

Interim Financial Report

Macquarie Bank

Half-year ended 30 September 2019



Macquarie Bank 2019 Interim Financial Report

This Interim Financial Report has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth) and does not include all the notes of the type normally included in an annual financial report.

The material in this report has been prepared by MBL ABN 46 008 583 542 and is current at the date of this report. It is general background information about Macquarie Bank's (MBL and its subsidiaries, the Consolidated Entity) activities, is provided in summary form in terms of the requirements of AASB 134 *Interim Financial Reporting* and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

The Interim Financial Report was authorised for issue by MBL's Directors on 1 November 2019. The Board of Directors has the power to amend and reissue the Financial Report.

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01

Directors'
Report

Directors

For the half-year ended 30 September 2019

The Directors of MBL submit their report with the financial report of the Consolidated Entity for the half-year ended 30 September 2019.

Directors

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

Independent Directors

P.H. Warne, Chairman

G.R. Banks AO

J.R. Broadbent AC

G.M. Cairns

P.M. Coffey

M.J. Coleman

D.J. Grady AM

M.J. Hawker AM

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Directors

M.J. Reemst, Managing Director and Chief Executive Officer

S.R. Wikramanayake

The Directors listed above each held office as a Director of Macquarie Bank throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Result

The financial report for the half-year ended 30 September 2019 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

The consolidated profit attributable to the ordinary equity holder of Macquarie Bank, in accordance with Australian Accounting Standards, for the period was \$A992 million (half-year to 31 March 2019: \$A1,287 million; half-year to 30 September 2018: \$A735 million).

Events after the reporting date

There were no material events subsequent to 30 September 2019 that have not been reflected in the financial statements.

Interim dividend

The Directors have resolved that no dividend will be paid for the half-year ended 30 September 2019.

Rounding of amounts

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

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



Peter Warne

Independent Director and Chairman



Mary Reemst

Managing Director and Chief Executive Officer

Sydney

1 November 2019

Auditor's independence declaration

For the half-year ended 30 September 2019



As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

K. Stubbins

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
1 November 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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02

Financial
Report

Consolidated income statement

For the half-year ended 30 September 2019

	Notes	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 ⁽¹⁾ \$m	Half-year to 30 Sep 18 ⁽¹⁾ \$m
Interest and similar income				
Effective interest rate method	2	1,910	1,998	2,137
Other	2	358	378	300
Interest and similar expense	2	(1,287)	(1,484)	(1,351)
Net interest income		981	892	1,086
Fee and commission income	2	594	658	573
Net trading income	2	1,434	1,378	1,148
Net operating lease income	2	160	157	132
Share of net profits of associates and joint ventures	2	6	19	9
Credit impairment charges	2	(81)	(80)	(51)
Other impairment charges	2	(4)	(114)	(2)
Other operating income and charges	2	340	136	(30)
Net operating income		3,430	3,046	2,865
Employment expenses	2	(735)	(796)	(652)
Brokerage, commission and trading-related expenses	2	(307)	(386)	(391)
Occupancy expenses	2	(52)	(67)	(50)
Non-salary technology expenses	2	(85)	(86)	(81)
Other operating expenses	2	(929)	(1,109)	(814)
Total operating expenses		(2,108)	(2,444)	(1,988)
Operating profit from continuing operations before income tax		1,322	602	877
Income tax expense	4	(324)	(135)	(259)
Profit from continuing operations after income tax		998	467	618
Profit from discontinued operations after income tax	22	–	828	128
Profit from continuing and discontinued operations after income tax		998	1,295	746
Profit attributable to non-controlling interests		–	–	(4)
Profit attributable to equity holders of Macquarie Bank Limited		998	1,295	742
Distribution paid or provided for on:				
Macquarie Income Securities	5	(6)	(8)	(7)
Profit attributable to the ordinary equity holder of Macquarie Bank Limited		992	1,287	735
From continuing operations		992	459	607
From discontinued operations		–	828	128

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

(1) For prior periods income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 22 *Discontinued operations*. The prior period comparatives have been reclassified in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* to conform to the current period presentation.

Consolidated statement of comprehensive income

For the half-year ended 30 September 2019

	Notes	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 \$m	Half-year to 30 Sep 18 \$m
Profit from continuing and discontinued operations after income tax		998	1,295	746
Other comprehensive income/(loss) ⁽¹⁾ :				
Movements in items that may be subsequently reclassified to the income statement:				
Fair value through other comprehensive income (FVOCI) reserve:				
Revaluation movement recognised in Other Comprehensive Income (OCI)	17	4	(3)	(5)
Change in allowance for expected credit losses	17	1	(2)	1
Cash flow hedges, net movement recognised in OCI:				
Revaluation movement	17	(67)	(90)	18
Transferred to income statement	17	29	11	11
Transferred to income statement on disposal of foreign operations		–	(39)	–
Share of other comprehensive losses of associates and joint ventures	17	(1)	(2)	(1)
Exchange differences on translation and hedge of foreign operations		155	(116)	256
Movements in items that will not be subsequently reclassified to the income statement:				
Fair value (loss)/gain attributable to own credit risk on debt that is subsequently measured at fair value through profit or loss	17	(18)	18	(12)
Total other comprehensive income/(loss)		103	(223)	268
Other comprehensive income from continuing operations		103	9	156
Other comprehensive (loss)/income from discontinued operations after tax	22	–	(232)	112
Total comprehensive income		1,101	1,072	1,014
Total comprehensive income attributable to non-controlling interests		–	–	(5)
Total comprehensive income attributable to Macquarie Income Securities holders	17	(6)	(8)	(7)
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited		1,095	1,064	1,002
From continuing operations		1,095	469	762
From discontinued operations	22	–	595	240

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

(1) All items are net of tax, where applicable.

Consolidated statement of financial position

As at 30 September 2019

	Notes	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Assets				
Cash and bank balances		7,773	7,693	7,361
Cash collateral on securities borrowed and reverse repurchase agreements		29,910	29,148	27,580
Trading assets	6	22,311	17,502	19,514
Margin money and settlement assets	7	15,098	14,496	15,076
Derivative assets		17,606	14,090	17,901
Financial investments	8	6,030	5,470	5,160
Other assets	9	1,856	2,105	3,410
Loan assets	10	80,290	73,821	75,365
Due from related body corporate entities		1,216	1,522	1,414
Property, plant and equipment		2,668	2,738	10,917
Interests in associates and joint ventures		219	219	752
Intangible assets		179	177	198
Deferred tax assets		460	441	231
Total assets		185,616	169,422	184,879
Liabilities				
Cash collateral on securities lent and repurchase agreements		5,494	4,216	6,668
Trading liabilities	12	7,678	7,757	7,019
Margin money and settlement liabilities	13	21,458	17,901	19,575
Derivative liabilities		14,057	12,523	18,046
Deposits		58,965	56,120	52,576
Other liabilities	14	2,636	3,043	4,124
Borrowings		2,611	1,560	7,020
Due to related body corporate entities		16,295	16,791	15,243
Debt issued	15	39,247	33,587	36,703
Deferred tax liabilities		10	134	492
Total liabilities excluding loan capital		168,451	153,632	167,466
Loan capital		4,828	4,550	4,366
Total liabilities		173,279	158,182	171,832
Net assets		12,337	11,240	13,047
Equity				
Contributed equity	16	7,900	7,898	9,937
Reserves	17	637	516	757
Retained earnings	17	3,799	2,824	2,345
Total capital and reserves attributable to the equity holder of Macquarie Bank Limited		12,336	11,238	13,039
Non-controlling interests	17	1	2	8
Total equity		12,337	11,240	13,047

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

Consolidated statement of changes in equity

For the half-year ended 30 September 2019

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
Balance as at 1 Apr 2018		9,928	478	2,545	12,951	12	12,963
Profit from continuing and discontinued operations after income tax		–	–	742	742	4	746
Other comprehensive income/(loss), net of tax		–	279	(12)	267	1	268
Total comprehensive income		–	279	730	1,009	5	1,014
Transactions with equity holders:							
Dividends and distributions paid or provided for	17	–	–	(931)	(931)	–	(931)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	1	1	(1)	–
Dividends and distributions paid or provided for		–	–	–	–	(8)	(8)
Other equity movements:							
Contributions from ultimate parent entity ⁽¹⁾ in relation to share-based payments	16	9	–	–	9	–	9
		9	–	(930)	(921)	(9)	(930)
Balance as at 30 Sep 2018		9,937	757	2,345	13,039	8	13,047
Profit from continuing and discontinued operations after income tax		–	–	1,295	1,295	–	1,295
Other comprehensive (loss)/income, net of tax		–	(241)	18	(223)	–	(223)
Total comprehensive (loss)/income		–	(241)	1,313	1,072	–	1,072
Transactions with equity holders:							
Dividends and distributions paid or provided for	17	–	–	(832)	(832)	–	(832)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(2)	(2)	(6)	(8)
Other equity movements:							
Return of capital to parent entity ⁽²⁾	16	(2,040)	–	–	(2,040)	–	(2,040)
Contributions from ultimate parent entity ⁽¹⁾ in relation to share-based payments	16	1	–	–	1	–	1
		(2,039)	–	(834)	(2,873)	(6)	(2,879)
Balance as at 31 Mar 2019		7,898	516	2,824	11,238	2	11,240
Profit from continuing and discontinued operations after income tax		–	–	998	998	–	998
Other comprehensive income/(loss), net of tax		–	121	(18)	103	–	103
Total comprehensive income		–	121	980	1,101	–	1,101
Transactions with equity holders:							
Dividends and distributions paid or provided for	17	–	–	(6)	(6)	–	(6)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	1	1	(1)	–
Other equity movements:							
Contributions from ultimate parent entity ⁽¹⁾ in relation to share-based payments	16	2	–	–	2	–	2
		2	–	(5)	(3)	(1)	(4)
Balance as at 30 Sep 2019		7,900	637	3,799	12,336	1	12,337

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

(1) Macquarie Group Limited.

(2) Macquarie B.H. Pty Limited.

Consolidated statement of cash flows

For the half-year ended 30 September 2019

	Notes	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 ⁽¹⁾ \$m	Half-year to 30 Sep 18 \$m
Cash flows (utilised in)/generated from operating activities				
Interest and similar income received		2,286	2,390	2,516
Interest and similar expense paid		(1,347)	(1,487)	(1,422)
Fees and other non-interest income received		682	767	560
Fees and commissions paid		(318)	(422)	(328)
Operating lease income received		517	746	1,109
Dividends and distributions received		1	31	1
Employment expenses paid		(799)	(590)	(874)
Operating expenses paid		(1,061)	(900)	(1,020)
Income tax paid		(180)	(249)	(118)
Changes in operating assets and liabilities:				
Net movement in trading assets and liabilities		(1,872)	(3,372)	4,172
Net movement in loan assets and related entities		(6,870)	(662)	(2,264)
Net movement in assets under operating lease		(349)	(404)	(557)
Net movement in deposits		2,800	3,710	4,200
Net movement in borrowings		935	(399)	1,557
Net movement in debt issued		4,737	(3,793)	(5,897)
Net movement in other assets and liabilities		(96)	191	(106)
Life business:				
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		174	715	611
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		(173)	(718)	(612)
Net cash flows (utilised in)/generated from operating activities	18	(933)	(4,446)	1,528
Cash flows (utilised in)/generated from investing activities				
Net (payments for)/proceeds from financial investments		(673)	63	514
Proceeds from disposal of discontinued operations, net of cash deconsolidated		–	6,084	–
Proceeds from the disposal of, or capital return from associates, subsidiaries and businesses, net of cash deconsolidated		302	722	495
Payments for the acquisition of, or capital contribution in associates, subsidiaries and businesses, net of cash acquired		(8)	(205)	(17)
Payments for the acquisition of property, plant and equipment and intangible assets		(12)	(7)	(108)
Net cash flows (utilised in)/generated from investing activities		(391)	6,657	884
Cash flows utilised in financing activities				
Payments to non-controlling interests		–	(5)	(8)
Payments on return of capital to parent entity		–	(2,040)	–
Dividends and distributions paid		(7)	(272)	(931)
Net cash flows utilised in financing activities		(7)	(2,317)	(939)
Net (decrease)/increase in cash and cash equivalents		(1,331)	(106)	1,473
Cash and cash equivalents at the beginning of the period		11,813	11,919	10,446
Cash and cash equivalents at the end of the period	18	10,482	11,813	11,919

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

(1) Cash flows (utilised in)/generated from operating, investing and financial activities, relating to the discontinued operations have been presented as part of Cash flows from the discontinued operations under Note 22 *Discontinued operations*.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019

Note 1

Summary of significant accounting policies

(i) Basis of preparation

This general purpose interim set of financial statements for the half-year reporting period ended 30 September 2019 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

This interim set of financial statements comprises the consolidated financial report of Macquarie Bank Limited (MBL or the Company) and the entities it controlled at the end of, or during the period (the Consolidated Entity).

This interim set of financial statements does not include all the disclosures of the type that is normally included in the Consolidated Entity's annual financial report. Accordingly, this report is to be read in conjunction with the Consolidated Entity's annual financial report for the year ended 31 March 2019 and any public announcements made by the Consolidated Entity during the half-year reporting period in accordance with the continuous disclosure requirements.

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

The accounting policies adopted in the preparation of the interim set of financial statements are consistent with those adopted and disclosed in the Consolidated Entity's annual financial report for the year ended 31 March 2019, other than where disclosed and with the exception of changes in accounting policies required following the adoption of new accounting standards on 1 April 2019. Changes to the Consolidated Entity's key accounting policies during the period are described in this report in the section titled '*New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current period*'.

Critical accounting estimates and significant judgements

The preparation of this interim set of financial statements 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.

Areas of estimation uncertainty and the basis of key judgements applied by management in preparing the interim set of financial statements are consistent with those that were applied and disclosed in the annual financial report for the year ended 31 March 2019 other than an additional area of judgement in relation to future cash flow forecasts for the application of hedge accounting, principally as a result of the impact of IBOR reform on the Consolidated Entity's hedge accounting relationships (refer '*New Australian Accounting Standards and amendments to Australian Accounting Standards and Interpretations that are not yet effective for the reporting period*' for further information).

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

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

New Australian Accounting Standards and amendments to Australian Accounting Standards and Interpretations that are not yet effective for the reporting period

I. Revised AASB Conceptual Framework for Financial Reporting

The AASB's revised Conceptual Framework (AASB Framework), which is the Australian equivalent of the revised IFRS Conceptual Framework issued by the IASB, is effective for the Consolidated Entity's annual financial reporting period beginning on 1 April 2020.

The main purpose of the AASB Framework is to assist the AASB in developing accounting standards and to assist financial report preparers to develop consistent accounting policies when there is no specific or similar standard that addresses an issue.

The AASB Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts.

Following an initial assessment, the application of the AASB Framework is not expected to have a material impact on the Consolidated Entity's financial statements.

II. IBOR reform: Transition from inter-bank offered rates (IBOR) to alternative reference rates (ARRs)

Background

IBOR are interest rate benchmarks that are used in a wide variety of financial instruments such as derivatives and lending arrangements. Examples of IBOR include 'LIBOR' (the London Inter-bank Offered Rate) and 'EURIBOR' (the Euro Inter-bank Offered Rate). Each IBOR is calculated and published daily based on submissions by a panel of banks. Over time, changes in interbank funding markets have meant that IBOR panel bank submissions have become based less on observable transactions, and more on expert judgment. Financial markets authorities reviewed what these changes meant for financial stability, culminating in recommendations to reform major interest rate benchmarks. As a result of these recommendations, many IBOR around the world are undergoing reforms and some, including LIBOR, are being replaced with alternative reference rates (ARRs). The UK Financial Conduct Authority (the regulator of LIBOR) has confirmed that it will no longer compel or persuade panel banks to submit rates for the calculation of LIBOR beyond the end of 2021. As such, there can be no guarantee that LIBOR will be determined after 2021 on the same basis as at present, if at all.

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

As a diversified financial services group with a variety of global products and services, IBOR reforms, including the transition from LIBOR to ARRAs are important changes for the Consolidated Entity.

The Consolidated Entity's IBOR project

During 2018, the Consolidated Entity initiated a project, which is sponsored by its Chief Financial Officer (CFO), to manage the impacts of IBOR reform, including overseeing the transition from LIBOR to ARRAs. A group-wide steering committee was established with its key responsibility being the governance of the project. This committee includes senior executives from the Consolidated Entity's Operating Groups, Financial Management Group (FMG), Risk Management Group (RMG), Corporate Operations Group (COG) and Legal and Governance team.

The Consolidated Entity is conducting a detailed analysis of its use of LIBOR across existing and new legal agreements, systems, models and processes. The project's scope includes assessing the impact on clients and the continued monitoring of market developments with respect to the transition from LIBOR to ARRAs, including any changes to accounting standards and other regulator activity. The project's scope also includes identification of the impact of the reform on separate legal entities within the Consolidated Entity, including those entities that are subject to separate regulatory requirements and oversight.

Impact on hedge accounting

Management continues to exercise its judgement to determine that certain hedge relationships continue to qualify for hedge accounting despite the uncertainty arising from IBOR reform. Impacted hedge relationships include those that hedge the variability of cash flows (cash flow hedges) and fixed interest rate risk (fair value hedges) due to changes in USD LIBOR and GBP LIBOR, being the most significant interest rate benchmarks to which the Consolidated Entity's hedging relationships are exposed. These judgements are supported by the recent publication of AASB 2019-3 *Amendments to Australian Accounting Standards Interest Rate Benchmark Reform*. The amendments provide certain temporary relief enabling the continuation of hedge accounting during the period of uncertainty prior to IBOR transition. Whilst the amendments are mandatorily effective for annual reporting period beginning on or after 1 January 2020, the Consolidated Entity will consider early adoption of the requirements.

Other impacts on financial reporting

The IASB has also commenced its project to address the accounting issues that will arise following transition to ARRAs. These issues include providing guidance on the accounting for the contractual amendments necessary to facilitate the transition, further guidance on hedge accounting relating to post-transition issues, as well as additional quantitative and qualitative disclosure requirements. This guidance is expected to be published during 2020. The Consolidated Entity will continue to monitor these developments to determine the impact thereof on its project and its financial reports.

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

I. AASB 16 Leases

AASB 16 replaced AASB 117 *Leases* for the Consolidated Entity's financial year commencing on 1 April 2019. Subject to certain exceptions, contracts that are leases within the scope of AASB 16 from the lessee's perspective require the recognition of a right-of-use (ROU) asset and a related lease liability. The classification of leases where the Consolidated Entity is a lessor remains unchanged under AASB 16.

Transition

The Consolidated Entity has applied AASB 16 from 1 April 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 and Interpretation 4 *Determining whether an arrangement contains a lease*. At the date of transition to AASB 16, \$50 million of ROU assets and \$53 million of associated lease liabilities were recognised after adjusting related amounts previously recorded on the balance sheet, the transition did not have a material impact on the Consolidated Entity's opening retained earnings.

II. AASB Interpretation 23 (Interpretation 23) *Uncertainty over Income Tax Treatment*

Interpretation 23 clarified the application of the recognition and measurement criteria in AASB 112 *Income Taxes* (AASB 112) where there is uncertainty over income tax treatments and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount is 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 are reassessed as and when new facts and circumstances are presented.

Interpretation 23 is effective for the Consolidated Entity's annual financial reporting period beginning on 1 April 2019. The Consolidated Entity's existing recognition and measurement accounting policies, together with accounting related judgements, were in alignment with those required by Interpretation 23 and hence no transition adjustment to retained earnings was required. On adoption of Interpretation 23, the Consolidated Entity has amended the presentation of its uncertain tax positions by increasing its opening income tax payable to \$230 million with an offsetting decrease in deferred tax liabilities to \$9 million. The Consolidated Entity has not restated the comparative financial reporting periods.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

III. AASB 123 *Borrowing costs*

An amendment to AASB 123 *Borrowing costs* (AASB 123) clarified that, to the extent an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. Borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset are capitalised to that asset and are thus excluded from this calculation until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The amendment to AASB 123 is applicable to borrowing costs that the Consolidated Entity incurred on or after 1 April 2019. The application of the amendment did not have a material impact on the Consolidated Entity's financial statements.

IV. AASB 119 *Employee Benefits*

An amendment to AASB 119 *Employee Benefits* (AASB 119) specifies how an entity should account for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment requires the use of assumptions for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The amendment to AASB 119 is effective and has been applied by the Consolidated Entity from 1 April 2019. The application of the amendment did not have a material impact on the Consolidated Entity's financial statements.

(ii) Comparatives

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

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 ⁽¹⁾ \$m	Half-year to 30 Sep 18 ⁽¹⁾ \$m
Note 2			
Operating profit from continuing operations before income tax			
Net interest income			
Interest and similar income			
Effective interest rate method ⁽²⁾	1,910	1,998	2,137
Other	358	378	300
Interest and similar expense ⁽³⁾	(1,287)	(1,484)	(1,351)
Net interest income	981	892	1,086
Fee and commission income			
Brokerage and other trading-related income			
	237	259	273
Portfolio administration fees	121	141	142
Lending fees	79	63	70
Other fee and commission income	157	195	88
Total fee and commission income	594	658	573
Net trading income⁽⁴⁾			
Equities			
	229	254	171
Commodities ⁽⁵⁾	1,058	1,047	794
Credit, interest rate, foreign exchange and other products	147	77	183
Net trading income	1,434	1,378	1,148
Net operating lease income			
Rental income			
	614	604	515
Depreciation on operating lease assets	(454)	(447)	(383)
Net operating lease income	160	157	132
Share of net profits of associates and joint ventures			
	6	19	9

(1) Prior periods' income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 22 *Discontinued operations*. The prior period comparatives have been reclassified in accordance with AASB 5 to conform to the current period presentation.

(2) Includes interest income calculated using the Effective Interest Rate (EIR) method of \$1,875 million (half-year to 31 March 2019: \$1,981 million; half-year to 30 September 2018: \$2,023 million) on financial assets that are measured at amortised cost and \$35 million (half-year to 31 March 2019: \$17 million; half-year to 30 September 2018: \$114 million) on financial assets measured at FVOCI.

(3) Includes interest expense of \$1,193 million (half-year to 31 March 2019: \$1,363 million; half-year to 30 September 2018: \$1,266 million) on financial liabilities measured at amortised cost.

(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk.

(5) Includes \$233 million (half-year to 31 March 2019: \$170 million; half-year to 30 September 2018: \$177 million) of transportation, storage and certain other trading-related costs.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 ⁽¹⁾ \$m	Half-year to 30 Sep 18 ⁽¹⁾ \$m
Note 2			
Operating profit from continuing operations before income tax continued			
Credit and other impairment (charges)/reversal			
Credit impairment (charges)/reversal			
Loan assets	(94)	(73)	(64)
Financial investments, other assets, undrawn commitments and financial guarantees	(1)	(11)	3
Recovery of loans previously written off	14	4	10
Total credit impairment charges	(81)	(80)	(51)
Other impairment charges			
Interests in associates and joint ventures	–	(102)	–
Intangible assets and other non-financial assets	(4)	(12)	(2)
Total other impairment charges	(4)	(114)	(2)
Total credit and other impairment charges	(85)	(194)	(53)
Other operating income and charges			
Investment income			
Net gain on equity and debt investments	11	29	26
Net gain on interests in associates and joint ventures	9	62	–
Net gain/(loss) on disposal of businesses and subsidiaries held for sale ⁽²⁾	242	(3)	3
Net gain on change of control, joint control and/or significant influence	–	10	–
Total investment income	262	98	29
Other income and charges	78	38	(59)
Total other operating income and charges	340	136	(30)
Net operating income	3,430	3,046	2,865

(1) Prior periods' income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 22 *Discontinued operations*. The prior year comparatives have been reclassified in accordance with AASB 5 to conform to the current period presentation.

(2) Includes \$241 million of gain on the sale of Macquarie Specialised Investment Solutions (MSIS) fiduciary businesses to Macquarie Asset Management Holdings Pty Limited (MAMHPL), a related party of MBL, owned 100% by MGL.

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 ⁽¹⁾ \$m	Half-year to 30 Sep 18 ⁽¹⁾ \$m
Note 2			
Operating profit from continuing operations before income tax continued			
Employment expenses			
Salary and related costs including commissions, superannuation and performance-related profit share	(622)	(722)	(583)
Share-based payments	(111)	(78)	(66)
(Provision for)/reversal of long service and annual leave	(2)	4	(3)
Total employment expenses	(735)	(796)	(652)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	(273)	(331)	(336)
Other fee and commission expenses	(34)	(55)	(55)
Total brokerage, commission and trading-related expenses	(307)	(386)	(391)
Occupancy expenses			
Operating lease expenses	(2)	(9)	(4)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements	(2)	(3)	(1)
Other occupancy expenses	(48)	(55)	(45)
Total occupancy expenses	(52)	(67)	(50)
Non-salary technology expenses			
Information services	(44)	(45)	(39)
Depreciation on own use assets: equipment	(2)	(3)	(2)
Service provider and other non-salary technology expenses	(39)	(38)	(40)
Total non-salary technology expenses	(85)	(86)	(81)
Other operating expenses			
Service cost recoveries from related entities	(717)	(705)	(614)
Professional fees	(69)	(75)	(59)
Travel and entertainment expenses	(22)	(24)	(23)
Auditor's remuneration	(10)	(15)	(9)
Amortisation of intangible assets	(9)	(9)	(10)
Advertising and promotional expenses	(10)	(10)	(10)
Communication expenses	(5)	(5)	(6)
Other expenses	(87)	(266)	(83)
Total other operating expenses	(929)	(1,109)	(814)
Total operating expenses	(2,108)	(2,444)	(1,988)
Operating profit from continuing operations before income tax	1,322	602	877

(1) Prior periods' income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 22 *Discontinued operations*. The prior year comparatives have been reclassified in accordance with AASB 5 to conform to the current period presentation.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 3

Segment reporting

(i) Operating Segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into Operating Groups and a Corporate segment.

The prior period included the transfer of Macquarie's Australian vehicle finance business from CAF into BFS. During the current period, CAF's core business in the Bank Group was aligned to CGM, reflecting longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients. In addition, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance in the Bank Group to MAM in the Non-Bank Group.

Comparatives have been reclassified to reflect this reorganisation between the Operating Groups.

These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

Following the reorganisation described above, the Operating Groups comprise:

- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a diverse range of tailored finance solutions globally across a variety of industries and asset classes.

The financial information disclosed relates to the Consolidated Entity's continuing operations.

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

Items of income and expense within the Corporate segment include the net result of managing Macquarie Bank's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable. Other items of income and expenses include earnings from investments, central credit and asset related impairments, unallocated head office costs and costs of central service groups, the Consolidated Entity's performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to certain non-controlling interests and holders of Macquarie Income Securities (MIS).

Below is a selection of key policies applied in determining Operating Segment results:

Internal funding arrangements

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

Generally, Operating Groups may only source funding directly from external sources where the funding is secured by the Operating Group's assets. In such cases the Operating Group bears the funding costs directly and Group Treasury may levy additional charges where appropriate.

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

Transactions between Operating Segments

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

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

Note 3

Segment reporting continued

Accounting for derivatives that hedge interest rate risk

For businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are required to be measured at fair value. The changes in fair value (volatility) is recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for changes in fair value that is attributable to hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of the applicable Operating Groups, with changes in fair value recognised within the Corporate segment and managed via the application of hedge accounting.

Central service groups

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

Central service groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. Central service groups include the Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance and Central Executive.

Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (MEREP) are recognised in the Corporate segment and not allocated to the Operating Groups.

Income tax

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

Presentation of segment income statements

The income statements on the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the Consolidated Entity's financial performance. The financial information disclosed relates to the Consolidated Entity's continuing operations.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate \$m	Total \$m
Note 3				
Segment reporting continued				
(i) Operating Segments continued				
The following is an analysis of the Consolidated Entity's revenue and results by reportable segments:				
	HALF-YEAR TO 30 SEPTEMBER 2019			
Net interest and trading income	838	1,567	10	2,415
Fee and commission income	224	363	7	594
Net operating lease income	–	157	3	160
Share of net (losses)/profits of associates and joint ventures	(3)	9	–	6
Credit and other impairment charges	(41)	(31)	(13)	(85)
Other operating income and charges	–	44	296	340
Internal management revenue/(charge)	2	2	(4)	–
Net operating income	1,020	2,111	299	3,430
Total operating expenses	(636)	(966)	(506)	(2,108)
Operating profit/(loss) before income tax	384	1,145	(207)	1,322
Income tax expense	–	–	(324)	(324)
Profit/(loss) after income tax	384	1,145	(531)	998
Profit attributable to non-controlling interests	–	–	–	–
Profit/(loss) attributable to equity holders	384	1,145	(531)	998
Distributions paid or provided for on MIS	–	–	(6)	(6)
Net profit/(loss) attributable to the ordinary equity holder from continuing operations	384	1,145	(537)	992
Reportable segment assets	68,869	106,911	9,836	185,616
	HALF-YEAR TO 31 MARCH 2019			
Net interest and trading income	845	1,410	15	2,270
Fee and commission income	231	383	44	658
Net operating lease income	–	153	4	157
Share of net profits/(losses) of associates and joint ventures	9	11	(1)	19
Credit and other impairment charges	(54)	(137)	(3)	(194)
Other operating income and charges	19	84	33	136
Internal management revenue/(charge)	–	8	(8)	–
Net operating income	1,050	1,912	84	3,046
Total operating expenses	(673)	(1,033)	(738)	(2,444)
Operating profit/(loss) before income tax	377	879	(654)	602
Income tax expense	–	–	(135)	(135)
Profit/(loss) after income tax	377	879	(789)	467
(Profit)/loss attributable to non-controlling interests	–	(1)	1	–
Profit/(loss) attributable to equity holders	377	878	(788)	467
Distributions paid or provided for on MIS	–	–	(8)	(8)
Net profit/(loss) attributable to the ordinary equity holder from continuing operations	377	878	(796)	459
Reportable segment assets	63,885	96,208	9,329	169,422

	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate \$m	Total \$m
Note 3				
Segment reporting continued				
(i) Operating Segments continued				
HALF-YEAR TO 30 SEPTEMBER 2018				
Net interest and trading income	834	1,262	138	2,234
Fee and commission income	242	322	9	573
Net operating lease income	–	132	–	132
Share of net (losses)/profits of associates and joint ventures	(1)	10	–	9
Credit and other impairment charges	(28)	(20)	(5)	(53)
Other operating income and charges	–	44	(74)	(30)
Internal management revenue/(charge)	2	6	(8)	–
Net operating income	1,049	1,756	60	2,865
Total operating expenses	(673)	(948)	(367)	(1,988)
Operating profit/(loss) before income tax	376	808	(307)	877
Income tax expense	–	–	(259)	(259)
Profit/(loss) after income tax	376	808	(566)	618
Profit attributable to non-controlling interests	–	(1)	(3)	(4)
Profit/(loss) attributable to equity holders	376	807	(569)	614
Distributions paid or provided for on MIS	–	–	(7)	(7)
Net profit/(loss) attributable to the ordinary equity holder from continuing operations	376	807	(576)	607
Reportable segment assets	61,623	100,662	22,594	184,879

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 3

Segment reporting continued

(ii) Fee and commission income relating to contracts with customers

The below table represents the disaggregation of fee and commission income by Operating Segments:

	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate \$m	Total \$m
Fee and commission income	HALF-YEAR TO 30 SEPTEMBER 2019			
Brokerage and other trading-related income	25	212	–	237
Portfolio administration fees	110	4	7	121
Lending fees	65	14	–	79
Other fee and commission income	24	133	–	157
Total	224	363	7	594
Fee and commission income	HALF-YEAR TO 31 MARCH 2019			
Brokerage and other trading-related income	28	230	1	259
Portfolio administration fees	112	5	24	141
Lending fees	66	7	(10)	63
Other fee and commission income	25	141	29	195
Total	231	383	44	658
Fee and commission income	HALF-YEAR TO 30 SEPTEMBER 2018			
Brokerage and other trading-related income	39	234	–	273
Portfolio administration fees	121	6	15	142
Lending fees	67	3	–	70
Other fee and commission income	15	79	(6)	88
Total	242	322	9	573

Note 3

Segment reporting continued

(iii) Products and services

Segment reporting based on products and services is based on the following activities of the Consolidated Entity:

- **Lending:** corporate and structured finance, banking activities, mortgages, asset financing and leasing;
- **Financial markets:** trading in fixed income, equities, foreign exchange & commodities and broking services; and
- **Asset and wealth management:** distribution and manufacture of wealth management products.

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 \$m	Half-year to 30 Sep 18 \$m
Revenues from external customers			
Lending	2,366	2,447	2,330
Financial markets	2,730	2,735	2,303
Asset and wealth management	402	163	195
Total revenue from external customers⁽¹⁾	5,498	5,345	4,828

Following the alignment of certain businesses between Operating Groups, the products and services classification has been aligned with the information relating to core products and services offered by each Operating Group.

(iv) Geographical areas

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

Revenues from external customers			
Australia	2,925	2,718	2,903
Americas ⁽²⁾	1,212	1,385	735
Europe, Middle East and Africa ⁽³⁾	973	1,080	840
Asia Pacific	388	162	350
Total	5,498	5,345	4,828

(v) Major customers

The Consolidated Entity does not rely on any major customer.

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

(2) Includes external revenue generated in the United States of America of \$1,101 million (half-year to 31 March 2019: \$979 million; half-year to 30 September 2018: \$673 million).

(3) Includes external revenue generated in the United Kingdom of \$957 million (half-year to 31 March 2019: \$1,769 million; half-year to 30 September 2018: \$816 million).

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 \$m	Half-year to 30 Sep 18 \$m
Note 4			
Income tax expense			
(i) Reconciliation of income tax expense to <i>prima facie</i> tax payable			
<i>Prima facie</i> income tax expense on operating profit ⁽¹⁾	(397)	(465)	(320)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	87	133	14
Gain on sale of discontinued operations	–	67	–
Other items	(14)	9	(14)
Total income tax expense	(324)	(256)	(320)
Income tax expense is attributable to:			
Profit from continuing operations	(324)	(135)	(259)
Profit from discontinued operations	–	(121)	(61)
(ii) Tax benefit/(expense) relating to items of OCI			
FVOCI reserve	(2)	3	–
Own credit risk	8	(8)	5
Cash flow hedges	(2)	31	(2)
Total tax benefit relating to items of OCI	4	26	3

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

(1) *Prima facie* income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (half-year to 31 March 2019: 30%; half-year to 30 September 2018: 30%).

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 \$m	Half-year to 30 Sep 18 \$m
Note 5			
Dividends and distributions paid or provided for			
(i) Dividends paid			
Ordinary share capital			
Dividends paid ⁽¹⁾	–	264	924
Dividend provided for	–	560	–
Total dividends paid or provided for (Note 17)	–	824	924
(ii) Distributions paid or provided for Macquarie Income Securities⁽²⁾			
Distributions paid (net of distributions previously provided for)	4	5	4
Distributions provided for	2	3	3
Total distributions paid or provided for (Note 17)	6	8	7

(1) Half-year to 31 March 2019 includes \$264 million dividend paid relating to the discontinued operations. Refer Note 22 *Discontinued operations* for further information.

(2) Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares. Refer Note 16 *Contributed equity* for further details on these instruments.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 6			
Trading assets			
Equity securities			
Listed	8,715	7,658	9,062
Unlisted	1	–	28
Debt securities			
Commonwealth and foreign government securities	7,580	4,752	5,700
Corporate loans and securities	932	1,732	1,043
Treasury notes	100	783	762
Other debt securities	1	24	89
Commodities	4,982	2,553	2,830
Total trading assets	22,311	17,502	19,514

Note 7

Margin money and settlement assets

Margin placed ⁽¹⁾	8,484	6,887	8,217
Security settlements	3,970	3,203	4,118
Commodity settlements	2,644	4,406	2,741
Total margin money and settlement assets	15,098	14,496	15,076

Note 8

Financial investments

Equity securities			
Listed	62	65	35
Unlisted	102	195	231
Debt securities			
Bonds and NCDs	5,562	5,005	4,679
Corporate loans and securities	39	38	38
Other debt securities	265	167	177
Total financial investments	6,030	5,470	5,160

(1) Margin money represents collateral placed in respect of derivative positions. Of this \$5,071 million (31 March 2019: \$3,569 million, 30 September 2018: \$3,723 million) relates to client segregated funds, with a portion hereof classified as cash and cash equivalents as disclosed in Note 18.

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 9			
Other assets			
Debtors and prepayments ⁽¹⁾	1,093	1,365	1,672
Life investment linked contracts and other unitholder assets	376	382	623
Income tax receivable	228	220	199
Assets of disposal groups and interests in associates held for sale	–	9	605
Other	159	129	311
Total other assets	1,856	2,105	3,410

Note 10

Loan assets

	AS AT 30 SEP 19			AS AT 31 MAR 19			AS AT 30 SEP 18		
	Gross \$m	ECL allowance \$m	Net \$m	Gross \$m	ECL allowance \$m	Net \$m	Gross \$m	ECL allowance \$m	Net \$m
Mortgages ⁽²⁾	47,338	(54)	47,284	41,965	(60)	41,905	40,461	(52)	40,409
Asset financing ⁽²⁾	17,416	(235)	17,181	18,225	(240)	17,985	18,620	(231)	18,389
Corporate, commercial and other lending	13,759	(236)	13,523	12,360	(209)	12,151	14,952	(225)	14,727
Investment lending	2,303	(1)	2,302	1,781	(1)	1,780	1,841	(1)	1,840
Total loan assets	80,816	(526)	80,290	74,331	(510)	73,821	75,874	(509)	75,365

(1) Includes \$121 million (31 March 2019: \$135 million, 30 September 2018: \$131 million) of fee and commission receivables.

(2) Includes \$11,975 million (31 March 2019: \$10,753 million; 30 September 2018: \$9,630 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 *continued*

Note 11

Expected credit losses

The Consolidated Entity determines its Expected Credit Losses (ECL) with reference to a range of inputs notably that of Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD). In addition, AASB 9 requires the inclusion of Forward Looking Information (FLI) to be included in the determination of the ECL. The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of whether there has been a Significant Increase in Credit Risk (SICR) as well as the LGD (relevant to the determination of the recovery rate on collateral).

The Consolidated Entity's Risk Management Group is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. In calculating the ECL, EADs, PDs and LGDs are determined under each scenario. The resultant ECL for each scenario is then probability weighted to determine the reported ECL. The scenarios and the assigned probabilities are updated semi-annually or more frequently if a material disruption event were to occur. The scenarios, including its underlying indicators, are developed using a combination of publicly available data, internal forecasts and third-party information.

The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources. Assigning probabilities to these scenarios requires professional judgement which draws on internal risk and economics' specialist input and comparison to general market outlooks and publicly available market commentary. The scenarios and the associated probabilities are ultimately approved by senior risk and finance executives.

Note 11

Expected credit losses continued

The key elements for each of the key regions where Macquarie's ECL is derived have been set-out below:

Scenario	Weighting	Expectation
Baseline	Probable	<p>Global: The baseline scenario assumes global economic performance slowly deteriorates from current conditions and reaches a lower level, which is then maintained throughout most of the forecast period.</p> <p>Australia: GDP growth is forecast to recover marginally during the second half of 2019 and then remain relatively stable through the end of the forecast period, house prices' trend stops declining in 2019 and recovers thereafter, the unemployment rate gradually declines to a trough in 2020 with the Reserve Bank of Australia (RBA) maintaining the cash rate relatively stable following cuts in 2019.</p> <p>United States: Growth is forecast to decelerate through to the end of the forecast period, while 10-year government bond yields are expected to fall further, and the unemployment rate remains relatively stable until mid-2021 thereafter it rises moderately.</p> <p>Europe: Low growth forecasted for the forecast period, 10-year government bond yields remaining low through the forecast period and levels of unemployment relatively stable.</p>
Upside	Possible	<p>Global: Marginally higher growth in GDP over the baseline scenario during the forecast period.</p> <p>Australia: Marginally higher GDP over the baseline scenario during the forecast period. Following the RBA increasing the cash rate in late 2019, house prices decline but recover during 2021 and end higher than current peak price levels.</p> <p>United States: Marginally higher GDP over the baseline during the forecast period with a peak in late 2019 and moderating thereafter. 10-year government bond yields peak in 2021 and the unemployment rate falls further than that forecasted in the baseline scenario.</p> <p>Europe: Marginally higher GDP over the baseline during the forecast period. 10-year government bond yields peak higher than the baseline in 2022 and the unemployment rate falling further than that forecasted in the baseline scenario.</p>
Downside	Possible	<p>Global: Marginally lower growth in GDP over the baseline through to 2022.</p> <p>Australia: GDP growth falls further in 2019 and marginally recovers after 2022. House prices decline but recover to current levels by 2022. During 2022 the unemployment rate peaks and the RBA cuts interest rates further than in baseline scenario.</p> <p>United States: GDP growth reduces and gradually recovers after 2022, 10-year government bond yields fall through to 2021 and remain at those levels and the unemployment rate rises from current levels through to 2022.</p> <p>Europe: Very low levels of GDP growth through to 2023, 10-year government bond yields remain close to current levels and rising unemployment rates.</p>
More severe downside	Unlikely	<p>Global: A recession from 2020–2021 following a marked retraction in GDP growth before recovering in 2022.</p> <p>Australia: GDP growth contracts through mid-2020 and recovers above existing levels in mid-2022. House prices register a significant decline from current levels to mid-2020 and the RBA cuts interest rates by the end of 2019 and remain low through most of the forecast period.</p> <p>United States: GDP contracts during 2020 but returns to growth in 2021 and peaks in mid-2022. 10-year government bond rates drop and remain low through 2021 and recover gradually over the forecast period. Unemployment peaks before declining again in 2022.</p> <p>Europe: Growth contracts during 2020 and recovers to current levels by 2022. 10-year government bond yields fall and rise marginally through to 2022, the unemployment rate peaks in 2022 before moderating towards the end of the forecast period but still above that of the baseline.</p>

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 11

Expected credit losses continued

The table below presents the gross exposure and related ECL allowance for assets measured at amortised cost or FVOCI and off-balance sheet exposures subject to impairment requirements of AASB 9⁽¹⁾.

	AS AT 30 SEP 19		AS AT 31 MAR 19		AS AT 30 SEP 18	
	Gross exposure ⁽¹⁾ \$m	ECL allowance \$m	Gross exposure ⁽¹⁾ \$m	ECL allowance \$m	Gross exposure ⁽¹⁾ \$m	ECL allowance \$m
Cash and bank balances ⁽²⁾	7,773	–	7,693	–	7,361	–
Cash collateral on securities borrowed and reverse repurchase agreements ⁽²⁾	10,763	–	9,993	–	11,308	–
Margin money and settlement assets ⁽²⁾	12,747	–	10,749	–	12,905	–
Financial investments ⁽²⁾	5,607	–	5,117	–	4,714	–
Other assets	740	19	1,048	21	1,183	37
Loan assets ⁽³⁾	79,488	526	73,818	511	75,327	514
Due from related body corporate entities	1,217	1	1,522	1	1,414	–
Loans to associates and joint ventures ⁽⁴⁾	6	1	8	1	7	1
Undrawn credit commitments and financial guarantees ⁽⁵⁾	7,734	6	7,474	6	6,886	7
Total	126,075	553	117,422	540	121,105	559

(1) Gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

(2) Consists of short-term, fully collateralised or high quality assets with minimal expected and historical losses.

(3) Includes ECL allowance of \$526 million (31 March 2019: \$510 million; 30 September 2018: \$509 million) on loan assets carried at amortised cost and \$nil (31 March 2019: \$1 million; 30 September 2018: \$5 million) on loan assets measured at FVOCI.

(4) Includes ECL allowance of \$1 million (31 March 2019: \$1 million; 30 September 2018: \$1 million) on loans to associates and joint ventures measured at amortised cost.

(5) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

Note 11

Expected credit losses continued

The table below represents the reconciliation from the opening balance to the closing balance of ECL allowances:

	Other assets \$m	Loan assets \$m	Due from related body corporate entities \$m	Loans to associates and joint ventures \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
Balance as at 1 Apr 2018	38	504	1	1	12	556
Impairment (reversal)/charge (Note 2)	(1)	64	–	–	(2)	61
Amounts written off, previously provided for	–	(43)	–	–	–	(43)
Foreign exchange, reclassifications and other movements	–	(11)	(1)	–	(3)	(15)
Balance as at 30 Sep 2018	37	514	–	1	7	559
Impairment charge (Note 2)	11	73	–	–	–	84
Amounts written off, previously provided for	(11)	(72)	–	–	–	(83)
Disposal during the period	(16)	(17)	–	–	–	(33)
Foreign exchange, reclassifications and other movements	–	13	1	–	(1)	13
Balance as at 31 Mar 2019	21	511	1	1	6	540
Impairment charge (Note 2)	1	94	–	–	–	95
Amounts written off, previously provided for	–	(74)	–	–	–	(74)
Foreign exchange, reclassifications and other movements	(3)	(5)	–	–	–	(8)
Balance as at 30 Sep 2019	19	526	1	1	6	553

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 11

Expected credit losses continued

The table below represents the reconciliation of ECL allowance on loan assets to which the impairment requirements under AASB 9 are applied.

	LIFETIME ECL			Total ECL Allowance \$m
	Stage I 12 month ECL \$m	Stage II Not credit impaired \$m	Stage III Credit impaired \$m	
Balance as at 1 Apr 2018	144	202	158	504
Transfers during the period	23	(18)	(5)	–
Impairment (reversal)/charge (Note 2)	(26)	16	74	64
Amounts written off, previously provided for	–	–	(43)	(43)
Foreign exchange, reclassifications and other movements	(1)	(9)	(1)	(11)
Balance as at 30 Sep 2018	140	191	183	514
Transfers during the period	25	(27)	2	–
Impairment (reversal)/charge (Note 2)	(20)	3	90	73
Amounts written off, previously provided for	–	–	(72)	(72)
Disposal during the period	(11)	(5)	(1)	(17)
Foreign exchange, reclassifications and other movements	1	11	1	13
Balance as at 31 Mar 2019	135	173	203	511
Transfers during the period	17	(11)	(6)	–
Impairment (reversal)/charge (Note 2)	(16)	3	107	94
Amounts written off, previously provided for	–	–	(74)	(74)
Foreign exchange, reclassifications and other movements	1	3	(9)	(5)
Balance as at 30 Sep 2019	137	168	221	526

The net movement during the current period in the Stage III ECL allowance for loan assets is attributable to standard provisioning practices for Asset Financing and the provisioning for and writing off of a number of Corporate Commercial Lending exposures as occurs in the normal course of business.

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 12			
Trading liabilities			
Equity securities			
Listed	6,974	7,737	6,003
Debt securities			
Foreign government securities	677	20	942
Corporate loans and securities	8	–	74
Commodities	19	–	–
Total trading liabilities	7,678	7,757	7,019

Note 13

Margin money and settlement liabilities

Margin money	15,616	12,727	13,549
Security settlements	3,598	2,789	4,164
Commodity settlements	2,244	2,385	1,862
Total margin money and settlement liabilities	21,458	17,901	19,575

Note 14

Other liabilities

Accrued charges, employment-related liabilities and provisions ⁽¹⁾	982	1,172	664
Creditors	823	1,195	1,072
Life investment linked contracts and other unitholder liabilities	368	377	618
Income tax payable	265	105	248
Maintenance liabilities	8	10	958
Liabilities of disposal group classified as held for sale	–	–	369
Other	190	184	195
Total other liabilities	2,636	3,043	4,124

(1) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current period in each of these matters did not have and is not currently expected to have a material impact on the Consolidated Entity.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 15			
Debt issued			
Bonds, negotiable certificates of deposit and commercial paper ⁽¹⁾	37,252	31,353	34,682
Structured notes ⁽²⁾	1,995	2,234	2,021
Total debt issued^{(3),(4)}	39,247	33,587	36,703

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

Reconciliation of debt issued by major currency

(In Australian dollar equivalent)

United States dollar	16,918	16,918	18,696
Australian dollar	14,746	9,685	10,338
Euro	4,455	4,004	4,142
Swiss franc	1,122	1,058	1,544
British pound	834	783	816
Japanese yen	625	580	572
Norwegian krone	166	164	170
Chinese renminbi	150	169	185
Hong Kong dollar	118	112	126
Korean won	113	114	114
Total debt issued	39,247	33,587	36,703

(1) Includes \$9,360 million (31 March 2019: \$7,855 million; 30 September 2018: \$8,115 million) payable to note holders and debt holders for which loan assets are held by consolidated SPEs and are available as security.

(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates, other assets or credit risk of a counterparty.

(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued which are measured at DFVTPL (refer Note 20 *Measurement categories of financial instruments*) for the Consolidated Entity is \$2,327 million (31 March 2019: \$2,928 million, 30 September 2018: \$2,880 million). This amount is based on the final notional amount rather than the fair value.

(4) Includes cumulative fair value gain of \$8 million (31 March 2019: \$31 million, 30 September 2018: \$9 million) due to changes in own credit risk on DFVTPL debt securities.

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 16			
Contributed equity			
Ordinary share capital	7,288	7,288	9,328
Equity contribution from ultimate parent entity	221	219	218
Macquarie Income Securities	391	391	391
Total contributed equity	7,900	7,898	9,937

(i) Ordinary share capital⁽¹⁾

Opening balance of 589,276,303 fully paid ordinary shares	7,288	9,328	9,328
Return of capital to parent entity ⁽²⁾	–	(2,040)	–
Closing balance of 589,276,303 fully paid ordinary shares	7,288	7,288	9,328

(ii) Equity contribution from ultimate parent entity

Balance at the beginning of the period	219	218	209
Additional paid in capital	2	1	9
Balance at the end of the period	221	219	218

MEREP awards are primarily settled in MGL ordinary shares. Where MEREP awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If the issued awards expire, the reversal of the original contribution is recognised as a return of capital.

(iii) Macquarie Income Securities

4,000,000 Macquarie Income Securities of \$100 each	400	400	400
Less: transaction costs for original placement	(9)	(9)	(9)
Total Macquarie Income Securities	391	391	391

The Macquarie Income Securities (MIS) are redeemable (in whole or in part) at the Company's discretion. They are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. Interest is paid quarterly at a floating rate of Bank Bill Swap Rate (BBSW) plus 1.7% pa. Payment of interest to holders is subject to certain conditions, including the profitability of Macquarie Bank Limited. The MIS is a perpetual instrument with no conversion rights. Distributions on the MIS have been presented in Note 5 *Dividends and distributions paid or provided for*.

(1) Ordinary shares have no par value.

(2) During the half-year ended 31 March 2019, the Consolidated Entity returned capital of \$2,040 million to Macquarie B.H. Pty Limited following disposal of the CAF Principal Finance and CAF Transportation Finance business (the businesses). Refer Note 22 *Discontinued operations* for further information.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 17			
Reserves, retained earnings and non-controlling interests			
(i) Reserves			
Foreign currency translation and net investment hedge reserve			
Balance at the beginning of the period	631	747	492
Exchange differences on translation of foreign operations, net of hedge and tax	155	44	255
Transferred to income statement on disposal of foreign operations, net of tax ⁽¹⁾	–	(160)	–
Balance at the end of the period	786	631	747
FVOCI reserve			
Balance at the beginning of the period	7	12	16
Revaluation movement for the period, net of tax	4	(3)	(5)
Changes in ECL allowance, net of tax	1	(2)	1
Balance at the end of the period	12	7	12
Cash flow hedging reserve			
Balance at the beginning of the period	(118)	–	(29)
Revaluation movement for the period, net of tax	(67)	(90)	18
Transferred to income statement on realisation, net of tax	29	11	11
Transferred to income statement on disposal of discontinued operations, net of tax ⁽¹⁾	–	(39)	–
Balance at the end of the period⁽²⁾	(156)	(118)	–
Share of reserves in associates and joint ventures			
Balance at the beginning of the period	(4)	(2)	(1)
Share of other comprehensive losses of associates and joint ventures during the period, net of tax	(1)	(2)	(1)
Balance at the end of the period	(5)	(4)	(2)
Total reserves at the end of the period	637	516	757

(1) For movements related to the discontinued operations, refer Note 22 *Discontinued operations*.

(2) Includes (\$2) million (31 March 2019: (\$5) million; 30 September 2018: (\$5) million) relating to foreign currency basis spread of financial instruments that have been excluded from the hedge designation.

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 17			
Reserves, retained earnings and non-controlling interests continued			
(ii) Retained earnings			
Balance at the beginning of the period	2,824	2,345	2,545
Profit attributable to the equity holder of MBL	998	1,295	742
Distributions paid or provided for on Macquarie Income Securities (Note 5)	(6)	(8)	(7)
Dividends paid or provided on ordinary share capital (Note 5)	–	(824)	(924)
Gain/(loss) on change in ownership interest	1	(2)	1
Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax	(18)	18	(12)
Balance at the end of the period	3,799	2,824	2,345
(iii) Non-controlling interests⁽¹⁾			
Share capital and partnership interests	49	48	55
Reserves	4	4	4
Accumulated losses	(52)	(50)	(51)
Total non-controlling interests	1	2	8

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

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
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Note 18

Notes to the consolidated statement of cash flows

(i) Reconciliation of cash and cash equivalents

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

Cash and bank balances ^{(1),(2)}	7,485	7,689	7,327
Trading assets ⁽³⁾	100	783	762
Financial investments ^{(4),(5)}	243	536	232
Margin money ⁽⁶⁾	2,654	2,805	3,598
Cash and cash equivalents at the end of the period	10,482	11,813	11,919

(1) Cash and bank balances includes cash at bank, overnight cash at bank and other loans to banks. Cash and bank balances includes \$3,070 million (half-year to 31 March 2019: \$3,141 million, half-year to 30 September 2018: \$2,882 million) of certain funds received from clients, which are segregated from the Consolidated Entity's own funds and thus restricted from use.

(2) Cash and bank balances also includes \$285 million (half-year to 31 March 2019: \$254 million, half-year to 30 September 2018: \$403 million) of balances held by consolidated special purpose vehicles that are restricted from use, balances required to be maintained with central banks and other regulatory authorities, balances dedicated to servicing certain debt obligations and other similarly restricted balances.

(3) Trading assets includes certificates of deposit, bank bills, treasury notes and other short-term debt securities with a maturity of three months or less from the date of acquisition. As at 30 September 2019, no amounts within trading assets related to certain funds received from clients, which are segregated from the Consolidated Entity's own funds and thus restricted from use (half-year to 31 March 2019: \$702 million, half-year to 30 September 2018: \$690 million).

(4) Financial investments includes short-term debt securities with a maturity of three months or less from the date of acquisition. Financial investments also includes \$176 million (half-year to 31 March 2019: \$80 million, half-year to 30 September 2018: \$103 million) of balances held in countries where remittance of cash outside of the country is restricted.

(5) Financial investments have been adjusted to exclude certain liquid financial investments with a residual maturity of three months or less at the balance date but whose maturity exceeded three months at the date of acquisition. Comparatives have been updated to conform to current period presentation.

(6) Margin money represents certain cash collateral placed with financial institution counterparties in respect of derivative positions. Of these balances \$1,498 million (31 March 2019: \$1,388 million, 30 September 2018: \$1,317 million) relates to funds received from clients, which are segregated from the Consolidated Entity's own funds and thus restricted from use.

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 \$m	Half-year to 30 Sep 18 \$m
Note 18			
Notes to the consolidated statement of cash flows continued			
(ii) Reconciliation of profit after income tax to net cash flows (utilised in)/generated from operating activities			
Profit after income tax	998	1,295	746
Adjustments to profit after income tax:			
Depreciation and amortisation	467	558	668
Unrealised foreign exchange and fair value movement on assets and liabilities	(116)	(249)	453
ECL and impairment charges	100	201	46
Investment income and gain on sale of operating lease assets and other non-financial assets	(267)	(458)	5
Profit on sale of discontinued operations	–	(507)	–
Share of net profit of associates and joint ventures	(1)	(17)	(11)
Changes in assets and liabilities:			
Change in carrying values of associates due to dividends received	–	21	–
Change in interest, fee and commission receivable and payable	(47)	(3)	43
Change in tax balances	144	7	202
Change in debtors, prepayments, accrued charges and creditors	(170)	549	(119)
Change in net trading assets and liabilities and net derivative financial instruments ⁽¹⁾	(3,198)	(4,486)	2,562
Change in other assets and liabilities	(96)	191	(106)
Change in loan assets and related entities	(6,870)	(662)	(2,264)
Change in operating lease assets	(349)	(404)	(557)
Change in deposits	2,800	3,710	4,200
Change in borrowings	935	(399)	1,557
Change in debt issued	4,737	(3,793)	(5,897)
Net cash flows (utilised in)/generated from operating activities	(933)	(4,446)	1,528

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

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

	As at 30 Sep 19 \$m	As at 31 Mar 19 \$m	As at 30 Sep 18 \$m
Note 19			
Contingent liabilities and commitments			
Contingent liabilities exist in respect of:			
Letters of credit	1,414	1,221	907
Performance related contingents ⁽¹⁾	1,091	1,112	1,077
Indemnities	527	389	107
Guarantees	195	114	118
Total contingent liabilities^{(2),(3)}	3,227	2,836	2,209
Commitments exist in respect of:			
Undrawn credit facilities and securities commitments ^{(4),(5),(6)}	7,206	7,300	7,776
Other asset developments commitments	923	1,026	1,093
Total commitments	8,129	8,326	8,869
Total contingent liabilities and commitments	11,356	11,162	11,078

(1) Includes \$795 million (31 March 2019: \$821 million; 30 September 2018: \$831 million) in favour of a related party for which collateral of a similar amount has been received.

(2) 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 economic outflow of resources 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.

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

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

(5) Includes \$2,519 million (31 March 2019: \$2,395 million; 30 September 2018: \$2,352 million) credit facility granted to a related body corporate entity.

(6) Includes \$1,017 million (31 March 2019: \$1,038 million, 30 September 2018: \$1,092 million) for certain contractually irrevocable mortgage related facilities which have been reassessed to be included in the current and previous reporting periods.

Note 20

Measurement categories of financial instruments

The following table contains information relating to the measurement categories of financial instruments of the Consolidated Entity. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 21 *Fair values of financial assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT						Non-financial instruments	Statement of financial position total	FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE				Amortised cost	Fair value			Amortised cost	
	HFT	DFVTPL	FVTPL	FVOCI						
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
AS AT 30 SEPTEMBER 2019										
Assets										
Cash and bank balances	-	-	-	-	7,773	-	7,773	-	7,773	
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	19,147	-	10,763	-	29,910	19,147	10,763	
Trading assets ⁽¹⁾	22,311	-	-	-	-	-	22,311	22,311	-	
Margin money and settlement assets	-	-	2,351	-	12,747	-	15,098	2,351	12,747	
Derivative assets ⁽²⁾	17,606	-	-	-	-	-	17,606	17,606	-	
Financial investments										
Equity	-	-	164	-	-	-	164	164	-	
Debt	-	-	238	5,628	-	-	5,866	5,866	-	
Other assets ⁽³⁾	-	140	376	-	721	619	1,856	516	721	
Loan assets ⁽⁴⁾	-	11	1,317	-	78,962	-	80,290	1,328	79,432	
Due from related body corporate entities	-	-	-	-	1,216	-	1,216	-	1,216	
Property, plant and equipment	-	-	-	-	-	2,668	2,668	-	-	
Interests in associates and joint ventures										
Equity interests	-	-	-	-	-	214	214	-	-	
Loans to associates and joint ventures	-	-	-	-	5	-	5	-	5	
Intangible assets	-	-	-	-	-	179	179	-	-	
Deferred tax assets	-	-	-	-	-	460	460	-	-	
Total assets	39,917	151	23,593	5,628	112,187	4,140	185,616	69,289	112,657	
Liabilities										
Cash collateral on securities lent and repurchase agreements	-	3,030	-	-	2,464	-	5,494	3,030	2,464	
Trading liabilities	7,678	-	-	-	-	-	7,678	7,678	-	
Margin money and settlement liabilities	-	-	-	-	21,458	-	21,458	-	21,458	
Derivative liabilities ⁽²⁾	14,057	-	-	-	-	-	14,057	14,057	-	
Deposits	-	-	-	-	58,965	-	58,965	-	59,019	
Other liabilities ^{(5),(6)}	-	455	-	-	753	1,428	2,636	455	715	
Borrowings	-	-	-	-	2,611	-	2,611	-	2,639	
Due to related body corporate entities	-	-	-	-	16,295	-	16,295	-	16,295	
Debt issued ⁽⁴⁾	-	1,847	-	-	37,400	-	39,247	1,847	37,595	
Deferred tax liabilities	-	-	-	-	-	10	10	-	-	
Loan capital ⁽⁴⁾	-	-	-	-	4,828	-	4,828	-	4,896	
Total liabilities	21,735	5,332	-	-	144,774	1,438	173,279	27,067	145,081	

(1) Includes commodities carried at fair value which are held for trading purposes.

(2) All derivatives, including those held for hedging purposes, are classified as HFT.

(3) Non-financial assets primarily represents prepayments and tax receivables.

(4) Items measured at amortised cost includes, where applicable, hedge accounting adjustments for the designated hedged risk.

(5) Non-financial liabilities primarily represents accrued charges, employee related provisions and tax payables.

(6) Fair value of other liabilities excludes the fair value of lease liabilities.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 20

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT					Non-financial instruments \$m	Statement of financial position total \$m	FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE				Amortised cost \$m			Fair value \$m	Amortised cost \$m
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m					
Assets									AS AT 31 MARCH 2019
Cash and bank balances	–	–	–	–	7,693	–	7,693	–	7,693
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	19,155	–	9,993	–	29,148	19,155	9,993
Trading assets ⁽¹⁾	17,502	–	–	–	–	–	17,502	17,502	–
Margin money and settlement assets	–	–	3,747	–	10,749	–	14,496	3,747	10,749
Derivative assets ⁽²⁾	14,090	–	–	–	–	–	14,090	14,090	–
Financial investments									
Equity	–	–	260	–	–	–	260	260	–
Debt	–	–	80	5,130	–	–	5,210	5,210	–
Other assets ⁽³⁾	–	80	323	–	1,026	676	2,105	403	1,026
Loan assets ⁽⁴⁾	–	146	366	–	73,309	–	73,821	512	73,354
Due from related body corporate entities	–	–	–	–	1,522	–	1,522	–	1,522
Property, plant and equipment	–	–	–	–	–	2,738	2,738	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	209	209	–	–
Loans to associates and joint ventures	–	–	3	–	7	–	10	3	7
Intangible assets	–	–	–	–	–	177	177	–	–
Deferred tax assets	–	–	–	–	–	441	441	–	–
Total assets	31,592	226	23,934	5,130	104,299	4,241	169,422	60,882	104,344
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,740	–	–	2,476	–	4,216	1,740	2,476
Trading liabilities	7,757	–	–	–	–	–	7,757	7,757	–
Margin money and settlement liabilities	–	–	–	–	17,901	–	17,901	–	17,901
Derivative liabilities ⁽²⁾	12,523	–	–	–	–	–	12,523	12,523	–
Deposits	–	–	–	–	56,120	–	56,120	–	56,177
Other liabilities ⁽⁵⁾	–	527	–	–	963	1,553	3,043	527	963
Borrowings	–	–	–	–	1,560	–	1,560	–	1,572
Due to related body corporate entities	–	–	–	–	16,791	–	16,791	–	16,791
Debt issued ⁽⁴⁾	–	2,087	–	–	31,500	–	33,587	2,087	31,617
Deferred tax liabilities	–	–	–	–	–	134	134	–	–
Loan capital ⁽⁴⁾	–	–	–	–	4,550	–	4,550	–	4,591
Total liabilities	20,280	4,354	–	–	131,861	1,687	158,182	24,634	132,088

(1) Includes commodities carried at fair value which are held for trading purposes.

(2) All derivatives, including those held for hedging purposes, are classified as HFT.

(3) Non-financial assets primarily represents prepayments and tax receivables.

(4) Items measured at amortised cost includes, where applicable, hedge accounting adjustments for the designated hedged risk.

(5) Non-financial liabilities primarily represents accrued charges, employee related provisions and tax payables.

Note 20

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT						Non-financial instruments \$m	Statement of financial position total \$m	FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE				Amortised cost \$m	Fair value \$m			Amortised cost \$m	
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m						
AS AT 30 SEPTEMBER 2018										
Assets										
Cash and bank balances	-	-	-	-	7,361	-	7,361	-	7,361	
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	16,272	-	11,308	-	27,580	16,272	11,308	
Trading assets ⁽¹⁾	19,514	-	-	-	-	-	19,514	19,514	-	
Margin money and settlement assets	-	-	2,171	-	12,905	-	15,076	2,171	12,905	
Derivative assets ⁽²⁾	17,901	-	-	-	-	-	17,901	17,901	-	
Financial investments										
Equity	-	-	266	-	-	-	266	266	-	
Debt	-	73	85	4,736	-	-	4,894	4,894	-	
Other assets ⁽³⁾	-	128	624	-	1,146	1,512	3,410	752	1,146	
Loan assets ⁽⁴⁾	-	175	372	94	74,724	-	75,365	641	75,362	
Due from related body corporate entities	-	-	-	-	1,414	-	1,414	-	1,414	
Property, plant and equipment	-	-	-	-	-	10,917	10,917	-	-	
Interests in associates and joint ventures										
Equity interests	-	-	-	-	-	743	743	-	-	
Loans to associates and joint ventures	-	-	3	-	6	-	9	3	6	
Intangible assets	-	-	-	-	-	198	198	-	-	
Deferred tax assets	-	-	-	-	-	231	231	-	-	
Total assets	37,415	376	19,793	4,830	108,864	13,601	184,879	62,414	109,502	
Liabilities										
Cash collateral on securities lent and repurchase agreements	-	2,330	-	-	4,338	-	6,668	2,330	4,338	
Trading liabilities	7,019	-	-	-	-	-	7,019	7,019	-	
Margin money and settlement liabilities	-	-	-	-	19,575	-	19,575	-	19,575	
Derivative liabilities ⁽²⁾	18,046	-	-	-	-	-	18,046	18,046	-	
Deposits	-	-	-	-	52,576	-	52,576	-	52,603	
Other liabilities ⁽⁵⁾	-	711	-	-	910	2,503	4,124	711	910	
Borrowings	-	-	-	-	7,020	-	7,020	-	7,033	
Due to related body corporate entities	-	-	-	-	15,243	-	15,243	-	15,243	
Debt issued ⁽⁴⁾	-	1,877	-	-	34,826	-	36,703	1,877	34,993	
Deferred tax liabilities	-	-	-	-	-	492	492	-	-	
Loan capital ⁽⁴⁾	-	-	-	-	4,366	-	4,366	-	4,486	
Total liabilities	25,065	4,918	-	-	138,854	2,995	171,832	29,983	139,181	

(1) Includes commodities carried at fair value which are held for trading purposes.

(2) All derivatives, including those held for hedging purposes, are classified as HFT.

(3) Non-financial assets primarily represents prepayments, tax receivables and inventory held for sale.

(4) Items measured at amortised cost includes, where applicable, hedge accounting adjustments for the designated hedged risk.

(5) Non-financial liabilities primarily represents accrued charges, employee related provisions, aircraft and rail maintenance liabilities and tax payables.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 21

Fair values of financial assets and liabilities

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

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

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

Financial instruments 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 the 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 fair values calculated for financial instruments which are carried in the statement of financial position at amortised cost are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates to their carrying amount as they are either short-term in nature or are payable on demand

- the fair values of variable rate financial instruments, including cash collateral on securities borrowed/cash collateral on securities lent and repurchase agreements approximates their carrying amounts. The fair value of all loan assets and debt liabilities carried at amortised cost is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower
- the fair value of debt issued, and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments
- the fair value of balances due from/to related body corporate entities is approximated by their carrying amount as the balances are generally at variable rate.

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

- trading assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices where available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments at FVOCI and FVTPL are measured at fair value by reference to quoted prices in active markets where available (for example a listed securities). If quoted market prices are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of market prices and observable market inputs. Unrealised gains and losses, excluding impairment write-downs on debt instruments on FVOCI assets, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans classified as at FVTPL and FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt

Note 21

Fair values of financial assets and liabilities continued

- 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
- the Consolidated Entity has incorporated market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MBL's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

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 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.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 21

Fair values of financial assets and liabilities continued

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
AS AT 30 SEPTEMBER 2019				
Assets				
Cash and bank balances	7,773	–	–	7,773
Cash collateral on securities borrowed and reverse repurchase agreements	–	10,763	–	10,763
Margin money and settlement assets	7,007	5,740	–	12,747
Other assets	–	721	–	721
Loan assets	–	6,850	72,582	79,432
Due from related body corporate entities	–	1,216	–	1,216
Loans to associates and joint ventures	–	–	5	5
Total assets	14,780	25,290	72,587	112,657
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	2,464	–	2,464
Margin money and settlement liabilities	15,694	5,764	–	21,458
Deposits	46,426	12,593	–	59,019
Other liabilities ⁽¹⁾	–	715	–	715
Borrowings	68	2,448	123	2,639
Due to related body corporate entities	–	16,295	–	16,295
Debt issued	–	29,317	8,278	37,595
Loan capital	438	4,458	–	4,896
Total liabilities	62,626	74,054	8,401	145,081
AS AT 31 MARCH 2019				
Assets				
Cash and bank balances	7,693	–	–	7,693
Cash collateral on securities borrowed and reverse repurchase agreements	–	9,993	–	9,993
Margin money and settlement assets	5,398	5,351	–	10,749
Other assets	–	1,026	–	1,026
Loan assets	–	6,032	67,322	73,354
Due from related body corporate entities	–	1,522	–	1,522
Loans to associates and joint ventures	–	–	7	7
Total assets	13,091	23,924	67,329	104,344
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	2,476	–	2,476
Margin money and settlement liabilities	12,968	4,933	–	17,901
Deposits	42,889	13,288	–	56,177
Other liabilities	–	963	–	963
Borrowings	532	831	209	1,572
Due to related body corporate entities	–	16,791	–	16,791
Debt issued	–	26,655	4,962	31,617
Loan capital	431	4,160	–	4,591
Total liabilities	56,820	70,097	5,171	132,088

(1) The fair value of other liabilities excludes the fair value of lease liabilities.

Note 21

Fair values of financial assets and liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets				
				AS AT 30 SEPTEMBER 2018
Cash and bank balances	7,361	–	–	7,361
Cash collateral on securities borrowed and reverse repurchase agreements	–	11,308	–	11,308
Margin money and settlement assets	6,900	6,005	–	12,905
Other assets	–	1,146	–	1,146
Loan assets	–	4,314	71,048	75,362
Due from related body corporate entities	–	1,414	–	1,414
Loans to associates and joint ventures	–	–	6	6
Total assets	14,261	24,187	71,054	109,502
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	4,338	–	4,338
Margin money and settlement liabilities	13,549	6,026	–	19,575
Deposits	42,660	9,943	–	52,603
Other liabilities	–	910	–	910
Borrowings	–	1,727	5,306	7,033
Due to related body corporate entities	–	15,243	–	15,243
Debt issued	–	30,628	4,365	34,993
Loan capital	429	4,057	–	4,486
Total liabilities	56,638	72,872	9,671	139,181

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 21

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
AS AT 30 SEPTEMBER 2019				
Assets				
Reverse repurchase agreements	–	19,147	–	19,147
Trading assets ⁽¹⁾	15,394	6,714	203	22,311
Margin money and settlement assets	1,585	766	–	2,351
Derivative assets	204	16,837	565	17,606
Financial investments	467	5,179	384	6,030
Other assets	10	504	2	516
Loan assets	–	1,264	64	1,328
Total assets	17,660	50,411	1,218	69,289
Liabilities				
Repurchase agreements	–	3,030	–	3,030
Trading liabilities	6,271	1,407	–	7,678
Derivative liabilities	368	13,433	256	14,057
Other liabilities	3	449	3	455
Debt issued	–	1,847	–	1,847
Total liabilities	6,642	20,166	259	27,067
AS AT 31 MARCH 2019				
Assets				
Reverse repurchase agreements	–	19,155	–	19,155
Trading assets ⁽¹⁾	12,361	4,969	172	17,502
Margin money and settlement assets	1,547	2,200	–	3,747
Derivative assets	240	13,304	546	14,090
Financial investments	281	4,613	576	5,470
Other assets	9	394	–	403
Loan assets	–	462	50	512
Loans to associates and joint ventures	–	–	3	3
Total assets	14,438	45,097	1,347	60,882
Liabilities				
Repurchase agreements	–	1,740	–	1,740
Trading liabilities	6,440	1,317	–	7,757
Derivative liabilities	320	11,885	318	12,523
Other liabilities	3	524	–	527
Debt issued	–	2,087	–	2,087
Total liabilities	6,763	17,553	318	24,634

(1) Includes commodities carried at fair value which are held for trading purposes.

Note 21

Fair values of financial assets and liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
AS AT 30 SEPTEMBER 2018				
Assets				
Reverse repurchase agreements	–	16,272	–	16,272
Trading assets ⁽¹⁾	14,045	5,265	204	19,514
Margin money and settlement assets	1,317	854	–	2,171
Derivative assets	870	16,428	603	17,901
Financial investments	433	4,252	475	5,160
Other assets	32	718	2	752
Loan assets	–	569	72	641
Loans to associates and joint ventures	–	–	3	3
Total assets	16,697	44,358	1,359	62,414
Liabilities				
Repurchase agreements	–	2,330	–	2,330
Trading liabilities	5,527	1,492	–	7,019
Derivative liabilities	1,122	16,548	376	18,046
Other liabilities	–	710	1	711
Debt issued	–	1,871	6	1,877
Total liabilities	6,649	22,951	383	29,983

During the current period, the Consolidated Entity reclassified \$2,601 million (31 March 2019: \$3,029 million; 30 September 2018: \$2,697 million) representing certain bonds and bank bills (financial investments) from Level 1 to Level 2 following a reassessment of valuation inputs. Comparative information has been updated to conform to the current period presentation.

(1) Includes commodities carried at fair value which are held for trading purposes.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 21

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

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

	Trading assets \$m	Financial investments \$m	Other assets \$m
Balance as at 1 Apr 2018	170	139	2
Purchases, originations, issuances and other additions	7	258	–
Sales, settlements and repayments	(24)	(12)	–
Transfers into Level 3 ⁽²⁾	35	97	–
Transfers out of Level 3 ⁽²⁾	(2)	(1)	–
Fair value movements recognised in the income statement ⁽³⁾	18	(8)	–
Fair value movements recognised in OCI ⁽³⁾	–	2	–
Balance as at 30 Sep 2018	204	475	2
Fair value movements for the period included in the income statements for assets and liabilities held at the end of the period ⁽³⁾	17	4	–
Balance as at 1 Oct 2018	204	475	2
Purchases, originations, issuances and other additions	33	144	–
Sales, settlements and repayments	(14)	(27)	(2)
Transfers into Level 3 ⁽²⁾	–	–	–
Transfers out of Level 3 ⁽²⁾	(25)	(36)	–
Fair value movements recognised in the income statement ⁽³⁾	(26)	25	–
Fair value movements recognised in OCI ⁽³⁾	–	(5)	–
Balance as at 31 Mar 2019	172	576	–
Fair value movements for the period included in the income statements for assets and liabilities held at the end of the period ⁽³⁾	(11)	(7)	–
Balance as at 1 Apr 2019	172	576	–
Purchases, originations, issuances and other additions	13	20	–
Sales, settlements and repayments	(15)	(177)	–
Transfers into Level 3 ⁽²⁾	48	31	–
Transfers out of Level 3 ⁽²⁾	(31)	(57)	–
Fair value movements recognised in the income statement ⁽³⁾	16	(9)	2
Fair value movements recognised in OCI ⁽³⁾	–	–	–
Balance as at 30 Sep 2019	203	384	2
Fair value movements for the period included in the income statements for assets and liabilities held at the end of the period ⁽³⁾	16	(8)	2

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative asset are \$565 million (31 March 2019: \$546 million; 30 September 2018: \$603 million) and derivative liabilities are \$256 million (31 March 2019: \$318 million; 30 September 2018: \$376 million).

(2) Assets and liabilities transferred in or out of Level 3 are presented if those assets or liabilities had been transferred at the beginning of the period.

(3) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not include the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

Loan assets \$m	Loans to associates and joint ventures \$m	Other liabilities \$m	Debt issued \$m	Derivative financial instruments (net replacement values) ⁽¹⁾ \$m	Total \$m
72	3	(1)	(6)	270	649
-	-	-	-	54	319
-	-	-	-	(46)	(82)
-	-	-	-	1	133
-	-	-	-	13	10
-	-	-	-	(65)	(55)
-	-	-	-	-	2
72	3	(1)	(6)	227	976
-	-	-	-	(64)	(43)
72	3	(1)	(6)	227	976
6	-	-	-	-	183
(28)	-	1	6	(30)	(94)
-	-	-	-	11	11
-	-	-	-	-	(61)
-	-	-	-	20	19
-	-	-	-	-	(5)
50	3	-	-	228	1,029
-	-	-	-	19	1
50	3	-	-	228	1,029
21	-	(3)	-	46	97
(11)	(3)	-	-	(23)	(229)
-	-	-	-	6	85
-	-	-	-	(51)	(139)
4	-	-	-	103	116
-	-	-	-	-	-
64	-	(3)	-	309	959
4	-	-	-	103	117

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 21

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the period, the Consolidated Entity did not have significant transfers between Level 1 and 2. Certain comparatives have been updated to conform to current period presentation.

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

Unrecognised gains

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

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Half-year to 30 Sep 19 \$m	Half-year to 31 Mar 19 \$m	Half-year to 30 Sep 18 \$m
Balance at the beginning of the period	183	174	178
Deferral on new transactions	86	50	19
Amounts recognised in the income statement during the period	(50)	(41)	(23)
Balance at the end of the period	219	183	174

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions, for Level 3 financial instruments whose fair values are determined in whole or in part using unobservable inputs, valuation techniques such as discounted cash flows based on assumptions by reference to historical company and industry experience. The impact of sensitivity of financial instruments which hedge the Level 3 positions but are classified as Level 1 and 2 are not included in the below table.

	FAVOURABLE CHANGES	UNFAVOURABLE CHANGES
	Profit or loss \$m	Profit or loss \$m
AS AT 30 SEPTEMBER 2019		
Product type		
Equity and equity-linked products	5	(13)
Commodities	108	(106)
Interest rate and other products	11	(11)
Total	124	(130)
AS AT 31 MARCH 2019		
Product type		
Equity and equity-linked products	7	(11)
Commodities	99	(106)
Interest rate and other products	12	(11)
Total	118	(128)
AS AT 30 SEPTEMBER 2018		
Product type		
Equity and equity-linked products	4	(8)
Commodities	60	(48)
Interest rate and other products	22	(22)
Total	86	(78)

Note 21

Fair values of financial assets and liabilities continued

Significant unobservable inputs

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

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS	
					Minimum value	Maximum value
AS AT 30 SEPTEMBER 2019						
Equity and equity-linked products	109	–	Market comparability	Price in % ⁽¹⁾		
Commodities	656	253	Pricing model	Volatility	8.0%	100.0%
Interest rate and other products	453	6	Pricing model	Correlation	0.0%	100%
			Market comparability	Price in % ⁽¹⁾		
Total	1,218	259				
AS AT 31 MARCH 2019						
Equity and equity-linked products	82	–	Market comparability	Price in % ⁽¹⁾		
Commodities	546	318	Pricing model	Volatility	3.7%	176.4%
Interest rate and other products	719	–	Pricing model	Correlation	0.0%	100%
			Market comparability	Price in % ⁽¹⁾		
Total	1,347	318				
AS AT 30 W						
Equity and equity-linked products	88	6	Market comparability	Price in % ⁽¹⁾		
Commodities	645	370	Pricing model	Volatility	5.1%	126.7%
Interest rate and other products	626	7	Pricing model	Correlation	0.0%	102.0%
			Market comparability	Price in % ⁽¹⁾		
Total	1,359	383				

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Inputs for unlisted equity securities (discount rates, earnings multiples)

Unlisted equity instruments are generally valued based on the earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiples, discount rates and forecast earnings of the investee entities.

(1) The range of inputs relating to market comparability has not been disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 22

Discontinued operations

(i) Description

On 10 December 2018, the Consolidated Entity disposed of its CAF Principal Finance and Transportation Finance businesses (the businesses) to related group entity Macquarie Financial Holdings Pty Limited (MFHPL), a related party of MBL that is 100% owned by MGL and its subsidiaries, resulting in a pre-tax gain of \$507 million. CAF Principal Finance provides flexible primary financing solutions and engages in secondary market investing across the capital structure. CAF Transportation Finance involves the financing of aircraft, rotorcraft and rail assets. Prior to the disposal date the businesses were reported as part of the CAF Operating Segment in the prior reporting period.

The Consolidated Entity utilised the sale proceeds to repay capital of \$2,040 million and pay a dividend of \$264 million to its holding company – Macquarie B.H. Pty Limited during the period ending 31 March 2019.

The gain on disposal and the financial results of the businesses are disclosed as a profit from discontinued operations in the income statement.

(ii) Income Statement

The financial results of the businesses including the impacts of the sale transaction are presented below:

	Period ended 10 Dec 18 \$m	Half-year ended 30 Sep 18 \$m
Operating profit from discontinued operations before income tax		
Net operating lease income ⁽¹⁾	131	328
Net interest expense ⁽²⁾	–	(2)
Net trading expense	(3)	(5)
Other operating income and charges ^{(3),(4)}	379	56
Gain on disposal (Note 22(iii))	507	–
Net operating income	1,014	377
Operating expenses	(65)	(188)
Operating profit from discontinued operations before income tax	949	189
Income tax expense	(121)	(61)
Profit from discontinued operations after income tax	828	128
Other comprehensive (loss)/income:		
Net movement for the period		
Exchange differences on translation and hedge of foreign operations (Note 22(v))	(163)	90
Cash flow hedges, net movements recognised in OCI (Note 22(v))	(69)	22
Other comprehensive (loss)/income from discontinued operations	(232)	112
Total comprehensive income from discontinued operations	596	240
Total comprehensive income from discontinued operations attributable to non-controlling interests	(1)	–
Total comprehensive income from discontinued operations attributable to the equity holder of the Consolidated Entity	595	240

(1) Includes rental income of \$235 million for half-year to 31 March 2019 and \$585 million for half-year to 30 September 2018 (of which net supplemental rent on aircraft is \$25 million for half-year to 31 March 2019 and \$55 million for half-year to 30 September 2018) net of depreciation of \$104 million on operating lease assets for half-year to 31 March 2019 and \$257 million for half-year to 30 September 2018.

(2) Includes interest expense of \$42 million for the half-year to 31 March 2019 and \$153 million for the half-year to 30 September 2018 paid by the businesses to Group Treasury. These amounts have been reported as interest income in the Consolidated Entity's continuing operations.

(3) Half-year to 31 March 2019 includes \$339 million of gain on disposal of assets and liabilities held for sale.

(4) Includes ECL allowance of \$3 million for half-year to 31 March 2019 and \$5 million for half-year to 30 September 2018.

Note 22

Discontinued operations continued

(iii) Gain on disposal

	As at 10 Dec 18 \$m
Consideration ⁽¹⁾	6,949
Carrying value of net assets and liabilities disposed of or deconsolidated (Note 22(iv))	6,649
Gain on disposal before transfer of OCI to the income statement	300
Items reclassified from OCI to the income statement:	
Exchange differences on translation and hedge of foreign operations (Note 22(v))	160
Cash flow hedges	47
Total gain on disposal	507

(iv) Carrying value of net assets and liabilities disposed of on 10 December 2018

Assets

Cash and bank balances	422
Other assets	641
Loan assets ⁽²⁾	3,795
Property, plant and equipment	8,162
Investment in associates and joint ventures	629
Deferred tax assets	185
Total assets	13,834

Liabilities

Deposits	(192)
Other liabilities	(1,195)
Borrowings	(5,113)
Debt issued	(37)
Deferred tax liabilities	(648)
Total liabilities	(7,185)
Net assets	6,649

(1) Includes cash consideration of \$6,506 million for the Consolidated Entity.

(2) Net of ECL allowance of \$33 million for the Consolidated Entity.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 22

Discontinued operations continued

(v) Reserves

	Period ended 10 Dec 18 \$m	Half-year ended 30 Sep 18 \$m
Foreign currency translation reserve⁽¹⁾		
Balance at the beginning of the period	163	73
Net movement for the period/year		
Exchange differences on translation of foreign operations, net of hedge	(3)	90
Transferred to income statement on disposal of foreign operations	(160)	–
Balance at the end of the period	–	163
Cash flow hedging reserve⁽¹⁾		
Balance at the beginning of the period	69	47
Net movement for the period		
Revaluation movement for the period	(30)	29
Transferred to income statement during the period	–	(7)
Transferred to income statement on disposal of discontinued operations	(39)	–
Balance at the end of the period	–	69

(vi) Cash flow information

	Period ended 10 Dec 18 \$m	Half-year ended 30 Sep 18 \$m
Net cash flow		
Cash (utilised in)/generated from operating activities	(330)	147
Cash generated from/(utilised in) investing activities	438	(54)
Net increase in cash and cash equivalents from discontinued operations	108	93
Cash and cash equivalents at the beginning of the period	314	221
Cash and cash equivalents at the end of the period	422	314

(1) All items are net of tax, where applicable.

Note 23

Acquisitions and disposals of subsidiaries and businesses

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

There were no significant entities or businesses where control was gained during the current and previous period.

Significant disposal of entities or businesses

There were no individually significant entities or businesses where control was lost during the current and previous period other than that as disclosed in Note 22 *Discontinued operations*.

Note 24

Events after the reporting date

There were no material events subsequent to 30 September 2019 that have not been disclosed elsewhere in the financial statements.

Directors' declaration

For the half-year ended 30 September 2019

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 17 to 67 are in accordance with the *Corporations Act 2001* (Cth) including:
 - i. complying with the Australian Accounting Standards, and
 - ii. giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2019 and performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

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



Peter Warne
Independent Director and Chairman



Mary Reemst
Managing Director and Chief Executive Officer

Sydney
1 November 2019

Independent auditor's review report

To the members of Macquarie Bank Limited



Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Macquarie Bank Limited (the Company) and the entities it controlled during the half year (together the Consolidated Entity), which comprises the consolidated statement of financial position as at 30 September 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* (Cth) including giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth). As the auditor of Macquarie Bank Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macquarie Bank Limited is not 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 30 September 2019 and of its performance for the half-year ended on that date;
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth).

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
1 November 2019

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