018 $m	2017 $m
Interest and similar income	2	**633**	584
Interest expense and similar charges	2	**(669)**	(562)
Net interest (expense)/income		**(36)**	22
Fee and commission income	2	**3,692**	3,422
Net trading income/(expense)	2	**47**	(17)
Share of net profits of associates and joint ventures	2	**219**	69
Other operating income and charges	2	**687**	822
Net operating income		**4,609**	4,318
Employment expenses	2	**(2,058)**	(2,019)
Brokerage, commission and trading-related expenses	2	**(213)**	(225)
Occupancy expenses	2	**(172)**	(176)
Non-salary technology expenses	2	**(148)**	(161)
Other operating expenses	2	**(749)**	(535)
Total operating expenses		**(3,340)**	(3,116)
Operating profit before income tax		**1,269**	1,202
Income tax expense	3	**(288)**	(288)
Profit after income tax		**981**	914
Profit attributable to non-controlling interests		**(7)**	(4)
Profit attributable to ordinary equity holders of Macquarie Financial Holdings Pty Limited		**974**	910

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

Consolidated statement of comprehensive income
for the financial year ended 31 March 2018

	Notes	2018 $m	2017 $m
Profit after income tax		**981**	914
Other comprehensive (expense)/income			
Movements in items that may be subsequently reclassified to income statement:			
Available for sale investments, net of tax:	24		
Revaluation (losses)/gains taken to equity		**(97)**	117
Transferred to income statement on:			
Impairment		**4**	10
Sale or reclassification		**(183)**	(294)
Cash flow hedges, net movement taken to equity, net of tax	24	**(21)**	-
Share of other comprehensive income of associates and joint ventures, net of tax	24	**3**	3
Exchange differences on translation of foreign operations, net of hedge and tax		**126**	1
Total other comprehensive expense		**(168)**	(163)
Total comprehensive income		**813**	751
Total comprehensive income attributable to non-controlling interests		**(143)**	(3)
Total comprehensive income attributable to ordinary equity holders of Macquarie Financial Holdings Pty Limited		**670**	748

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

Consolidated statement of financial position
for the financial year ended 31 March 2018

	Notes	2018 $m	2017 $m
Assets			
Receivables from financial institutions	5	1,868	1,860
Trading portfolio assets	6	691	297
Derivative assets		242	40
Other assets	7	8,970	7,753
Due from related body corporate entities		9,916	7,688
Loan assets held at amortised cost	8	1,001	1,108
Investment securities available for sale	10	876	1,738
Other financial assets at fair value through profit or loss	11	560	559
Property, plant and equipment	12	273	169
Interests in associates and joint ventures	13	3,297	1,868
Intangible assets	14	805	816
Deferred tax assets	15	408	310
Total assets		28,907	24,206
Liabilities			
Trading portfolio liabilities	16	123	145
Derivative liabilities		137	26
Deposits	17	8	15
Other liabilities	18	6,445	5,136
Other debt issued at fair value through profit or loss	19	382	482
Payables to financial institutions	20	595	422
Due to related body corporate entities		13,678	10,776
Debt issued at amortised cost	21	1,884	1,927
Deferred tax liabilities	15	263	186
Total liabilities excluding loan capital		23,515	19,115
Loan capital	22	1,101	1,102
Total liabilities		24,616	20,217
Net assets		4,291	3,989
Equity			
Contributed equity	23	3,588	3,569
Reserves	24	(158)	146
Accumulated losses	24	(562)	(1,036)
Total capital and reserves attributable to ordinary equity holders of Macquarie Financial Holdings Pty Limited		2,868	2,679
Non-controlling interests	24	1,423	1,310
Total equity		4,291	3,989

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

Consolidated statement of changes in equity
for the financial year ended 31 March 2018

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 1 April 2016		3,542	308	(1,383)	2,467	145	2,612
Profit after income tax		–	–	910	910	4	914
Other comprehensive expense, net of tax		–	(162)	–	(162)	(1)	(163)
Total comprehensive (expense)/income		–	(162)	910	748	3	751
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs	23	2	–	–	2	–	2
Dividends paid or provided for	4,24	–	–	(560)	(560)	–	(560)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(3)	(3)	1,166	1,163
Dividends paid		–	–	–	–	(4)	(4)
Other equity movements:							
Contribution from parent entity in relation to share-based payments	23	25	–	–	25	–	25
		27	–	(563)	(536)	1,162	626
Balance as at 31 March 2017		**3,569**	**146**	**(1,036)**	**2,679**	**1,310**	**3,989**
Profit after income tax		**–**	**–**	**974**	**974**	**7**	**981**
Other comprehensive (expense)/income, net of tax		**–**	**(304)**	**–**	**(304)**	**136**	**(168)**
Total comprehensive (expense)/income		**–**	**(304)**	**974**	**670**	**143**	**813**
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs		**1**	**–**	**–**	**1**	**–**	**1**
Dividends paid or provided for	4	**–**	**–**	**(500)**	**(500)**	**–**	**(500)**
Non-controlling interests:							
Change in non-controlling ownership interests		**–**	**–**	**–**	**–**	**27**	**27**
Dividends paid		**–**	**–**	**–**	**–**	**(57)**	**(57)**
Other equity movements:							
Contribution from parent entity in relation to share-based payments		**18**	**–**	**–**	**18**	**–**	**18**
		19	**–**	**(500)**	**(481)**	**(30)**	**(511)**
Balance at 31 March 2018		**3,588**	**(158)**	**(562)**	**2,868**	**1,423**	**4,291**

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

Consolidated statement of cash flows
for the financial year ended 31 March 2018

	Notes	2018 $m	2017 $m
Cash flows from operating activities			
Interest and similar income received		570	634
Interest expense and similar charges paid		(671)	(560)
Fees and other non-interest income received		3,233	3,503
Fees and commissions paid		(181)	(247)
Dividends and distributions received		193	185
Employment expenses paid		(1,718)	(1,760)
Operating expenses paid		(967)	(480)
Income tax paid		(112)	(140)
Changes in operating assets and liabilities:			
Net receipts from/(payments for) trading portfolio assets and other assets/liabilities		337	(456)
Net movement in deposits		(7)	(85)
Net movement in debt issued at amortised cost		(45)	(9)
Net movement in payables to financial institutions and other borrowings		227	168
Net movement in loan assets and balance with related entities		3,410	(693)
Net margin money (paid)/placed		(79)	9
Net cash flows from operating activities	25	4,190	69
Cash flows used in investing activities			
Net (payment for)/proceeds from investment securities available for sale and financial instruments designated at fair value		(94)	597
Proceeds from the disposal of or capital return from associates, subsidiaries and businesses, net of cash deconsolidated		3,303	1,301
Payments for the acquisition of or capital contribution in associates, subsidiaries and businesses, net of cash acquired		(3,947)	(2,461)
Payments for the acquisition of property, plant and equipment and intangible assets		(145)	(160)
Net cash flows used in investing activities		(883)	(723)
Cash flows (used in)/from financing activities			
Net (payments for)/Proceeds from non-controlling interests		(30)	1,166
Payments on redemption of loan capital		-	(1)
Dividend paid		(450)	(910)
Net cash flows (used in)/from financing activities		(480)	255
Net increase/(decrease) in cash and cash equivalents		2,827	(399)
Cash and cash equivalents at the beginning of the financial year		6,051	6,450
Cash and cash equivalents at the end of the financial year	25	8,878	6,051

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

Note 1

Summary of significant accounting policies

(i) Basis of preparation

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

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards) and the *Corporations Act 2001* (Cth). The Consolidated Entity is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS as issued by the IASB

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

Historical cost convention

This financial report has been prepared under the historical cost convention except for the following material items:

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

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

Critical accounting estimates and significant judgements

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

- fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 34)
- impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures (Notes 1(xii), 1(xiv), 8, 9 and 13)
- distinguishing between whether assets or a business is acquired under business combination (Note 1(iii))
- determination of control of subsidiaries and structured entities (Notes 1(ii) and 31)
- determination of significant influence over associates and joint control over joint arrangements (Note 1(ii))
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(vi), 3 and 15)
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Notes 1(xvi) and 14), and
- recognition of performance fees from Macquarie-managed listed and unlisted funds (Note 1(v)).

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

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

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

AASB 9 Financial Instruments

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

Classification and Measurement:

Financial assets:

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

Notes to the financial statements
for the financial year ended 31 March 2018 continued

Note 1

Summary of significant accounting policies continued
Financial assets continued
Compared to AASB 139, the FVTOCI and amortised cost categories will be added and held-to-maturity, loans and receivables and available-for-sale classification categories will be removed.
Under AASB 9, financial assets with embedded derivatives are classified in their entirety, without separating any derivative element.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Stage 1 – 12 month ECL

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

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

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

Note 1

Summary of significant accounting policies continued
Impairment continued
(iii) Stage 3 – Lifetime ECL credit-impaired

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

(iv) Purchased or originated credit-impaired

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

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

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

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

Transition:

The Consolidated Entity will record a transition adjustment to opening balance sheet, retained earnings and other comprehensive income at 1 April 2018 for the impact of the adoption of the classification and measurement, and Impairment requirements of the AASB 9.
The transition adjustment will increase the Consolidated Entity's shareholders' equity by approximately $10 million after tax. The estimated transition adjustment relates primarily to the implementation of the impairment requirements which reduce the retained earnings by approximately $30 million after tax. The Consolidated Entity will not restate comparatives.
The Consolidated Entity will continue to refine and validate components of the ECL impairment models and develop related technology solutions and controls during the financial year ending 31 March 2019.

AASB 7 Financial Instruments: Disclosures

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2018 continued

Note 1

Summary of significant accounting policies continued

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

AASB 2017-7 clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied. Such long term interests are accounted under AASB 9 before applying the loss allocation and impairment requirements in AASB 128 Investments in associates and joint ventures. These long term interests are in the nature of debt instruments. Macquarie will calculate the expected credit losses on these long-term interests under the AASB 9 impairment model.
AASB 2017-7 is effective for annual periods beginning on or after 1 January 2019. The Consolidated Entity will early adopt the amendment in the financial year beginning 1 April 2018. The impact of the early adoption of this standard is included in the transition adjustment for AASB 9.

AASB 15 Revenue from Contracts with Customers

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

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

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

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

AASB 15 specifically excludes financial instruments recognised under AASB 9 Financial Instruments. As such, the impacted revenue streams for the Consolidated Entity are limited to fee-based revenue items such as performance fees, corporate advisory and underwriting fees, asset management fees and brokerage and commissions.

The Consolidated Entity's assessment on revenue streams existing at transition has concluded. Based on this assessment the Consolidated Entity will not be materially impacted upon adoption. The application of the requirement of AASB 15 are broadly consistent with Consolidated Entity's current accounting policies.

The Consolidated entity expects presentation changes in the income statement relating to certain recoverable costs and charges from related body corporates previously recognised net of any associated revenue.

AASB 16 Leases

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

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

An initial assessment has been performed based on operating leases that exist in the current reporting period. Based on this assessment it is not anticipated that there will be a material impact to retained earnings. The assessment is subject to the composition of operating lease commitments at the date of transition. A schedule of current operating lease commitments can be found in Note 30.

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

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

Note 1

Summary of significant accounting policies continued

The requirements are effective from 1 April 2018, however the Consolidated Entity has early adopted this amendment from 1 April 2017. Retrospective application did not have a material impact on the financial position nor performance of the Consolidated Entity.

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

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

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

(ii) Principles of consolidation

Subsidiaries

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

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

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

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

Structured entities

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

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

Consolidation

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position.

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

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

Interests in associates and joint ventures

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control. Investment in associates and joint ventures are accounted for under the equity method except those which are classified as held for sale and loans to associates and joint ventures that are accounted for under effective interest rate

Notes to the financial statements
for the financial year ended 31 March 2018 continued

Note 1
Summary of significant accounting policies continued

Interests in associates and joint ventures continued

method. The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and the share of its post-acquisition movements in reserves in the consolidated statement of comprehensive income. Dividends or distributions from associates or joint ventures reduce the carrying amount of the investment.

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

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

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

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

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

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

Combinations between entities or businesses under common control
Combinations between entities under common control are business combinations in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination and that control is not transitory. In the consolidated financial statements, assets and liabilities of the acquired entities are measured at the carrying amounts recognised previously in the seller's consolidated financial statements at the date of the combination. In the separate financial statements of the Company, assets and liabilities of the acquired businesses are measured at the carrying amounts recognised previously in the seller's financial statements at the date of the combination. Any difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in equity as an appropriation of retained earnings.

Note 1

Summary of significant accounting policies continued

(iv) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

(v) Revenue and expense recognition

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

Net interest income

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

Fee and commission income

Fee and commission income includes fees from fund management, brokerage, account servicing, corporate advisory, underwriting and securitisation arrangements and is recognised as the related services are performed. Where commissions and fees are subject to clawback or meeting certain performance hurdles, they are recognised as income at the point when those conditions can no longer affect the outcome.

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

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

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

Net trading income

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

Notes to the financial statements
for the financial year ended 31 March 2018 continued

Note 1

Summary of significant accounting policies continued

Revenue and expense recognition continued

Dividends and distributions

Dividends or distributions are recognised as an income when the Consolidated Entity becomes entitled to the dividend or distribution.

(vi) Taxation

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

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

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

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

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

Tax consolidation

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

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

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

Goods and services tax (GST)

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

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

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

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

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

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

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

Note 1

Summary of significant accounting policies continued

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

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

(viii) Recognition and derecognition of financial instruments

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

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

Financial liabilities are derecognised from the balance sheet when the Consolidated Entity's obligation has been discharged, cancelled or expired.

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

(ix) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 34). Realised and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

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

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

(x) Derivative instruments

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

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

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

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

(xi) Hedge accounting

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

Notes to the financial statements
for the financial year ended 31 March 2018 continued

Note 1

Summary of significant accounting policies continued

Hedge accounting continued

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in Note 32 - Derivative financial instruments. Movements in cash flow hedging reserve in equity are shown in Note 24 – Reserves, retained earnings and non-controlling interests.

(xii) Investments and other financial assets

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

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

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

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

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

Investment securities available for sale

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

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

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

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

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

Note 1

Summary of significant accounting policies continued

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

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

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

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

(xiv) Impairment

Loan assets held at amortised cost

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

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

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

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

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

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

Investment securities available for sale

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2018 continued

Note 1

Summary of significant accounting policies continued

Impairment continued

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

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

Interests in associates and joint ventures

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

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

(xv) Property, plant and equipment

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

Depreciation is calculated on a straight-line basis to allocate the difference between cost and residual values over their estimated useful lives, at the following rates:

Buildings	2.5 to 3.3 %
Furniture, fittings and leasehold improvements[1]	10 to 20 %
Equipment	33 to 50 %
Infrastructure assets	2 to 12 %

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

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

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

(xvi) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

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

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

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

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

Note 1

Summary of significant accounting policies continued
Goodwill and other identifiable intangible assets continued

Impairment

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

(xvii) Financial liabilities

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

Other debt issued at fair value through profit or loss

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

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

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

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

(xviii) Provisions

Employee benefits

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

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

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

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

Dividends

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

(xix) Performance based remuneration

Share-based payments

The ultimate parent entity, MGL, operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 28 - Employee equity participation. The Consolidated Entity recognises an expense (and equity reserve) for awards granted to its employees by MGL. The awards are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

Notes to the financial statements
for the financial year ended 31 March 2018 continued

Note 1

Summary of significant accounting policies continued

Performance based remuneration continued

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

Profit share remuneration

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

(xx) Cash and cash equivalents

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

(xxi) Leases

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

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

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

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

(xxii) Offsetting financial instruments

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

(xxiii) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions similar to that which qualify for inclusion as capital under Australian Prudential Regulation Authority (APRA) Prudential Standards. For compound instruments that have both equity and debt features, the liability component is initially recorded at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method.

(xxiv) Contributed equity

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

(xxv) Changes in ownership interests

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

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

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

(xxviii) Rounding of amounts

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

Note 2

Operating profit before income tax

	2018 $m	2017 $m
Net interest (expense)/income		
Interest and similar income	633	584
Interest expense and similar charges	(669)	(562)
Net interest (expense)/income	(36)	22
Fee and commission income		
Base fees	1,568	1,535
Mergers and acquisitions, advisory and underwriting fees	916	934
Performance fees	595	264
Brokerage and commissions	406	445
Other fee and commission income	207	244
Total fee and commission income	3,692	3,422
Net trading income/(expense)[(1)]		
Equities	66	(24)
Commodities[(2)]	4	12
Credit, interest rate and foreign exchange products	(23)	(5)
Net trading income/(expense)	47	(17)
Share of net profit of associates and joint ventures	219	69

(1) Includes net fair value loss of $3 million (2017: $17million gain) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This also includes the ineffective portion of hedges and the fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk where hedge accounting requirements are not met – refer to Note 1(x) – Derivatives Instruments.

(2) Includes $47 million (2017: $nil million) of transportation and storage costs.

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 2

Operating profit before income tax continued

	2018 $m	2017 $m
Other operating income and charges		
Investment Income		
Net gains on sale of investment securities available for sale	**45**	380
Net gains on sale of interests in associates and joint ventures	**197**	171
Net gains on acquisition, disposal, reclassification and change in ownership interest of investments, subsidiaries, and businesses and assets held for sale[1]	**601**	237
Net fair value gains on financial instruments designated at fair value	**67**	11
Dividends/distributions from investment securities available for sale	**37**	81
Total investment income	**947**	880
Impairment charges		
Investment securities available for sale	**(9)**	(16)
Interests in associates and joint ventures	**(196)**	(30)
Intangible assets and other non-financial assets	**(50)**	(54)
Total impairment charges	**(255)**	(100)
Provision on loans and other receivables		
Individually assessed provisions	**(29)**	(37)
Recovery of individually assessed provisions	**4**	15
Collective allowance for credit losses (provided for)/reversed	**(20)**	4
Amounts written off	**-**	(2)
Total provision on loans and other receivables	**(45)**	(20)
Other income	**40**	62
Total other operating income and charges	**687**	822
Net operating income[2]	**4,609**	4,318

(1) Includes $487 million (2017: $80 million) of gains on reclassification of investments.
(2) Prior comparative financial year has been reclassified to conform to current financial year presentation.

Note 2

Operating profit before income tax continued

	2018 $m	2017 $m
Employment expenses		
Salary and related costs including commissions, superannuation and performance-related profit share	(1,877)	(1,833)
Share based payments	(175)	(177)
Provision for long service leave and annual leave	(6)	(9)
Total employment expenses	(2,058)	(2,019)
Brokerage, commission and trading-related expenses		
Brokerage and other trading-related expenses	(152)	(156)
Other fee and commission expenses	(61)	(69)
Total brokerage, commission and trading-related expenses	(213)	(225)
Occupancy expenses		
Operating lease rentals	(104)	(108)
Depreciation: buildings, furniture, fittings and leasehold improvements	(22)	(24)
Other occupancy expenses	(46)	(44)
Total occupancy expenses	(172)	(176)
Non-salary technology expenses		
Information services	(84)	(83)
Depreciation: equipment (Note 12)	(8)	(8)
Service provider and other non-salary technology expenses	(56)	(70)
Total non-salary technology expenses	(148)	(161)
Other operating expenses		
Professional fees	(180)	(168)
Travel and entertainment expenses	(90)	(87)
Advertising and promotional expenses	(61)	(62)
Amortisation of intangibles (Note 14)	(19)	(24)
Auditor's remuneration (Note 37)	(12)	(13)
Communication expenses	(11)	(13)
Depreciation: infrastructure assets	(12)	(1)
Other expenses[1]	(364)	(167)
Total other operating expenses	(749)	(535)
Total operating expenses	(3,340)	(3,116)
Operating profit before income tax	1,269	1,202

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

Notes to the financial statements
for the financial year ended 31 March 2018
continued

	2018 $m	2017 $m

Note 3

Income tax expense

(i) Income tax expense

Current tax expense	(152)	(114)
Deferred tax expense	(136)	(174)
Total Income tax expense	(288)	(288)

(ii) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable

Prima facie income tax expense on operating profit[(1)]	(381)	(361)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	87	67
Other items	6	6
Total income tax expense	(288)	(288)

(iii) Tax benefit relating to items of other comprehensive income

Available for sale reserve	111	35
Cash flow hedges	5	-
Share of other comprehensive expense of associates and joint ventures	(1)	(1)
Total tax benefit relating to items of other comprehensive income	115	34

(iv) Deferred tax expense represents movement in deferred tax assets/liabilities

Investments	8	(76)
Leasing and Financial instruments	(12)	(55)
Tax losses	36	(46)
Intangible assets	36	9
Fixed assets	(4)	(6)
Other assets and liabilities	(200)	-
Total deferred tax expense represents movements in deferred tax assets/liabilities	(136)	(174)

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

Revenue authorities undertake risk review 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.

Note 4

Dividends paid or provided for

Ordinary share capital		
Interim dividend paid	200	310
Final dividend provided for	300	250
Total dividends paid or provided for (Note 24)	500	560

	2018 $m	2017 $m

Note 5

Receivables from financial institutions

	2018 $m	2017 $m
Cash and other receivables[(1)]	1,808	1,772
Cash collateral on securities borrowed and reverse repurchase agreements[(2)]	60	88
Total receivables from financial institutions	**1,868**	1,860

(1) Included within this balance is $23 million (2017: $40 million) provided as security against payables to other financial institutions.
(2) The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2018 is $56 million (2017: $86 million). Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral that the Consolidated Entity is permitted to sell or re-pledge in the absence of default is $56 million (2017: $86 million), of which the fair value of collateral sold or re-pledged is $nil million (2017: $24 million).

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

Note 6

Trading portfolio assets

	2018 $m	2017 $m
Commodities	327	-
Debt securities		
Corporate loans and securities	297	138
Bank bills	1	40
Equity securities		
Listed	65	119
Unlisted	1	-
Total trading portfolio assets[(1)]	**691**	297

(1) Included within these balances are trading assets of $nil million (2017: $77 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

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

Note 7

Other assets

	2018 $m	2017 $m
Security settlements	4,236	4,212
Assets of disposal groups and interests in associates held for sale[(1)]	2,996	2,325
Debtors and prepayments	1,584	1,030
Income tax receivable	134	172
Other	20	14
Total other assets[(2)]	**8,970**	7,753

(1) Includes $1,855 million (2017: $1,733 million) relating to an indirect associate investment in a gas distribution network in the United Kingdom acquired during the financial year 31 March 2017 exclusively with an intention to sell. This investment and its associated liabilities (refer Note 18) are 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 $1,254 million (2017:$1,171 million) are included in Note 24 – Reserves, retained earnings and non-controlling interests.
(2) Includes $nil million (2017: $3 million) provided as security against payables to financial institutions.

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

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 8

Loan assets held at amortised cost

	2018			2017		
	Gross $m	Individually assessed provision for impairment $m	Net $m	Gross $m	Individually assessed provision for impairment $m	Net $m
Corporate, commercial and other lending	721	(57)	664	921	(60)	861
Asset financing	176	_	176	188	_	188
Margin money placed	175	_	175	106	–	106
Investment lending	32	_	32	14	–	14
Total loan assets before collective allowance for credit losses	1,104	(57)	1,047	1,229	(60)	1,169
Less collective allowance for credit losses			(46)			(61)
Total loan assets held at amortised cost[(1)]			1,001			1,108

(1) Included within this balance are loans of $139 million (2017: $303 million) provided as security against payables to financial institutions.

Of the above amounts, $316 million (2017: $463 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

	2018 $m	2017 $m
Individually assessed provision for impairment		
Balance at the beginning of the financial year	60	113
Provided for during the financial year	14	33
Loan assets written-off or sold, previously provided for	(14)	(91)
Recovery of loans previously provided for	(4)	-
Net transfer from collective provisions	2	5
Foreign exchange movements	(1)	-
Balance at the end of the financial year	57	60
Individually assessed provisions as a percentage of total gross loan assets	5.16%	4.88%
Collective allowance for credit losses		
Balance at the beginning of the financial year	61	82
Reversed during the financial year	(11)	(15)
Disposals during the period	(2)	-
Net transfer to specific provisions	(2)	(5)
Foreign exchange movements	-	(1)
Balance at the end of the financial year	46	61

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

Note 8

Loan assets held at amortised cost continued

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

	2018			2017		
	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m
Not later than one year	76	(9)	67	73	(8)	65
Later than one year and not later than five years	130	(10)	120	104	(7)	97
Later than five years	2	-	2	1	-	1
Total	208	(19)	189	178	(15)	163

Note 9

Impaired financial assets

	2018 $m	2017 $m
Debt investment securities available for sale before cumulative impairment loss	41	49
Cumulative impairment loss	(41)	(48)
Debt investment securities available for sale	-	1
Impaired loan assets and other financial assets before individually assessed provision for impairment	163	196
Less: individually assessed provision for impairment	(143)	(122)
Loan assets and other financial assets after individually assessed provision for impairment	20	74
Total net impaired financial assets	20	75

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 10

Investment securities available for sale

	2018 $m	2017 $m
Debt securities	436	293
Equity securities		
Listed	30	843
Unlisted	410	602
Total investment securities available for sale	**876**	1,738

Of the above amounts $24 million (2017: $88 million) is expected to be recovered within 12 months of the balance date.

Note 11

Other financial assets at fair value through profit or loss

	2018 $m	2017 $m
Equity securities	386	281
Loan assets	144	278
Debt securities	30	-
Total other financial assets at fair value through profit or loss	**560**	559

Of the above amounts $nil million (2017: $219 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 12

Property, plant and equipment

	2018			2017		
	Cost $m	Accumulated depreciation and impairments $m	Written down value $m	Cost $m	Accumulated depreciation and impairments $m	Written down value $m
Assets for own use						
Land and buildings	10	-	10	7	-	7
Furniture, fittings and leasehold improvements	256	(181)	75	268	(185)	83
Equipment	44	(33)	11	41	(28)	13
Infrastructure assets	218	(41)	177	72	(6)	66
Total property, plant and equipment	**528**	**(255)**	**273**	388	(219)	169

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

Note 12

Property, plant and equipment continued

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

Assets for own use	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Balance at 1 April 2016	6	64	14	7	91
Acquisitions	3	58	8	60	129
Disposals	(2)	(15)	(1)	–	(18)
Depreciation expense	–	(24)	(8)	(1)	(33)
Balance at 31 March 2017	**7**	**83**	**13**	**66**	**169**
Acquisitions	**3**	**23**	**7**	**74**	**107**
Disposals	**-**	**(8)**	**(1)**	**(11)**	**(20)**
Reclassification and other adjustments	**-**	**-**	**-**	**81**	**81**
Impairments	**-**	**-**	**-**	**(21)**	**(21)**
Foreign exchange movements	**-**	**1**	**-**	**2**	**3**
Depreciation expense	**-**	**(24)**	**(8)**	**(14)**	**(46)**
Balance at 31 March 2018	**10**	**75**	**11**	**177**	**273**

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $50 million (2017: $14 million).

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 13

Interests in associates and joint ventures

	2018 $m	2017 $m
Loans and investments without provisions for impairment	**2,793**	1,846
Loans and investments with provisions for impairment	**766**	147
Less provision for impairment[1]	**(262)**	(125)
Loans and investments with provisions for impairment at recoverable amount	**504**	22
Total interests in associates and joint ventures[2],[3]	**3,297**	1,868

(1) During the financial year, the company recognised an impairment in relation to an interest in associate as a result of decline in market conditions. The recoverable amounts has been estimated using valuation techniques which incorporates the associate's earnings and relevant earning multiple.
(2) Includes $2,195 million (2017: $1,494 million) relating to interests in associates and $1,102 million (2017: $374 million) relating to interests in joint ventures.
(3) Financial statements of associates have various reporting dates. There are no associates or joint ventures individually material to the Consolidated Entity.

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

Note 14

Intangible assets

	2018 $m	2017 $m
Goodwill		
Cost	**587**	538
Less accumulated impairment loss	**(185)**	(152)
Total goodwill	**402**	386
Intangible assets with indefinite lives		
Cost	**269**	270
Less accumulated impairment loss	**–**	–
Total intangible assets with indefinite lives	**269**	270
Customer and servicing contracts		
Cost	**153**	153
Less accumulated amortisation and impairment loss	**(134)**	(121)
Total customer and servicing contracts	**19**	32
Other identifiable intangible assets		
Cost	**169**	177
Less accumulated amortisation and impairment loss	**(54)**	(49)
Total other identifiable intangible assets	**115**	128
Total intangible assets	**805**	816

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

Note 14

Intangible assets continued

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

	Goodwill $m	Intangible assets with indefinite lives $m	Customer and servicing contracts $m	Other identifiable intangible assets $m	Total $m
Balance at 1 April 2016	457	270	67	54	848
Acquisitions	12	–	–	81	93
Disposals, reclassification and other adjustments	(25)	–	(18)	(4)	(47)
Impairment	(54)	–	–	–	(54)
Amortisation (Note 2)	–	–	(17)	(7)	(24)
Foreign exchange movements	(4)	–	–	4	–
Balance at 31 March 2017	**386**	**270**	**32**	**128**	**816**
Acquisitions	**63**	**–**	**2**	**92**	**157**
Disposals, reclassification and other adjustments	**(20)**	**–**	**(1)**	**(99)**	**(120)**
Impairment	**(29)**	**–**	**–**	**–**	**(29)**
Amortisation expense (Note 2)	**–**	**–**	**(13)**	**(6)**	**(19)**
Foreign exchange movements	**2**	**(1)**	**(1)**	**–**	**–**
Balance at 31 March 2018	**402**	**269**	**19**	**115**	**805**

Goodwill and Intangible assets with indefinite lives:

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2018
continued

	2018 $m	2017 $m

Note 15

Deferred tax assets/ (liabilities)

The balance comprises temporary differences attributable to:	2018 $m	2017 $m
Other assets and liabilities	332	386
Tax losses	141	105
Investments	60	93
Fixed assets	18	22
Intangibles	12	17
Leasing and financial instruments	-	4
Set-off of deferred tax liabilities	(155)	(317)
Net deferred tax assets	**408**	310
Other asset and liabilities	(230)	(111)
Leasing and financial instruments	(79)	(76)
Intangibles	(74)	(133)
Investments	(35)	(183)
Set-off of deferred tax assets	155	317
Net deferred tax liabilities	**(263)**	(186)

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

Potential tax assets of approximately $141 million (2017: $214 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable. Included in this amount are gross losses of $29 million (2017: $28 million) that will expire within 2 years, $93 million (2017: $86 million) that will expire in 2 - 5 years, $49 million (2017: $68 million) that will expire in 5 - 10 years and $94 million (2017: $175 million) that will expire in 10 - 20 years. $326 million (2017: $284 million of gross losses) do not expire and can be carried forward indefinitely.

	2018 $m	2017 $m

Note 16

Trading portfolio liabilities

	2018 $m	2017 $m
Listed equity securities	123	83
Foreign government securities	–	62
Total trading portfolio liabilities	**123**	145

Note 17

Deposits

	2018 $m	2017 $m
Client monies and margin money held	8	15
Total deposits	**8**	15

Note 18

Other liabilities

	2018 $m	2017 $m
Security settlements	4,018	3,148
Accrued charges and sundry provisions	1,542	1,316
Creditors	556	239
Liabilities of disposal group classified as held for sale	304	303
Income tax payable	25	130
Total other liabilities	**6,445**	5,136

Note 19

Other debt issued at fair value through profit or loss

	2018 $m	2017 $m
Structured notes[1]	371	471
Exchangeable shares[2]	11	11
Total other debt issued at fair value through profit or loss	**382**	482

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

(2) Exchangeable shares were issued by subsidiaries as consideration for the acquisition of Orion Financial Inc and Tristone Capital Global Inc. Refer to Note 23- Contributed equity for further details on Exchangeable shares.

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through profit or loss for the Consolidated Entity is $382 million (2017: $508million)

Notes to the financial statements
for the financial year ended 31 March 2018
continued

	2018 $m	2017 $m

Note 19

Other debt issued at fair value through profit or loss continued

Reconciliation of other debt issued at fair value through profit or loss by major currency:

(in Australian dollar equivalent)

	2018 $m	2017 $m
South African rand	371	471
Canadian dollars	11	11
Total	382	482

Note 20
Payables to financial institutions

	2018 $m	2017 $m
Borrowing from banks	592	354
Cash collateral on securities lent and repurchase agreements	3	68
Total payables to financial institutions	595	422

Note 21

Debt issued at amortised cost

	2018 $m	2017 $m
Debt issued at amortised cost	1,884	1,927
Total debt issued at amortised cost	1,884	1,927

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

Reconciliation of debt issued at amortised cost by major currency:

(in Australian dollar equivalent)

	2018 $m	2017 $m
United States dollars	1,884	1,910
South African rand	–	17
Total	1,884	1,927

Note 22

Loan capital

Subordinated debt

Details of capital instruments with conditional repayment obligations are discussed below.

Subordinated debt due to parent entity Internal Capital Notes (ICN)

On 31 March 2016, the Company issued 1,100 ICN at face value of $1,000,000 each to MGL. These instruments are non-cumulative and unsecured and may be redeemed on any date from 1 April 2016 and before the mandatory exchange date at the Company's option, subject to various conditions.

ICN are mandatorily convertible into a variable number of the Company's ordinary shares on 24 March 2021. The ICN may also be exchanged earlier on any distribution payment date at the option of either the ICN holder or the Company.

In the event of an exchange, ICN Holders will receive up to approximately $1 million worth of ordinary shares per ICN held.

The ICN pay discretionary, floating rate cash distributions equal to 30-day BBSW plus a fixed margin of 5.15% per annum, paid monthly.

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment to the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Consolidated Entity.

	2018 $m	2017 $m
Maturity of loan capital		
Accrued interest payable as per terms of instruments:		
Less than 12 months	**1**	2
Instruments with conditional repayment obligations:		
Subordinated debt due to the parent entity	**1,100**	1,100
Total loan capital	**1,101**	1,102
Reconciliation of loan capital by major currency:		
(In Australian dollar equivalent):		
Australian dollars	**1,101**	1,102
Total loan capital	**1,101**	1,102

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

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 23

Contributed equity

	2018 Number of Shares	2017 Number of Shares	2018 $m	2017 $m
Ordinary share capital[1]				
Opening balance of fully paid ordinary shares	27,007,363,249	27,007,333,033	17,208	17,206
Issue of shares to MGL on retraction of exchangeable shares in the range of $86.75 to $97.79 (31 March 2017: $72.45 to $84.90) per share[2]	13,089	30,216	1	2
Closing balance of fully paid ordinary Shares	27,007,376,338	27,007,363,249	17,209	17,208
Contributed equity on group restructures[3]				
Balance at the beginning of the financial year	–	–	(14,023)	(14,023)
Balance at the end of the financial year	–	–	(14,023)	(14,023)
Additional paid in capital				
Balance at the beginning of the financial year	–	–	384	359
Additional paid in capital[4]	–	–	18	25
Balance at the end of the financial year	–	–	402	384
Contributed equity	27,007,376,338	27,007,363,249	3,588	3,569

(1) Ordinary shares have no par value.

(2) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Ins. And Orion Financial Inc. and are classified as equity in MGL in accordance with AASB 132 Financial Instruments: Presentation. As per the terms of the original agreement, they were eligible to be exchanged on a one-for one basis for shares in MGL (subject to staff trading restrictions) or cash at MGL's discretion and will pay dividends equal to the MGL dividends during their legal life. However, subsequent to the approval of consolidation of Macquarie ordinary shares by Macquarie'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.

(3) Contributed equity on group restructures predominantly relates to difference between the purchase price and the book value of the net assets acquired under common control transactions.

(4) Macquarie Group Employee Retained Equity Plan (MEREP) awards are primarily settled in shares of MGL. Where MEREP awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP refer to Note 28 – Employee equity participation.

	2018 $m	2017 $m

Note 24

Reserves, retained earnings and non-controlling interests

Reserves

	2018 $m	2017 $m
Foreign currency translation reserve		
Balance at the beginning of the financial year	(131)	(133)
Exchange differences on translation of foreign operations, net of hedge and tax	(10)	2
Balance at the end of the financial year	(141)	(131)
Available for sale reserve		
Balance at the beginning of the financial year	276	443
Revaluation movement for the financial year, net of tax	(97)	117
Transfer to income statement on:		
Impairment, net of tax	4	10
Sale or reclassification, net of tax	(183)	(294)
Balance at the end of the financial year	-	276
Cash flow hedging reserve		
Balance at the beginning of the financial year	-	
Revaluation movement for the financial year, net of tax	(21)	
Balance at the end of the financial year	(21)	-
Share of reserves of interests in associates and joint ventures accounted for using the equity method		
Balance at the beginning of the financial year	1	(2)
Share of other comprehensive income of associates and joint ventures during the financial year, net of tax	3	3
Balance at the end of the financial year	4	1
Total reserves at the end of the financial year	(158)	146
Accumulated losses		
Balance at the beginning of the financial year	(1,036)	(1,383)
Profit attributable to ordinary equity holders of Macquarie Financial Holdings Pty Limited	974	910
Dividends paid or provided for on ordinary share capital (Note 4)	(500)	(560)
Loss on change in non-controlling ownership interest	-	(3)
Balance at the end of the financial year	(562)	(1,036)
Non-controlling interests[1]		
Contributed equity[2]	1,347	1,354
Foreign currency translation reserve	123	(13)
Accumulated losses	(47)	(31)
Total non-controlling interests	1,423	1,310

(1) Non-controlling interest 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 $1,254 million (2017: $1,171 million) representing the net interest attributable to 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 7 – Other assets.

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 25

Notes to the statement of cash flows

Reconciliation of cash and cash equivalents

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

	2018 $m	2017 $m
Due from related body corporate entities[1]	7,284	4,509
Receivables from financial institutions[2]	1,527	1,483
Debt investment securities available for sale[3]	56	-
Trading portfolio assets[4]	1	40
Loan assets held at amortised cost[5]	10	19
Cash and cash equivalents at the end of the financial year[6]	**8,878**	6,051

(1) This comprises cash balances held with a related body corporate entity, Macquarie Bank Limited (MBL).
(2) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.
(3) Includes short-term debt securities.
(4) Includes certificates of deposit, bank bills and other short-term debt securities.
(5) Includes amounts due from clearing houses.
(6) Cash and cash equivalents include $149 million (March 2017: $162 million) held in escrow accounts which are restricted for use.

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

	2018 $m	2017 $m
Profit after income tax	981	914
Adjustments to profit after income tax:		
Depreciation and amortisation	61	58
Unrealised foreign exchange and fair value movement on financial assets and liabilities	(182)	53
Credit losses and impairment charges	300	120
Investment income and gain on sale of operating lease assets and other non-financial assets	(834)	(788)
Share-based payment expense	175	177
Share of net profit of associates and joint ventures	(219)	(69)
Changes in assets and liabilities:		
Change in values of associates due to dividends received	156	104
Change in net interest receivable and payable	(63)	52
Change in fees and non-interest income receivable	(536)	27
Change in fees and commissions payable	32	(22)
Change in tax balances	176	151
Change in loan assets and balances with related entities	3,410	(693)
Change in margin money placed	(79)	9
Change in debtors, prepayments, accrued charges and creditors	205	421
Change in net trading portfolio assets and liabilities and net derivative financial instruments[1]	432	(519)
Changes in payables to financial institutions and other borrowings	227	168
Changes in debt issued at amortised cost	(45)	(85)
Changes in deposits	(7)	(9)
Net cash flows from operating activities	**4,190**	69

(1) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.

	2018 $'000	2017 $'000

Note 26

Related party information

Parent entity

The Consolidated Entity's ultimate parent entity is MGL, a company incorporated in Australia and which produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the parent entity principally arise from the provision and repayment of loans, and provision of guarantees and indemnities in respect of debt and other obligations.

During the financial year, the following transactions occurred with parent entity:

Interest expense paid/payable	**(425,951)**	(386,492)

MGL as the parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of the tax funding agreement are set out in Note 1(vi) – Taxation. Amount payable to MGL includes payables under tax funding agreement for non-bank tax consolidated group.

The following balances with the parent entity were outstanding as at financial year end:

Amounts receivable	**590,294**	659,607
Amounts payable	**(13,114,176)**	(8,887,462)
Loan capital	**(1,100,619)**	(1,101,633)

At 31 March 2018, guarantees provided by MGL as the parent entity in relation to the debt and other obligations of the Consolidated Entity amounted to $2,953 million (2017: $2,905 million).

Other related body corporate entities

Transactions between the Consolidated Entity and other related body corporate entities under common control principally arise from the granting of loans, the provision of management and administration services and the provision of guarantees and indemnities in respect of debt and other obligations.

During the financial year, the following transactions occurred with other related body corporate entities:

Interest income received/receivable	**257,348**	218,934
Interest expense paid/payable	**(18,000)**	(11,241)
Net fee and commission income	**77,635**	137,908
Other operating expense	**(206,294)**	(70,612)

The following balances with other related body corporate entities were outstanding as at financial year end:

Amounts receivable	**9,326,123**	7,027,836
Amounts payable	**(564,205)**	(1,888,877)

At 31 March 2018, letters of credit issued by other related body corporate entities on behalf of the Consolidated Entity amounted to $109 million (2017: $7 million).

Notes to the financial statements
for the financial year ended 31 March 2018
continued

	2018 $'000	2017 $'000

Note 26

Related party information continued

Associates and joint ventures

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

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

	2018 $'000	2017 $'000
Net Interest Income	**81,284**	54,236
Net fee and commission income[1]	**1,051,781**	647,696
Brokerage, commission and trading-related expenses	**(4,394)**	(4,670)
Dividends and distributions[2]	**161,848**	103,813
Other (expense)/income	**(11,846)**	4,416

(1) Includes $449,250 thousand (2017: $90,863 thousand) performance fees earned from the Consolidated Entity's associates
(2) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as profit but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 13 – Interests in associates and joint ventures accounted for using the equity method):

	2018 $'000	2017 $'000
Amounts receivable	**772,446**	221,628
Amounts payable	**(28,632)**	(11,103)
Undrawn commitments[3]	**(681,371)**	(245,695)

(3) Undrawn commitments are included in Note 29: Contingent liabilities and commitments.

Note 27

Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of MFHPL during the financial years ended 31 March 2018 and 31 March 2017, unless otherwise indicated:

Voting Directors

S.J. Dyson
S. Green
A.J. Lewis

In addition to the Voting Directors listed above, the following persons, who were members of MGL's Executive Committee during FY 2018, also had authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries during the financial periods ended 31 March 2018 and 31 March 2017, unless otherwise indicated.

Current Executives [(1)]

S.D. Allen	CRO, Head of RMG (until 31 December 2017) [(1)]
T.C. Bishop	Head of Macquarie Capital
B.A. Brazil	Co-Head of CAF
A.J. Downe	Head of CGM
G.A. Farrell	Co-Head of CAF
A. Harvey	CFO, Head of FMG (effective 1 January 2018)
N. O'Kane	Head of Commodity Markets and Finance (effective 15 June 2017)
M. McLaughlin	Country Head, United States of America (until 15 June 2017)
N.W. Moore	Macquarie Group Managing Director and CEO
M.J. Reemst	Macquarie Bank Limited Managing Director and CEO
N. Sorbara	COO, Head of COG
P.C. Upfold	CFO, Head of FMG (until 31 December 2017), CRO and Head of RMG (effective 1 January 2018)
G.C. Ward	Macquarie Group Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

(1) Refers to the date from which the relevant Executive was determined to be a KMP or ceased to be a KMP

Notes to the financial statements
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Note 27

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following table details the aggregate remuneration for Key Management Personnel (KMP):

	2018 $	2017 $
Key Management Personnel Remuneration		
Amounts paid to Key Management Personnel in relation to their role as KMP of the Company and its subsidiaries	44,677,024	44,410,791

The Key Management Personnel (KMP) did not receive any other benefits or consideration in connection with the management of the Company and its subsidiaries. All other benefits that were received by the KMP were solely related to other services performed with respect to their employment by MGL and its subsidiaries. During the year, another wholly owned entity within the Macquarie Group paid the amounts disclosed above to the KMP for services rendered to the Company and its subsidiaries. The compensation was not charged to the Company and its subsidiaries.

Note 28

Employee equity participation

Macquarie Group Employee Retained Equity Plan

MGL continues to operate the MEREP in conjunction with remuneration arrangements.

Award Types under the MEREP

Restricted Share Units (RSUs)

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

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

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or procure the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights on any underlying MGL shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below). DSUs have been granted with an expiry period of eight years.

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest.

Restricted Shares

A Restricted Share is a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on Restricted Shares and to vote Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 28

Employee equity participation continued

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

	Number of RSU Awards 2018	Number of RSU Awards 2017
RSUs on issue at the beginning of the financial year	**6,672,493**	6,899,530
Granted during the financial year	**1,621,790**	2,506,091
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(1,947,043)**	(2,460,511)
Forfeited during the financial year	**(250,670)**	(379,358)
Transfers from related body corporate entities	**(237,821)**	106,741
RSUs on issue at the end of the financial year	**5,858,749**	6,672,493
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**26,681**	4,191

The weighted average fair value of the RSU Awards granted during the financial year was $90.35 (2017: $72.66).

	Number of DSU Awards 2018	Number of RSU Awards 2017
DSUs on issue at the beginning of the financial year	**1,597,858**	1,632,520
Granted during the financial year	**372,933**	597,886
Forfeited during the financial year	**(392,780)**	(77,676)
Exercised during the financial year	**(30,549)**	(550,090)
Transfers to/(from) related body corporate entities	**13,316**	(4,782)
DSUs on issue at the end of the financial year	**1,560,778**	1,597,858
DSUs exercisable at the end of the financial year	**358,682**	311,497

The weighted average fair value of the DSU Awards granted during the financial year was $90.27 (2017: $72.21).

	Number of PSU Awards 2018	Number of RSU Awards 2017
PSUs on issue at the beginning of the financial year	**126,347**	127,424
Granted during the financial year	**28,333**	31,524
Exercised during the financial year	**(41,605)**	(31,841)
Expired during the financial year	**-**	(760)
PSUs on issue at the end of the financial year	**113,075**	126,347

The weighted average fair value of the PSU Awards granted during the financial year was $73 (2017: $65.53).

Note 28

Employee equity participation continued

	Number of Restricted Share Awards 2018	Number of Restricted Share Awards 2017
Restricted shares on issue at the beginning of the financial year	**22,165**	71,972
Granted during the financial year	**735**	24,562
Released during the financial year	**(21,081)**	(67,300)
Forfeited during the financial year	**-**	(7,069)
Restricted shares on issue at the end of the financial year	**1,819**	22,165

The weighted average fair value of the restricted shares granted during the financial year was $88.50 (2017: $68.13).

The awards are measured at their grant dates based on their fair value[1] and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members, have been granted in the current year in respect of 2017. The fair value of each of these grants is estimated using Macquarie's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 2.26% per annum
- expected vest dates of PSU: 1 July 2020 and 1 July 2021, and
- Dividend yield: 5.07% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2018 will be granted during FY2019, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.58% per annum, expected vesting dates of PSUs of 1 July 2021 and 1 July 2022, and a dividend yield of 4.96% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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

[1] For employees categorised as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV remuneration requirements, the fair value of the awards granted since 1 April 2017 has been adjusted to take into account the prohibition of dividends on unvested awards.

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 28

Employee equity participation continued

For the financial year ended 31 March 2018, compensation expense relating to the MEREP totalled $171,567 thousand (2017: $173,821 thousand).

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie Group staff with retained commission (Commission Awards)
- Macquarie Group staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards)
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
- members of the MBL and MGL Executive Committees who are eligible for PSUs
- In limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group upon the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

Note 28

Employee equity participation continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
Retained DPS Awards representing 2009 retention	Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3rd in the 3rd, 4th and 5th year following the year of grant(1)
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50% three and four years after the year of grant(3)
Commission Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
Incentive Awards	All Macquarie Group staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation

(1) Vesting will occur during an eligible staff trading window.
(2) Vesting will occur during an eligible staff trading window. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.
(3) Subject to achieving certain performance hurdles – refer below.

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

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

Notes to the financial statements
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continued

Note 28

Employee equity participation continued

Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for this financial year.

The hurdles are outlined below.

Performance hurdle 1

	Reference group	
Hurdle	**Granted after 31 March 2013**	**Granted on or before 31 March 2013**
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three to four years) compared with a reference group of global financial institutions. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG	The reference group comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).

Performance hurdle 2

	Reference group	
Hurdle	**Granted after 31 March 2013**	**Granted on or before 31 March 2013**
50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9% and 100% at EPS CAGR of 13%. For example, if EPS CAGR were 11%, 75% of the awards would become exercisable.

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

Other arrangements

There are certain arrangements with staff that take the form of a share-based payment but that are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in the MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2018 was $132 thousand (2017: $170 thousand).

Note 28

Employee equity participation continued

Employee Share Plan

MGL continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to $1,000 worth of fully paid ordinary Macquarie shares for no cash payment.

Shares allocated under the ESP cannot be sold until the earlier of three years after allocation or the time when the participant is no longer employed by MGL or a subsidiary of MGL. In all other respects, shares allocated rank equally with all other fully paid ordinary shares then on issue.

The latest offer under the ESP was made during November 2017. A total of 57 (2017: 57) staff participated in this offer. On 28 November 2017, the participants were each allocated 10 (2017: 11) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $99.33 (2017: $84.13), a total of 570 (2017: 627) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

Shares are no longer being issued under the Macquarie Group Staff Share Acquisition Plan or the Macquarie Group Non-Executive Director Share Acquisition plan. However employees and Non-Executive Directors still hold shares issued in previous years.

Options over unissued MGL fully paid shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

Other plans

MGL operates other local share-based compensation plans, none of which, individually or in aggregate are material.

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for the financial year ended 31 March 2018
continued

Note 29

Contingent liabilities and commitments

The following contingent liabilities and assets exclude derivatives.

	2018 $m	2017 $m
Contingent liabilities exist in respect of:		
Guarantees	335	266
Letters of credit	73	168
Indemnities	108	12
Total contingent liabilities[(1),(2)]	516	446
Commitments exist in respect of:		
Undrawn credit facilities and securities underwriting[(3),(4)]	4,393	4,921
Forward assets purchases	1,364	–
Total commitments	5,757	4,921
Total contingent liabilities and commitments	6,273	5,367

(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 irrevocable extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.
(4) Includes $637 million (2017: $ 426 million) in undrawn facilities that have been assigned to a third party.

Note 30

Lease commitments

	2018 $m	2017 $m
Non-cancellable operating leases expiring:		
Not later than one year	86	81
Later than one year and not later than five years	178	214
Later than five years	10	1
Total operating lease commitments	274	296

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

Note 31

Structured entities

The Consolidated Entity engages in various transactions with Structured entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (for example decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets, including mortgages, finance leases, credit card receivables, of the Consolidated Entity or of its clients.

The Consolidated Entity may serve as a purchaser of notes and/or purchaser of residual interest units. The consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Asset-backed financing

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

The Consolidated Entity may act as a purchase of notes and/or purchaser of residual interest units or guarantor.

SE's are consolidated when they meet the criteria described in Note 1(ii) – Principles of consolidation.

Interests held in unconsolidated structured entities

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

(i) creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)

(ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and

(iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to interest, management fees, servicing fee, dividends and gains or losses from revaluing financial instruments.

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continued

Note 31

Structured entities continued

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs:

	Nature of activity	
	Securitisations $m	Asset-backed financing $m
		2018
Carrying value of assets		
Trading portfolio assets	–	–
Derivative assets	–	–
Investment securities available for sale	–	215
Loan assets held at amortised cost	17	6
Total carrying value of assets[(1)]	**17**	**221**
Maximum exposure to loss		
Debt and equity	17	221
Derivatives and undrawn commitments	–	–
Total maximum exposure to loss[(2)]	**17**	**221**
		2017
Carrying value of assets		
Trading portfolio assets	20	–
Derivative assets	–	6
Investment securities available for sale	–	47
Loan assets held at amortised cost	15	37
Total carrying value of assets[(1)]	35	90
Maximum exposure to loss[(3)]		
Debt, equity and derivatives held	35	84
Undrawn commitments	–	6
Total maximum exposure to loss[(2)]	35	90

[(1)] Total carrying value of assets includes $212 million (2017: $35 million) in subordinated interests for Asset backed financing activities. The carrying value also represents the maximum exposure to loss.

[(2)] Maximum exposure to loss is the carrying value of debt, equity and derivative held, the undrawn amount for commitments. The amounts for commitments and guarantees and derivatives are reduced for any liabilities already recognised.

The subordinated securitization interests are primarily trading positions that are typically managed under market risk described in Note 33.3 - Market risk. For these reasons, information on size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented.

Note 32

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in Note 1(x)–Summary of significant accounting policies:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non–trading interest rate risk of the Consolidated Entity, which is hedged with interest rate swaps and cross currency swaps.

At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $26 million negative value (2017: $nil).

During the year the Consolidated Entity recognised $nil (2017: $nil) in the income statement due to hedge ineffectiveness on cash flow hedges.

Fair value hedges: The Consolidated Entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates; and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $3 million negative value (2017: $6 million negative value).

Net investment in foreign operations hedges: The Consolidated Entity has designated derivatives as hedges of its net investment for foreign exchange risk arising from its non–core foreign operations.

At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $10 million negative value (2017: $8 million negative value). During the year the Consolidated Entity recognised $nil (2017: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross–currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Notes to the financial statements
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Note 33

Financial risk management

Risk Management Group (RMG)

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are credit, liquidity, market, equity, conduct, regulatory and compliance, reputation, operational, legal, tax, model, cyber and information security, environmental and social, and data risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of the MGL Annual Report.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately.

RMG is independent of all other areas of the Consolidated Entity. RMG approval is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee.

Note 33.1

Credit risk

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

Analysis and limit approval

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

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Derivative exposures are measured using high confidence potential future underlying asset prices. To mitigate credit risk, where appropriate, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit and the purchase of credit default swaps).

Ratings and reviews

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate which reflects the estimated economic loss in the event of default occurring.

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

Credit Grading	Internal Rating	External Equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default[1]	MQ99	Default

(1) The Default category primarily correlates to the past due more than 90 days not impaired and individually impaired balances disclosed in the following pages.

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

Portfolio and country risk

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

The Consolidated Entity has a country risk management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is mitigated by political risk insurance.

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

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 33.1

Credit risk continued

Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Consolidated Entity's financial assets, credit commitments and contingent liabilities by significant geographical locations and counterparty type. The maximum credit exposure is to each counterparty and does not take into consideration collateral or other credit enhancements (refer to section on collateral and credit enhancements). The geographical location is determined by the domicile and industry type of the counterparty.

	Receivables from financial institutions(1) $m	Trading portfolio assets $m	Derivative assets $m	Other financial assets(2) $m
Australia				
Governments	–	–	–	–
Financial institutions	44	–	28	194
Other	–	–	2	196
Total Australia	44	–	30	390
Asia Pacific				
Governments	–	–	–	131
Financial institutions	742	–	1	507
Other	–	–	6	55
Total Asia Pacific	742	–	7	693
Europe, Middle East and Africa				
Governments	–	–	–	1
Financial institutions	383	–	–	2,462
Other	–	–	124	35
Total Europe, Middle East and Africa	383	–	124	2,498
Americas				
Governments	–	1	–	3
Financial institutions	699	6	3	1,726
Other	–	291	78	362
Total Americas	699	298	81	2,091
Total gross credit risk	1,868	298	242	5,672

(1) Includes reverse repurchase agreements where the classification is based upon the underlying collaterals of the agreement.
(2) This balance excludes other non-financial assets of $3,298 million which are included in Note 7 – Other assets.

Due from related body corporate entities $m	Loan assets held at amortised cost $m	Debt investment securities available for sale $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
					2018
–	–	–	–	–	–
7,291	5	–	–	49	7,611
678	64	–	–	354	1,294
7,969	69	–	–	403	8,905
–	13	–	–	–	144
699	27	–	–	1	1,977
15	24	13	–	285	398
714	64	13	–	286	2,519
–	–	–	–	–	1
373	54	12	144	1	3,429
36	25	100	–	2,775	3,095
409	79	112	144	2,776	6,525
–	72	–	–	–	76
–	105	254	–	447	3,240
824	612	57	30	2,361	4,615
824	789	311	30	2,808	7,931
9,916	1,001	436	174	6,273	25,880

Notes to the financial statements
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continued

Note 33.1

Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions[1] $m	Trading portfolio assets $m	Derivative assets $m	Other financial assets[2] $m
Australia				
Governments	–	–	–	2
Financial institutions	31	–	–	85
Other	–	–	–	177
Total Australia	31	–	–	264
Asia Pacific				
Governments	–	–	–	166
Financial institutions	520	–	1	245
Other	–	–	–	448
Total Asia Pacific	520	–	1	859
Europe, Middle East and Africa				
Financial institutions	416	–	1	1,743
Other	–	3	28	36
Total Europe, Middle East and Africa	416	3	29	1,779
Americas				
Governments	–	1	–	4
Financial institutions	893	72	4	2,041
Other	–	102	6	164
Total Americas	893	175	10	2,209
Total gross credit risk	1,860	178	40	5,111

(1) Includes reverse repurchase agreements where the classification is based upon the underlying collaterals of the agreement.
(2) This balance excludes other non-financial assets of $2,642 million which are included in Note 7 – Other assets

Due from related body corporate entities $m	Loan assets held at amortised cost $m	Debt investment securities available for sale $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
					2017
–	–	–	–	77	79
4,786	12	–	–	–	4,914
734	–	–	–	172	1,083
5,520	12	–	–	249	6,076
–	8	–	–	–	174
60	26	–	–	1	853
11	17	13	–	65	554
71	51	13	–	66	1,581
1,053	60	6	237	–	3,516
236	16	19	41	909	1,288
1,289	76	25	278	909	4,804
–	79	–	–	–	84
–	92	176	–	200	3,478
808	798	79	–	3,943	5,900
808	969	255	–	4,143	9,462
7,688	1,108	293	278	5,367	21,923

Notes to the financial statements
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continued

Note 33.1

Credit risk continued

Credit quality of financial assets

The table below details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer to section on collateral and credit enhancements).

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[3] $m	Individually impaired $m	Total $m
					2018
Receivables from financial institutions[1]	1,543	325	–	–	1,868
Trading portfolio assets					298
Governments	–	1	–	–	1
Financial institutions	–	6	–	–	6
Other	–	291	–	–	291
Derivative assets					242
Financial institutions	32	–	–	–	32
Other	33	177	–	–	210
Other financial assets[2]					5,672
Governments	122	13	–	–	135
Financial institutions	3,086	1,802	1	–	4,889
Other	63	534	50	1	648
Due from related body corporate entities					9,916
Financial institutions	8,363	–	–	–	8,363
Other	1,553	–	–	–	1,553
Loan assets held at amortised cost					1,001
Governments	75	10	–	–	85
Financial institutions	128	63	–	–	191
Other	104	593	9	19	725
Debt investment securities available for sale					436
Financial institutions	50	216	–	–	266
Other	–	170	–	–	170
Other financial assets at fair value through profit or loss					174
Financial institutions	–	144	–	–	144
Other	–	30	–	–	30
Total	15,152	4,375	60	20	19,607

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.
(2) This balance excludes other non-financial assets of $3,298 million which are included in Note 7 – Other assets.
(3) Included in the past due category are balances which were overdue by one day or more.

Note 33.1

Credit risk continued

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[3] $m	Individually impaired $m	Total $m
					2017
Receivables from financial institutions[1]	1,631	229	–	–	1,860
Trading portfolio assets[2]					178
Governments	–	1	–	–	1
Financial institutions	39	33	–	–	72
Other	–	105	–	–	105
Derivative assets					40
Financial institutions	3	3	–	–	6
Other	–	34	–	–	34
Other financial assets[2]					5,111
Governments	169	3	–	–	172
Financial institutions	2,518	1,553	43		4,114
Other	327	482	11	5	825
Due from related body corporate entities					7,688
Financial institutions	5,899	–	–	–	5,899
Other	1,789	–	–	–	1,789
Loan assets held at amortised cost					1,108
Governments	82	5	–	–	87
Financial institutions	79	111	–	–	190
Other	72	676	14	69	831
Debt investment securities available for sale					293
Financial institutions	6	176	–	–	182
Other	–	110	–	1	111
Other financial assets at fair value through profit or loss					278
Financial institutions	–	237	–	–	237
Other	–	41	–	–	41
Total	12,614	3,799	68	75	16,556

(1) Includes reverse repurchase agreements where the credit quality classification is based upon the underlying collaterals of the agreement.

(2) This balance excludes other non-financial assets of $2,642 million which are included in Note 7 – Other assets.

(3) Included in the past due category are balances which were overdue by one day or more.

Notes to the financial statements
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continued

Note 33.1

Credit risk continued

Ageing analysis of assets past due but not impaired and impaired assets

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Total not past due but not individually impaired $m	Impaired $m	Total $m
							2018
Other assets							
Financial institutions	–	–	–	1	1	–	1
Other	30	10	1	9	50	1	51
Loan assets held at amortised cost							
Other	3	–	5	1	9	19	28
Debt investment securities available for sale							
Other	–	–	–	–	–	–	–
Total	33	10	6	11	60	20	80

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Total not past due but not individually impaired $m	Impaired $m	Total $m
							2017
Other assets							
Financial institutions	43	–	–	–	43	–	43
Other	4	2	1	4	11	5	16
Loan assets held at amortised cost							
Other	10	2	1	1	14	69	83
Debt investment securities available for sale							
Other	–	–	–	–	–	1	1
Total	57	4	2	5	68	75	143

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis.
The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in Note 1(xiv) – Impairment.
The collateral held against past due and impaired balances for other assets represents equity securities held as security against failed trade settlements.

Note 33.1

Credit risk continued

Collateral and credit enhancement held

Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balances are included in receivables from financial institutions. For details, refer Note 5 – Receivables from financial institutions.

Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

Loan assets held at amortised cost

Asset financing

The Consolidated Entity leases assets and provides asset related financing, predominantly motor vehicle, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $176 million (2017: $188 million), the credit exposure after considering the depreciated value of collateral is $149 million (2017: $160 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. Of the term lending of $664 million (2017: $861 million), the credit exposure after considering the estimated value of collateral and credit enhancements is $240 million (2017: $357 million).

Additional collateral

The Consolidated Entity also holds other types of collateral, such as unsupported guarantees. While such mitigants have value, as a credit risk mitigant, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Derivative financial instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over The Counter (OTC) derivatives. The Consolidated Entity's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared) or bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house. The clearing house is responsible for managing the risk associated with the process on behalf of their members and ensuring it has adequate resources to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member.

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

Other assets

Security settlements of $4,236 million (2017: $4,212 million) are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Security settlements are collateralised with the underlying equity securities or cash held by the Consolidated Entity until date of settlement.

Credit commitments

Undrawn facilities and lending commitments of $1,962 million (2017: $3,381 million) are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of $3,756 million (2017: $4,495million). In addition, $637 million in undrawn commitments have been sold to third parties once drawn.

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Note 33.2

Liquidity risk

Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO), and RMG. The Consolidated Entity is covered by the MGL and MBL liquidity policy which is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The ALCO includes the MGL Chief Executive Officer, MBL Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

Note 33.2

Liquidity risk

Contractual undiscounted cash flows

The following table below summarises the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivative liabilities (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
						2018
Trading portfolio liabilities	–	123	–	–	–	123
Derivative liabilities (trading)	–	118	–	–	–	118
Derivative liabilities (hedging relationship) [1]						
Contractual amounts payable	–	14	161	2	–	177
Contractual amounts receivable	–	(13)	(135)	–	–	(148)
Deposits	8	–	–	–	–	8
Other financial liabilities[2]	–	2,433	–	–	–	2,433
Other debt issued at fair value through profit or loss	–	135	214	48	–	397
Payable to financial institutions	414	33	53	104	–	604
Due to related body corporate entities	–	1,967	388	10,461	3,078	15,894
Debt issued at amortised cost	–	24	109	612	2,108	2,853
Loan Capital[3]	–	20	61	1,264	–	1,345
Total undiscounted cash flows	422	4,854	851	12,491	5,186	23,804
Contingent liabilities	–	516	–	–	–	516
Commitments	741	2,813	446	1,321	436	5,757
Total undiscounted contingent liabilities and commitments[4]	741	3,329	446	1,321	436	6,273

(1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(3) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 22 – Loan Capital.

(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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Note 33.2

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
						2017
Trading portfolio liabilities	–	145	–	–	–	145
Derivative liabilities (trading)	–	9	–	–	–	9
Derivative liabilities (hedging relationship) (1)						
Contractual amounts payable	–	112	47	–	–	159
Contractual amounts receivable	–	(102)	(27)	–	–	(129)
Deposits	15	–	–	–	–	15
Other financial liabilities(2)	–	3,316	–	–	–	3,316
Other debt issued at fair value through profit or loss	–	132	270	106	–	508
Payable to financial institutions	65	40	91	225	53	474
Due to related body corporate entities	–	1,429	1,080	9,709	191	12,409
Debt issued at amortised cost	–	41	101	544	2,408	3,094
Loan Capital(3)	–	19	56	1,324	–	1,399
Total undiscounted cash flows	80	5,141	1,618	11,908	2,652	21,399
Contingent liabilities	–	446	–	–	–	446
Commitments	2,303	2,504	16	63	35	4,921
Total undiscounted contingent liabilities and commitments(4)	2,303	2,950	16	63	35	5,367

(1) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk.
(2) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(3) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 22 – Loan Capital.
(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 33.3

Market risk

Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading portfolios from changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion**: changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices
- **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices
- **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products

The Consolidated Entity is also exposed to the correlation of market prices and rates within and across markets**.**

Value-at-Risk (VaR) *figures (1-day, 99 per cent confidence level)*

The table below shows the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2018 Average $m	**2018 Maximum $m**	**2018 Minimum $m**	2017 Average $m	2017 Maximum $m	2017 Minimum $m
Equities	**0.69**	**1.96**	**0.38**	0.88	5.50	0.38
Interest rates	**0.61**	**4.14**	**0.19**	0.95	1.56	0.38
Foreign exchange and bullion	**0.44**	**1.18**	**0.18**	0.38	1.14	0.17
Commodities and energy	**3.40**	**9.97**	**0.05**	0.28	0.70	0.02
Aggregate	**3.76**	**9.98**	**0.66**	1.35	5.48	0.76

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99% level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions.

The economic capital adequacy model uses a scenario based approach to determine the market risk capital for the Consolidated Entity. APRA has approved this approach for use in calculating the regulatory capital requirement of the Consolidated Entity.

Non-traded market risk

The Consolidated Entity has exposure to non-traded market risks arising from transactions entered into during its normal course of business and as a result of its investments in foreign operations. These risks include:

- **Interest rate:** changes in the level, shape and volatility of yield curves, and/or client behaviour given these changes
- **Foreign exchange:** changes in the spot exchange rates

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above. Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

These residual non-traded market risks are not material to the Consolidated Entity.

Investments in foreign operations

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the Foreign Exchange Hedging Policy of the Consolidated Entity is to reduce the sensitivity of regulatory capital ratios to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital. This aligns the currency of capital supply with capital requirements.

As a result of this foreign exchange policy, the Consolidated Entity is therefore partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Apart from this there is no material non-trading foreign exchange risk in the income statement.

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Note 33.3

Market risk continued

Accounting considerations arising from hedging activities

The use of derivative instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting set out in Note 1 (x) and (xi).

Foreign currency risk

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally, those with the most impact on the sensitivity analysis are United States dollars and Canadian dollars as shown below.

	2018		2017	
	Movement in exchange price %	Sensitivity of equity after tax $m	Movement in exchange price %	Sensitivity of equity after tax $m
United States dollar	+10	(120)	+10	(120)
Great British Pound	+10	(20)	+10	-
Canadian dollar	+10	(4)	+10	(4)
Total		(144)		(124)
United States dollar	+10	147	-10	147
Great British Pound	+10	25	+10	-
Canadian dollar	+10	5	-10	5
Total		177		152

Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure at 31 March on its non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement (as a result of a change in fair value of financial assets designated at fair value) due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	2018			2017		
Geographic region	Movement in equity price %	Sensitivity of profit after tax $m	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of profit after tax $m	Sensitivity of equity after tax $m
Listed						
Americas	+10	4	–	+10	2	31
Australia	+10	–	–	+10	–	21
Europe, Middle East and Africa	+10	–	2	+10	1	4
Asia Pacific	+10	–	–	+10	2	-
Unlisted	+10	25	29	+10	15	44
Total		29	31		20	100
Listed						
Americas	+10	(4)	–	-10	(2)	(31)
Australia	+10	–	–	-10	–	(21)
Europe, Middle East and Africa	+10	–	(2)	-10	(1)	(4)
Asia Pacific	+10	–	–	-10	(2)	–
Unlisted	+10	(25)	(29)	-10	(15)	(44)
Total		(29)	(31)		(20)	(100)

Note 34

Fair value of financial assets and financial liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair Value Measurement* requires use of the price within the bid-offer spread that is most representative of fair value. Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

– the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
– the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
– the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase /repurchase agreements included within receivables from financial institutions and payables to financial institutions, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates.
– the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the 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.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

– trading portfolio assets and liabilities, financial assets and financial liabilities at fair value through profit or loss, derivative financial instruments, and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of

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- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans, and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty,
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

Note 34

Fair values of financial assets and financial liabilities continued

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (for example for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation.

The fair values calculated for financial 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 table below summarises the carrying value and fair value of financial assets and financial liabilities held at amortised cost:

	2018 Carrying Value $m	**2018 Fair Value** $m	2017 Carrying Value $m	2017 Fair Value $m
Assets				
Receivables from financial institutions	**1,868**	**1,868**	1,860	1,860
Other financial assets(1)	**5,672**	**5,672**	5,111	5,111
Due from related body corporate entities	**9,916**	**9,916**	7,688	7,688
Loan assets held at amortised cost	**1,001**	**1,013**	1,108	1,116
Total assets	**18,457**	**18,469**	15,767	15,775
Liabilities				
Deposits	**8**	**8**	15	15
Other financial liabilities(2)	**4,513**	**4,513**	3,316	3,316
Payables to financial institutions	**595**	**597**	422	422
Due to related body corporate entities	**13,678**	**13,742**	10,776	11,183
Debt issued at amortised cost	**1,884**	**1,983**	1,927	2,053
Loan capital	**1,101**	**1,101**	1,102	1,102
Total liabilities	**21,779**	**21,944**	17,558	18,091

(1) This balance excludes other non-financial assets of $3,298 million (2017: $2,642 million) which are included in Note 7 – Other assets.

(2) This balance excludes other non-financial liabilities of $1,932 million (2017: $1,820 million) which are included in Note 18- Other liabilities.

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Note 34

Fair value of financial assets and financial 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
				2018
Assets				
Receivables from financial institutions	**1,789**	**79**	**–**	**1,868**
Other financial assets	**–**	**5,672**	**–**	**5,672**
Due from related body corporate entities	**–**	**9,916**	**–**	**9,916**
Loan assets held at amortised cost	**180**	**53**	**780**	**1,013**
Total assets	**1,969**	**15,720**	**780**	**18,469**
Liabilities				
Deposits	**8**	**–**	**–**	**8**
Other financial liabilities	**–**	**4,513**	**–**	**4,513**
Payables to financial institutions	**83**	**360**	**154**	**597**
Due to related body corporate entities	**–**	**13,742**	**–**	**13,742**
Debt issued at amortised cost	**–**	**1,961**	**22**	**1,983**
Loan capital	**–**	**1,101**	**–**	**1,101**
Total liabilities	**91**	**21,677**	**176**	**21,944**
				2017
Assets				
Receivables from financial institutions	1,630	230	–	1,860
Other financial assets	–	5,111	–	5,111
Due from related body corporate entities	–	7,688	–	7,688
Loan assets held at amortised cost	105	68	943	1,116
Total assets	1,735	13,097	943	15,775
Liabilities				
Deposits	15	–	–	15
Other financial liabilities	–	3,316	–	3,316
Payables to financial institutions	7	276	139	422
Due to related body corporate entities	–	11,183	–	11,183
Debt issued at amortised cost	–	2,053	–	2,053
Loan capital	–	1,102	–	1,102
Total liabilities	22	17,930	139	18,091

Note 34

Fair values of financial assets and financial liabilities continued

The following tables summarise 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
				2018
Assets				
Trading portfolio assets	**64**	**340**	**287**	**691**
Derivative assets	**9**	**199**	**34**	**242**
Investment securities available for sale	**–**	**113**	**763**	**876**
Other financial assets at fair value through profit or loss	**211**	**211**	**138**	**560**
Total assets	**284**	**863**	**1,222**	**2,369**
Liabilities				
Trading portfolio liabilities	**41**	**82**	**–**	**123**
Derivative liabilities	**1**	**133**	**3**	**137**
Other debt issued at fair value through profit or loss	**–**	**382**	**–**	**382**
Total liabilities	**42**	**597**	**3**	**642**
				2017
Assets				
Trading portfolio assets	152	58	87	297
Derivative assets	–	38	2	40
Investment securities available for sale	820	39	879	1,738
Other financial assets at fair value through profit or loss	103	399	57	559
Total assets	1,075	534	1,025	2,634
Liabilities				
Trading portfolio liabilities	145	–	–	145
Derivative liabilities	–	24	2	26
Other debt issued at fair value through profit or loss	–	482	–	482
Total liabilities	145	506	2	653

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Note 34

Fair values of financial assets and financial liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial years ended 31 March 2018 and 31 March 2017:

	Trading portfolio assets $m	Investment securities available for sale $m	Other financial assets at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
Balance at 1 April 2016	48	1,364	28	8	1,448
Purchases	7	95	29	1	132
Sales	(33)	(367)	(2)	(2)	(404)
Settlements	–	(75)	–	–	(75)
Transfer into Level 3	67	2	–	–	69
Transfer out of Level 3	–	(165)	–	(5)	(170)
Fair value (losses)/gains recognised in the income statement[1]	(2)	95	2	(2)	93
Fair value losses recognised in other comprehensive income[1]	–	(70)	–	–	(70)
Balance at 31 March 2017	87	879	57	–	1,023
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year [1]	(2)	(8)	5	(2)	(7)
					2018
Balance at 1 April 2017	**87**	**879**	**57**	**–**	**1,023**
Purchases	**284**	**144**	**117**	**5**	**550**
Sales	**(92)**	**(84)**	**(22)**	**1**	**(197)**
Settlements	**–**	**(3)**	**(1)**	**–**	**(4)**
Transfer into level 3	**12**	**–**	**34**	**2**	**48**
Transfer out of Level 3	**–**	**(55)**	**(88)**	**2**	**(141)**
Fair value (losses)/ gains recognised in the income statement[1]	**(4)**	**6**	**41**	**21**	**64**
Fair value losses recognised in other comprehensive income[1]	**–**	**(124)**	**–**	**–**	**(124)**
Balance at 31 March 2018	**287**	**763**	**138**	**31**	**1,219**
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1]	**(3)**	**(9)**	**3**	**21**	**12**

[1] The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised 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 Levels 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $34 million (2017: $2 million) and derivative liabilities are $3 million (2017: $2 million).

Note 34

Fair values of financial assets and financial liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity did not have significant transfers between Level 1 and Level 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year.

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 technique whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The Consolidated Entity did not have any deferral during the financial year.

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				**2018**
Equity and equity linked products	**13**	**51**	**(13)**	**(51)**
Commodities and other products	**24**	**5**	**(24)**	**(5)**
Total	**37**	**56**	**(37)**	**(56)**
Product type				2017
Equity and equity linked products	6	73	(6)	(73)
Commodities and other products	2	8	(2)	(8)
Total	8	81	(8)	(81)

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Note 34

Fair values of financial assets and financial liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Range of inputs Maximum value
					As at 31 Mar 2018	
Equity and equity linked products	556	–	Discounted cash flows	Discount rate	11.0%	17.0%
			Pricing model	Earnings multiple	3x	13.9x
			Market comparability	Price in %[1]		
Commodities and other products	666	3	Discounted cash flows	Discount rate	6.0%	10.0%
			Pricing model	Earning multiple	-	-
			Market comparability	Price in %[1]		
Total	**1,222**	**3**				
					As at 31 Mar 2017	
Equity and equity linked products	574	–	Discounted cash flows	Discount rate	8.0%	11.0%
			Pricing model	Earnings multiple	1x	21.2x
			Market comparability	Price in %[1]		
Commodities and other products	451	2	Discounted cash flows	Discount rate	6.0%	10.0%
			Pricing model	Earning multiple	-	-
			Market comparability	Price in %[1]		
Total	1,025	2				

(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.

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.

Note 35

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the balance sheet when they meet the criteria described in Note 1(xxii) – Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default of other pre-determined events, such that their potential effects on the Consolidated Entity and Company's financial position I that circumstance is to settle as one arrangement. The consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangement, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity, refer to Note 33.1– Credit risk for information on credit risk management.

	Amounts subject to enforceable netting arrangements							
	Subject to offsetting on balance sheet			Related amounts not offset[7]				
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments[5] $m	Cash and other financial collateral[6] $m	Net amount $m	Amounts not subject to enforceable netting arrangements $m	Statement of financial position total $m
								2018
Receivables from financial institutions[1]	60	–	60	–	–	60	1,808	1,868
Derivative assets	293	(99)	194	(108)	(33)	53	48	242
Other assets[2]	967	(287)	680	–	–	680	4,992	5,672
Due from related body corporate entities	25,078	(15,308)	9,770	–	–	9,770	146	9,916
Total assets	26,398	(15,694)	10,704	(108)	(33)	10,563	6,994	17,698
Derivative liabilities	(279)	99	(180)	108	35	(37)	43	(137)
Other liabilities[3]	(1,140)	287	(853)	–	–	(853)	(3,660)	(4,513)
Payables to financial institutions[4]	(3)	–	(3)	–	–	(3)	(592)	(595)
Due to related body corporate entities	(28,723)	15,308	(13,415)	–	–	(13,415)	(263)	(13,678)
Total liabilities	(30,145)	15,694	(14,451)	108	35	(14,308)	(4,472)	(18,923)

(1) Includes reverse repurchase arrangements and other similar secured lending.
(2) This balance excludes other non-financial assets of $3,298 million which is included in Note 7 – Other assets.
(3) This balance excludes other non-financial liabilities of $1,932 million which is included in Note 18 – Other liabilities.
(4) Included within this balance are repurchase arrangements and other similar secured borrowing.
(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.
(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.
(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 35

Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements							
	Subject to offsetting on statement of financial position			Related amounts not offset[7]				
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments[5] $m	Cash and other financial collateral[6] $m	Net amount $m	Amounts not subject to enforceable netting arrangements $m	Statement of financial position total $m
								2017
Receivables from financial institutions[1]	94	–	94	(6)	(86)	2	1,766	1,860
Derivative assets	48	(15)	33	(19)	(8)	6	7	40
Other assets[2]	1,648	(731)	917	–	–	917	4,194	5,111
Due from related body corporate entities	20,602	(13,008)	7,594	–	–	7,594	94	7,688
Total assets	22,392	(13,754)	8,638	(25)	(94)	8,519	6,061	14,699
Derivative liabilities	(41)	15	(26)	19	7	–	–	(26)
Other liabilities[3]	(1,544)	731	(813)	–	–	(813)	(2,503)	(3,316)
Payables to financial institutions[4]	(37)	–	(37)	6	30	(1)	(385)	(422)
Due to related body corporate entities	(23,560)	13,008	(10,552)	–	–	(10,552)	(224)	(10,776)
Total liabilities	(24,182)	13,754	(11,428)	25	37	(11,366)	(3,112)	(14,540)

(1) Includes reverse repurchase arrangements and other similar secured lending.
(2) This balance excludes other non-financial assets of $2,642 million which is included in Note 7 – Other assets.
(3) This balance excludes other non-financial liabilities of $1,820 million which is included in Note 18 – Other liabilities.
(4) Included within this balance are repurchase arrangements and other similar secured borrowing.
(5) Financial Instruments recognised on balance sheet but not offset due to not meeting all the criteria for net presentation.
(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.
(7) Related amounts not offset have been limited to the net amount presented on the balance sheet so as not to include the effect of over-collateralisation.

Note 36

Transfer of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets recognised on the balance sheet to other entities. Depending on the criteria discussed in Note 1 (viii) Recognition and derecognition of financial instruments, the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of continuing involvement.

Transferred financial assets that are derecognised

When the financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees or certain derivatives. For the years ending 31 March 2018 and 31 March 2017, there were no material transfers of financial assets where the Consolidated Entity retained continuing involvement in the transferred asset.

Transferred financial assets that are not derecognised

The Consolidated Entity did not recognise financial assets only to the extent of continuing involvement in the years ending 31 March 2018 and 31 March 2017. The following transactions typically result in the transferred assets continuing to be recognised in full.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the required collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal right to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 36

Transfer of financial assets continued

The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2018 and 31 March 2017:

			For those liabilities that only have recourse to the transferred assets		
	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	Fair Value of transferred assets $m	Fair Value of associated liabilities $m	Net Fair value $m
					2018
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading portfolio assets	**–**	**–**	**–**	**–**	**–**
Financial assets not derecognised due to other:					
Loan assets held at amortised cost	**158**	**(152)**	**161**	**(154)**	**7**
Total financial assets not derecognised	**158**	**(152)**	**161**	**(154)**	**7**
					2017
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading portfolio assets	62	(67)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Loan assets held at amortised cost	137	(137)	139	(130)	9
Net fair value	199	(204)	139	(130)	9

There were no material transfers of financial assets for the Consolidated entity where the financial assets are not derecognised as at 31 March 2018 and at 31 March 2017.

	2018 $'000	2017 $'000

Note 37

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), and its network firms earned the following remuneration:

	2018 $'000	2017 $'000
PwC – Australia		
Audit of the Company and controlled subsidiaries	4,502	3,927
Other assurance services[1]	1,414	782
Advisory services	269	-
Taxation	230	272
Total non-audit services	1,913	1,054
Total remuneration paid to PwC Australia	6,415	4,981
Network firms of PwC Australia		
Audit of the Company and controlled subsidiaries	4,080	4,659
Other assurance services[1]	891	1,011
Advisory services	64	450
Taxation	1,017	1,505
Total non-audit services	1,972	2,966
Total remuneration paid to network firms of PwC Australia	6,052	7,625
Total Audit Services remuneration paid to PwC	8,582	8,586
Total Non-Audit Services remuneration paid to PwC	3,885	4,020
Total remuneration paid to PwC (Note 2)	12,467	12,606

(1) Other assurance service consist of engagements in relation to an audit that are not the direct audit or review of financial reports, the services include regulatory compliance, due diligence, accounting advice and review of controls and procedures.

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects.

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 38

Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired or consolidated due to acquisition of control:

There are no significant entities or businesses acquired or consolidated due to acquisition of control during the current financial year.

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

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

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 ("GIB FS"), a regulated and licenced fund manager.

During the financial year ended 31 March 2017, other entities or businesses acquired or consolidated due to acquisition of control were:

Re-Clean Co. Ltd, Sparks Battery Holdings, LLC, Hybrid- Electric Building Technologies Irvine 1, LLC, Hybrid- Electric Building Technologies Irvine 2, LLC, Hybrid- Electric Building Technologies West Los Angeles 1, LLC and Hybrid- Electric Building Technologies, West Los Angeles 2, LLC.

Aggregate details of the entities and businesses acquired or consolidated due to acquisition of control are as follows:

	2018 $m	2017 $m
Fair value of net assets acquired		
Receivables from financial institutions	101	6
Property, plant and equipment	36	3
Other Intangible assets	21	80
Interests in associates and joint ventures	24	–
Other assets[1]	1,722	2
Other financial assets at fair value through profit or loss	165	–
Payables, provisions, borrowings and other liabilities	(435)	(27)
Total carrying value of net assets acquired	1,634	64
Consideration		
Cash consideration (including transaction cost)	1,694	72
Deferred consideration	1	4
Fair value of equity interest held before the acquisition date	2	–
Total consideration	1,697	76
Goodwill recognised on acquisition	63	12
Net cash flow		
Payments for the acquisition of subsidiaries and businesses	(1,694)	(72)
Less: Cash and cash equivalents acquired	101	6
Net cash outflow	(1,593)	(66)

[1] Includes assets classified as held for sale and other non-financial assets.

Note 38

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities or businesses disposed of or deconsolidated due to loss of control

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

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

New Zoom Inc, Reclean Holdings and its subsidiaries, Chaptre Investments Limited, Chaptre GreenCo Limited, EIH PPP Limited, Eriugena Investments Limited, Eriugena Holdings Limited, Eriugena Designated Activity Company, Haiding One International Investment Co. Ltd., Haiding Two International Investment Co. Ltd., Haiding Three International Investment Co. Ltd., Hirasawa Power West Godo Kaisha, Norte III Power, S.A.P.I. de C.V, Advantage Funding Receivables LLC, Advantage Funding Commercial Capital Corp., Advantage Funding Services LLC, Advantage Funding Management Co. Inc., Advantage Funding Leasing LLC, Advantage Funding Auto Trust, Advantage Title Agent LLC.

During financial year ended 31 March 2017, other entities or businesses disposed of or de-consolidated due to loss of control were Firebolt RB Holdings Limited, Macquarie Equities New Zealand Limited, Macquarie Equity Custodians Limited, Modern Media Acquisition Corp, Macquarie APTT Management PTE Limited, Noctua Square Investments B.V, NACH B.V, Brek Manufacturing Co., Godo Kaisha ACMP2 and Godo Kaisha ACMP3.

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

	2018 $m	2017 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Receivables from financial institutions	7	12
Property, plant and equipment	15	17
Other Intangible assets	16	50
Interests in associates and joint ventures	-	1,294
Other assets	676	44
Other financial assets	-	31
Payables, provisions, borrowings and other liabilities	(513)	(1,027)
Non-controlling interests	(2)	(174)
Total carrying value of assets and liabilities disposed of or deconsolidated	199	247
Consideration		
Cash consideration(net of cost of disposal)	260	169
Consideration receivable	65	150
Fair value remeasurement of investment retained	218	133
Total consideration	543	452
Direct costs relating to disposal	(3)	-
Net cash flow		
Cash consideration	260	169
Less cash and cash equivalents disposed of or deconsolidated	(7)	(10)
Net cash inflow	253	159

Notes to the financial statements
for the financial year ended 31 March 2018
continued

Note 39

As at, and throughout the financial year ended 31 March 2018 the parent entity of the Consolidated Entity was Macquarie Financial Holdings Pty Limited. Summary financial information for the parent entity is as follows:

Company financial information

	2018 $m	2017 $m
Statement of financial position		
Assets		
Current assets	12,222	9,155
Non-current assets(1), (2)	15,672	13,150
Total assets	27,894	22,305
Liabilities		
Current liabilities	3,595	3,499
Non-current liabilities	12,746	9,676
Total liabilities	16,341	13,175
Equity		
Contributed equity	17,209	17,208
Foreign currency translation reserve	4	4
Accumulated losses(2)	(5,660)	(8,083)
Total equity	11,553	9,129
Statement of comprehensive income		
Profit after income tax for the financial year(3)	2,923	2,521
Total comprehensive income for the financial year	2,923	2,521
Contingent liabilities		
The following details of contingent liabilities exclude derivatives.		
Contingent liabilities exist in respect of:		
Guarantees(4)	2,334	1,448
Letters of Credit	306	446
Indemnities	33	-
Total contingent liabilities(5)	2,673	1,894

(1) Non-current assets primarily comprise of investment in Macquarie Corporate Holdings Pty Limited $11,520million (2017: $9,017 million).
(2) During the financial year the Company recognised an impairment reversal of $2,500 million (2017: $1,900 million) as a consequence of the continued improvement in the performance of Macquarie Corporate Holdings Pty Limited. The recoverable amount has been estimated using valuation techniques which incorporate the subsidiary's consolidated earnings and relevant earnings multiple. The recoverable amount was classified as level 3 in the fair value hierarchy (as defined in Note 34 – Fair value of financial assets and liabilities)
(3) Includes dividends of $626 million (2017: $606 million) received/receivable from subsidiaries.
(4) Guarantees issued by the Company are predominantly over subsidiaries of the Consolidated Entity.
(5) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Company's business. A provision is recognised where some loss is probable and can be reliably estimated. The Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Company's business, financial condition or performance.

In accordance with ASIC instruments 13-0151 and 13-0394 MFHPL has been granted relief under section 340 of the *Corporations Act 2001* (Cth) from synchronising the year-end of the following entities that are in its consolidation group:

– Macquarie Mexico Real Estate Management, S.A. de C.V.
– Texas Municipal Gas Acquisition and Supply Corporation III.

Note 40

Events after the reporting period

There were no material events subsequent to 31 March 2018 that have not been reflected in the financial statements.

Macquarie Financial Holdings Pty Limited
Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 5 to 88 are in accordance with the *Corporations Act 2001* (Cth), including:
   (i) complying with Australian Accounting Standards, and
   (ii) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2018 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date, and

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

Note 1(i) includes a statement that the financial report complies with International Financial Reporting Standards.

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

S. Dyson
Director

Sydney
31 May 2018

Independent auditor's report
to the members of Macquarie Financial Holdings Pty. Limited

Our opinion
In our opinion:

The accompanying financial report of Macquarie Financial Holdings Pty. Limited (the Company) and its controlled entities (together the Consolidated Entity) is in accordance with the *Corporations Act 2001 (Cth)*, including:

a) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2018 and of its financial performance for the year then ended, and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited
Macquarie Financial Holdings Pty, Limited's financial report comprises:

- the consolidated statement of financial position as at 31 March 2018
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement and statement of comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion
We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence
We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001 (Cth)* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information
The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 31 March 2018, including the Director's Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

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

Independent auditor's report
to the members of Macquarie Financial Holdings Pty. Limited

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar5.pdf. This description forms part of our auditor's report.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Macquarie Financial Holdings Pty. Limited for the year ended 31 March 2018 included on Macquarie Financial Holdings Pty. Limited's web site. The directors of the Company are responsible for the integrity of Macquarie Financial Holdings Pty. Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. G. Smith.

K.G. Smith
Partner

Sydney
31 May 2018

Liability is limited by a scheme approved under Professional Standards Legislation.

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