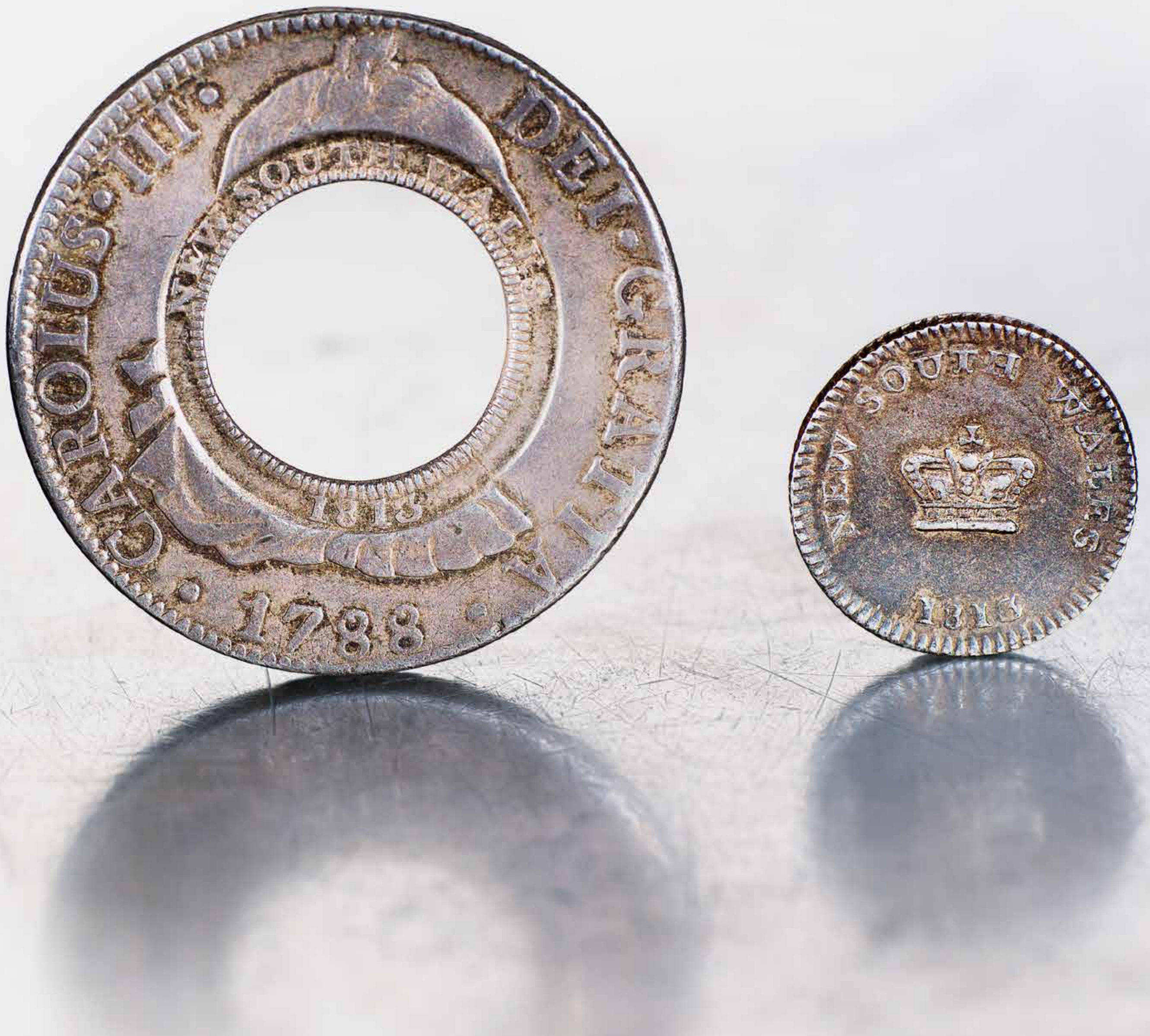
Interim Financial Report

Macquarie Group

Half-year ended 30 September 2019



Macquarie Group 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 MGL ABN 94 122 169 279 and is current at the date of this report. It is general background information about Macquarie's 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 MGL's Directors on 1 November 2019. The Board of Directors has the power to amend and reissue the Financial Report.

This page has been intentionally left blank.

01

Directors' Report

Directors

For the half-year ended 30 September 2019

The Directors of MGL 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 Macquarie are:

Independent Directors

P.H. Warne, Chairman

G.R. Banks AO

J.R. Broadbent AC

G.M. Cairns

P.M. Coffey

M.J. Coleman

D.J. Grady AM

M.J. Hawker AM

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Director

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

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

Result

The financial report for the half-year ended 30 September 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 holders of Macquarie Group Limited, in accordance with Australian Accounting Standards, for the period was $A1,457 million (half-year to 31 March 2019: $A1,672 million; half-year to 30 September 2018: $A1,310 million).

Auditor's independence declaration

For the half-year ended 30 September 2019

pwc

As lead auditor for the review of Macquarie Group 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 Group 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
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

This page has been intentionally left blank.

02

Financial Report

Consolidated income statement

For the half-year ended 30 September 2019

	Notes	**Half-year to 30 Sep 19[1] $m**	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Interest and similar income				
Effective interest rate method	2	**2,171**	2,261	2,350
Other	2	**377**	407	337
Interest and similar expense	2	**(1,758)**	(1,906)	(1,689)
Net interest income		**790**	762	998
Fee and commission income	2	**2,874**	2,865	2,661
Net trading income	2	**1,627**	1,560	1,231
Net operating lease income	2	**461**	489	461
Share of net (losses)/profits of associates and joint ventures	2	**(49)**	(63)	7
Credit impairment charges	2	**(144)**	(276)	(44)
Other impairment reversal/(charges)	2	**5**	(200)	(32)
Other operating income and charges	2	**756**	1,787	548
Net operating income		**6,320**	6,924	5,830
Employment expenses	2	**(2,776)**	(2,763)	(2,454)
Brokerage, commission and trading-related expenses	2	**(482)**	(561)	(579)
Occupancy expenses	2	**(201)**	(234)	(207)
Non-salary technology expenses	2	**(367)**	(353)	(331)
Other operating expenses	2	**(654)**	(851)	(554)
Total operating expenses		**(4,480)**	(4,762)	(4,125)
Operating profit before income tax		**1,840**	2,162	1,705
Income tax expense	4	**(376)**	(505)	(374)
Profit after income tax		**1,464**	1,657	1,331
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Securities	20	**(6)**	(8)	(7)
Other non-controlling interests		**(1)**	23	(14)
Total (profit)/loss attributable to non-controlling interests		**(7)**	15	(21)
Profit attributable to the ordinary equity holders of Macquarie Group Limited		**1,457**	1,672	1,310
		Cents per share	Cents per share	Cents per share
Basic earnings per share	6	**430.1**	494.5	388.3
Diluted earnings per share	6	**419.5**	483.9	383.1

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

(1) The September 2019 financial results reflect the adoption of AASB 16 *Leases* (AASB 16) on 1 April 2019. As permitted by the standard, the Consolidated Entity has not restated the comparative financial reporting periods. Refer Note 1 for the impact on initial adoption of AASB 16.

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 after income tax		**1,464**	1,657	1,331
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)	20	**84**	(97)	(17)
Change in allowance for expected credit losses	20	**(58)**	46	6
Cash flow hedges, net movement recognised in OCI:				
Revaluation movement	20	**(57)**	(82)	(1)
Transferred to income statement	20	**28**	13	12
Share of other comprehensive losses of associates and joint ventures	20	**(44)**	(15)	(17)
Exchange differences on translation and hedge of foreign operations		**338**	114	308
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	20	**(20)**	18	(12)
Total other comprehensive income/(loss)		**271**	(3)	279
Total comprehensive income		**1,735**	1,654	1,610
Total comprehensive (income)/loss attributable to non-controlling interests:				
Macquarie Income Securities		**(6)**	(8)	(7)
Other non-controlling interests		**(11)**	20	16
Total comprehensive (income)/loss attributable to non-controlling interests		**(17)**	12	9
Total comprehensive income attributable to the ordinary equity holders of Macquarie Group Limited		**1,718**	1,666	1,619

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[1] $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Assets				
Cash and bank balances		**9,579**	9,787	9,625
Cash collateral on securities borrowed and reverse repurchase agreements		**30,201**	29,348	27,837
Trading assets	7	**24,230**	18,670	20,158
Margin money and settlement assets	8	**20,312**	19,111	20,703
Derivative assets		**18,221**	14,457	18,115
Financial investments	9	**7,937**	7,161	6,633
Held for sale assets	10	**608**	9,023	2,153
Other assets	10	**5,625**	5,169	5,248
Loan assets	11	**85,066**	78,474	76,953
Property, plant and equipment	13	**5,471**	4,701	11,361
Interests in associates and joint ventures	14	**8,500**	4,219	4,143
Intangible assets		**2,666**	2,031	1,894
Deferred tax assets		**1,079**	1,031	775
Total assets		**219,495**	203,182	205,598
Liabilities				
Cash collateral on securities lent and repurchase agreements		**5,803**	4,838	6,916
Trading liabilities	15	**8,146**	8,108	7,197
Margin money and settlement liabilities	16	**26,683**	22,576	24,902
Derivative liabilities		**14,514**	12,666	18,205
Deposits		**59,042**	56,191	52,620
Held for sale liabilities	17	**94**	6,809	504
Other liabilities	17	**6,662**	6,736	6,411
Borrowings		**14,626**	9,318	13,336
Debt issued	18	**56,070**	50,188	51,665
Deferred tax liabilities		**297**	425	800
Total liabilities excluding loan capital		**191,937**	177,855	182,556
Loan capital		**7,246**	6,963	5,883
Total liabilities		**199,183**	184,818	188,439
Net assets		**20,312**	18,364	17,159
Equity				
Contributed equity	19	**7,721**	6,181	6,144
Reserves	20	**1,927**	1,773	1,567
Retained earnings	20	**9,969**	9,807	8,849
Total capital and reserves attributable to the ordinary equity holders of Macquarie Group Limited		**19,617**	17,761	16,560
Non-controlling interests	20	**695**	603	599
Total equity		**20,312**	18,364	17,159

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

(1) The September 2019 financial position reflects the adoption of AASB 16 on 1 April 2019. As permitted by the standard, the Consolidated Entity has not restated the comparative financial reporting periods. Refer Note 1 for the impact on initial adoption of AASB 16.

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		6,243	1,351	8,651	16,245	1,807	18,052
Profit after income tax		–	–	1,310	1,310	21	1,331
Other comprehensive income/(loss), net of tax		–	321	(12)	309	(30)	279
Total comprehensive income/(loss)		–	321	1,298	1,619	(9)	1,610
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,20	–	–	(1,089)	(1,089)	–	(1,089)
Purchase of shares by MEREP Trust	19	(454)	–	–	(454)	–	(454)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(11)	(11)	(1,136)	(1,147)
Dividends and distributions paid or provided for		–	–	–	–	(63)	(63)
Other equity movements							
MEREP expense	20	–	227	–	227	–	227
Additional deferred tax benefit on MEREP expense	20	–	21	–	21	–	21
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	19,20	331	(331)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP Awards	19,20	25	(25)	–	–	–	–
Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity	19	2	–	–	2	–	2
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	19,20	(3)	3	–	–	–	–
		(99)	(105)	(1,100)	(1,304)	(1,199)	(2,503)
Balance as at 30 Sep 2018		6,144	1,567	8,849	16,560	599	17,159

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 30 Sep 2018		6,144	1,567	8,849	16,560	599	17,159
Profit after income tax		–	–	1,672	1,672	(15)	1,657
Other comprehensive (loss)/income, net of tax		–	(24)	18	(6)	3	(3)
Total comprehensive (loss)/income		–	(24)	1,690	1,666	(12)	1,654
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,20	–	–	(730)	(730)	–	(730)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(2)	(2)	58	56
Dividends and distributions paid or provided for		–	–	–	–	(42)	(42)
Other equity movements:							
MEREP expense	20	–	264	–	264	–	264
Additional deferred tax benefit on MEREP expense	20	–	3	–	3	–	3
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	19,20	39	(39)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	19,20	(2)	2	–	–	–	–
		37	230	(732)	(465)	16	(449)
Balance as at 31 Mar 2019		**6,181**	**1,773**	**9,807**	**17,761**	**603**	**18,364**
Change on initial application of AASB 16	1	**–**	**–**	**(49)**	**(49)**	**–**	**(49)**
Restated balance as at 1 Apr 2019		**6,181**	**1,773**	**9,758**	**17,712**	**603**	**18,315**
Profit after income tax		**–**	**–**	**1,457**	**1,457**	**7**	**1,464**
Other comprehensive income/(loss), net of tax		**–**	**281**	**(20)**	**261**	**10**	**271**
Total comprehensive income		**–**	**281**	**1,437**	**1,718**	**17**	**1,735**
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	19	**1,670**	**–**	**–**	**1,670**	**–**	**1,670**
Dividends paid	5,20	**–**	**–**	**(1,224)**	**(1,224)**	**–**	**(1,224)**
Purchase of shares by MEREP Trust	19	**(607)**	**–**	**–**	**(607)**	**–**	**(607)**
Non-controlling interests:							
Change in non-controlling ownership interests		**–**	**–**	**(2)**	**(2)**	**81**	**79**
Dividends and distributions paid or provided for		**–**	**–**	**–**	**–**	**(6)**	**(6)**
Other equity movements:							
MEREP expense	20	**–**	**336**	**–**	**336**	**–**	**336**
Additional deferred tax benefit on MEREP expense	20	**–**	**14**	**–**	**14**	**–**	**14**
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	19,20	**448**	**(448)**	**–**	**–**	**–**	**–**
Transfer of additional deferred tax benefit on MEREP expense from share based payments reserve on vesting of MEREP awards	19,20	**31**	**(31)**	**–**	**–**	**–**	**–**
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	19,20	**(2)**	**2**	**–**	**–**	**–**	**–**
		1,540	**(127)**	**(1,226)**	**187**	**75**	**262**
Balance as at 30 Sep 2019		**7,721**	**1,927**	**9,969**	**19,617**	**695**	**20,312**

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

Consolidated statement of cash flows

For the half-year ended 30 September 2019

	Notes	Half-year to 30 Sep 19[1] $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Cash flows generated from/(utilised in) operating activities				
Interest and similar income received		**2,538**	2,672	2,690
Interest and similar expenses paid[1]		**(1,794)**	(1,878)	(1,669)
Fees and other non-interest income received		**2,557**	2,659	2,406
Fees and commissions paid		**(485)**	(639)	(451)
Operating lease income received		**973**	1,621	1,098
Dividends and distributions received		**143**	151	158
Employment expenses paid		**(3,077)**	(1,663)	(2,753)
Operating expenses paid[1]		**(1,085)**	(727)	(830)
Income tax paid		**(613)**	(713)	(448)
Changes in operating assets and liabilities:				
Net movement in loan assets		**(6,338)**	(1,104)	(3,101)
Net movement in assets under operating lease		**(328)**	(1,111)	(557)
Net movement in deposits		**2,802**	3,499	4,218
Net movement in borrowings		**4,924**	788	3,887
Net movement in debt issued		**4,078**	(2,309)	(6,076)
Net movement in trading assets and liabilities		**(1,802)**	(3,086)	4,162
Net movement in other assets and liabilities[1]		**(232)**	83	(209)
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 generated from/(utilised in) operating activities	21	**2,262**	(1,760)	2,524
Cash flows (utilised in)/generated from investing activities				
Net (payments for)/proceeds from financial investments		**(627)**	(91)	764
Proceeds from the disposal of or capital return from associates, subsidiaries and businesses, net of cash deconsolidated		**679**	3,007	1,791
Payments for the acquisition of/capital contribution in associates, subsidiaries and businesses, net of cash acquired		**(3,418)**	(1,152)	(1,285)
Proceeds from the disposal of property, plant and equipment, and intangible assets		**12**	–	6
Payments for the acquisition of property, plant and equipment, intangible assets and other assets		**(584)**	(65)	(574)
Net cash flows (utilised in)/generated from investing activities		**(3,938)**	1,699	702
Cash flows generated from/(utilised in) financing activities				
Proceeds from the issue of ordinary shares		**1,670**	–	–
Receipt from/(payments to) non-controlling interests		**216**	(65)	(71)
Proceeds from the issue of loan capital		**–**	887	670
Payments on redemption of loan capital		**–**	–	(270)
Dividends and distributions paid		**(1,231)**	(739)	(1,096)
Payments for the acquisition of treasury shares		**(607)**	–	(454)
Net cash flows generated from/(utilised in) financing activities		**48**	83	(1,221)
Net (decrease)/increase in cash and cash equivalents		**(1,628)**	22	2,005
Cash and cash equivalents at the beginning of the period		**14,128**	14,106	12,101
Cash and cash equivalents at the end of the period	21	**12,500**	14,128	14,106

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

(1) The September 2019 financial results reflect the adoption of AASB 16 on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated the comparative financial reporting periods. Refer Note 1 for the impact on initial adoption of AASB 16.

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 Group Limited (MGL 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 ARRs 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 ARRs. 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 ARRs, 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 ARRs. 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* (AASB 117) 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.

(1) 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.* The resultant reclassifications and adjustments arising upon transition to the new standard have been recognised in the opening balance sheet on 1 April 2019.

For leases of office space, a transition adjustment was recognised as an adjustment to the Consolidated Entity's retained earnings at 1 April 2019 for leases where the Consolidated Entity measured the ROU asset as if AASB 16 had always been applied. For other leases, the ROU asset was measured based on the lease liability as at the transition date.

At transition, the Consolidated Entity recognised lease liabilities of $949 million as a part of other liabilities and ROU assets of $737 million as a part of property, plant and equipment. After adjusting related amounts previously recorded on the balance sheet, this resulted in a reduction to retained earnings of $49 million (post tax). As permitted by AASB 16 the transition adjustment has been determined by the Consolidated Entity by electing practical expedients to not recognise short-term or low value leases on its statement of financial position at the transition date. Judgement has been applied by the Consolidated Entity in determining the transition adjustment which includes the determination of which contractual arrangements represent a lease, the period over which the lease exists, the incremental borrowing rate of the lessee entities within the Macquarie Group, and the variability of future cash flows.

Note 1
Summary of significant accounting policies continued

(i) Basis of preparation continued

The table below presents a reconciliation of the operating lease commitments as disclosed in the Consolidated Entity's 31 March 2019 financial statements, to the lease liabilities recognised on the transition date:

	CONSOLIDATED 2019
Particulars	$m
Operating lease commitments disclosed as at 31 March 2019	1,118
Add: Technology assets not recognised as a lease under previous Accounting Standard (AASB 117)	16
(Less): Lease executed but not yet effective on transition date	(94)
(Less): Impact of discounting the future lease cash flows at the incremental borrowing rate of each lessee (weighted average rate of 3.13%)	(91)
Lease liability recognised as at 1 April 2019	**949**

(2) Amendment to accounting policy following the adoption of AASB 16 on 1 April 2019

At the inception of a contract, the Consolidated Entity assesses whether a contract is, or contains, a lease.

At inception, or on reassessment of a contract that contains a lease component, the Consolidated Entity will allocate the consideration in the contract to each lease component unless an election is made to account for the lease and non-lease components as a single lease component.

a. Accounting where the Consolidated Entity is the lessee

The Consolidated entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods and may include extension options. Leases are recognised as a ROU asset and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

Lease liabilities are measured at amortised cost using the effective interest method. Interest expense is recognised as part of 'interest and similar expense' in the income statement over the lease period on the remaining lease liability balance for each period. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, changes in the estimated amount payable under a residual value guarantee, or changes in cash flows associated with purchase, extension or termination options.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the ROU asset, or, in the income statement, where the carrying value of the ROU asset has been fully written down.

Right-of-use asset

ROU assets are measured at cost and comprise of the amount that corresponds to the amount recognised for the lease liability on initial recognition together with any lease payments made at or before the commencement date (less any lease incentives received), initial direct costs and restoration-related costs. The ROU asset is depreciated over the lease term on a straight-line basis. The depreciation charge relating to corporate building leases is presented as part of 'occupancy expenses' while depreciation relating to leases entered into by trading-related business is presented as part of net trading income in the income statement. The Consolidated Entity does not recognise a ROU asset for short-term or low value leases, instead the expense is recognised on a straight-line basis over the lease term as part of 'operating expenses' in the income statement.

Presentation

The Consolidated Entity presents ROU assets in 'property, plant and equipment' (refer Note 13) and lease liabilities in 'other liabilities' (refer Note 17) in the statement of financial position.

b. Accounting where the Consolidated Entity is a lessor

The accounting policies where the Consolidated Entity is a lessor are consistent with those that were applied and disclosed in the annual financial report for the year ended 31 March 2019.

When the Consolidated Entity is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The lease classification of the sublease is determined with reference to the ROU asset arising from the head lease.

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.

Note 1
Summary of significant accounting policies continued

(i) Basis of preparation continued

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 $589 million with an offsetting decrease in deferred tax liabilities to $249 million. The Consolidated Entity has not restated the comparative financial reporting periods.

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.

Note 2
Operating profit before income tax

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Net interest income			
Interest and similar income			
Effective interest rate method[(1)]	**2,171**	2,261	2,350
Other	**377**	407	337
Interest and similar expense[(2)]	**(1,758)**	(1,906)	(1,689)
Net interest income	**790**	762	998
Fee and commission income			
Base and other asset management fees[(3)]	**1,113**	1,062	1,057
Performance fees[(4)]	**546**	577	282
Mergers and acquisitions, advisory and underwriting fees	**482**	433	573
Brokerage and other trading-related income	**412**	459	473
Other fee and commission income	**321**	334	276
Total fee and commission income	**2,874**	2,865	2,661
Net trading income[(5)]			
Equities	**354**	301	242
Commodities[(6),(7)]	**1,082**	1,171	811
Credit, interest rate, foreign exchange and other products	**191**	88	178
Net trading income	**1,627**	1,560	1,231
Net operating lease income			
Rental income[(8)]	**1,066**	1,199	1,091
Depreciation and other operating lease-related charges	**(605)**	(710)	(630)
Net operating lease income	**461**	489	461
Share of net (losses)/profits of associates and joint ventures	**(49)**	(63)	7

(1) Includes interest income calculated using Effective Interest Rate (EIR) method of $2,095 million (half-year to 31 March 2019: $2,211 million; half-year to 30 September 2018: $2,168 million) on financial assets measured at amortised cost and $76 million (half-year to 31 March 2019: $50 million; half-year to 30 September 2018: $182 million) on financial assets measured at FVOCI.
(2) Includes interest expense of $1,687 million (half-year to 31 March 2019: $1,786 million; half-year to 30 September 2018: $1,609 million) on financial liabilities measured at amortised cost.
(3) Includes $967 million (half-year to 31 March 2019: $916 million; half-year to 30 September 2018: $899 million) of base fee income.
(4) Includes $361 million (half-year to 31 March 2019: $225 million; half-year to 30 September 2018: $236 million) from transactions with the Consolidated Entity's associates.
(5) 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.
(6) Includes $290 million (half-year to 31 March 2019: $215 million; half-year to 30 September 2018: $204 million) of transportation, storage and certain other trading-related costs.
(7) Half-year to 30 September 2019 includes $20 million depreciation on ROU assets for trading-related businesses.
(8) Includes $65 million (half-year to 31 March 2019: $76 million; half-year to 30 September 2018: $55 million) of net supplemental rent, primarily related to Macquarie AirFinance (MAF) that was classified as held for sale as at 31 March 2019.

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m

Note 2
Operating profit before income tax continued

Credit and other impairment (charges)/reversal

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Credit impairment (charges)/reversal			
Loan assets	**(126)**	(127)	(46)
Loans to associates and joint ventures	**(6)**	(81)	(8)
Other assets	**(16)**	(36)	(3)
Financial investments	**(2)**	(30)	(5)
Undrawn credit commitments and financial guarantees	**(8)**	(6)	8
Recovery of loans previously written off	**14**	4	10
Total credit impairment charges	**(144)**	(276)	(44)
Other impairment reversal/(charges)			
Interests in associates and joint ventures	**7**	(177)	(30)
Intangible assets and other non-financial assets	**(2)**	(23)	(2)
Total other impairment reversal/(charges)	**5**	(200)	(32)
Total credit and other impairment charges	**(139)**	(476)	(76)
Other operating income and charges			
Investment income			
Net gain on equity investments	**91**	13	148
Net gain on debt investments	**7**	4	13
Net gain on interests in associates and joint ventures	**248**	971	126
Net gain on disposal of businesses and subsidiaries held for sale	**211**	601	23
Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale	**113**	28	175
Total investment income	**670**	1,617	485
Other income and charges[(1),(2)]	**86**	170	63
Total other operating income and charges	**756**	1,787	548
Net operating income	**6,320**	6,924	5,830

(1) Includes $9 million (half-year to 31 March 2019: $9 million; half-year to 30 September 2018: $22 million) of loss on derecognition of loans at amortised cost and $7 million (half-year to 31 March 2019: $9 million; half-year to 30 September 2018: $25 million) of fair value losses on loans measured at FVTPL.
(2) Includes $164 million (half-year to 31 March 2019: $84 million; half-year to 30 September 2018: $52 million) of income and $216 million (half-year to 31 March 2019: $86 million; half-year to 30 September 2018: $72 million) of expenses relating to subsidiaries that do not form part of the Consolidated Entity's integrated business operations.

Note 2
Operating profit before income tax continued

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Employment expenses			
Salary and related costs including commissions, superannuation and performance-related profit share	**(2,238)**	(2,324)	(2,033)
Share-based payments[1]	**(349)**	(275)	(247)
(Provision for)/reversal of long service and annual leave	**(15)**	5	(17)
Total compensation expenses	**(2,602)**	(2,594)	(2,297)
Other employment expenses including on-costs, staff procurement and staff training	**(174)**	(169)	(157)
Total employment expenses	**(2,776)**	(2,763)	(2,454)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(365)**	(417)	(424)
Other fee and commission expenses	**(117)**	(144)	(155)
Total brokerage, commission and trading-related expenses	**(482)**	(561)	(579)
Occupancy expenses			
Operating lease expenses[2]	**(99)**	(140)	(116)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements	**(39)**	(38)	(39)
Other occupancy expenses	**(63)**	(56)	(52)
Total occupancy expenses	**(201)**	(234)	(207)
Non-salary technology expenses			
Information services	**(109)**	(108)	(99)
Depreciation on own use assets: equipment	**(12)**	(12)	(11)
Service provider and other non-salary technology expenses	**(246)**	(233)	(221)
Total non-salary technology expenses	**(367)**	(353)	(331)
Other operating expenses			
Professional fees	**(262)**	(276)	(202)
Travel and entertainment expenses	**(97)**	(95)	(91)
Advertising and promotional expenses	**(52)**	(47)	(45)
Amortisation of intangible assets	**(31)**	(25)	(22)
Auditor's remuneration	**(19)**	(19)	(19)
Communication expenses	**(15)**	(13)	(14)
Depreciation on own use asset: infrastructure assets	**(18)**	(15)	(16)
Other expenses	**(160)**	(361)	(145)
Total other operating expenses	**(654)**	(851)	(554)
Total operating expenses	**(4,480)**	(4,762)	(4,125)
Operating profit before income tax	**1,840**	2,162	1,705

(1) Includes $11 million (half-year to 31 March 2019: $9 million; half-year to 30 September 2018: $20 million) of share-based payments expense for cash settled awards.
(2) Includes $81 million of depreciation of right-of-use assets relating to property leases following the adoption of AASB 16. Prior periods include operating lease rentals under AASB 117.

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.

During the half-year ended March 2019, certain businesses were reorganised between Operating Groups including:

- Macquarie's Australian vehicle finance business moved from CAF into BFS
- Macquarie Capital's global real estate business moved into MAM and merged with MIRA Real Estate.

During the current period, CAF businesses have been aligned to other Operating Groups where they have the greatest opportunities in terms of shared clients and complementary offerings as follows:

- CAF Principal Finance joined Macquarie Capital, to bring together all principal investing activity and enhance our ability to invest directly and alongside clients and partners
- CAF Transportation Finance joined MAM, reflecting its evolution towards a fiduciary business following the sale of Macquarie AirFinance to a newly formed joint venture
- CAF Asset Finance moved to CGM, reflecting a 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. The financial information disclosed relates to the Consolidated Entity's ordinary activities.

These segments have been set up based on the different core products and services offered. Following the reorganisation described above, the Operating Groups comprise:

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure, renewables, real estate, agriculture, transportation finance, equities, fixed income, private credit and multi-asset solutions
- **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
- **Macquarie Capital** has global capability in advisory, capital raising services, providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors and investing alongside partners and clients, across the capital structure. It also has global capability in infrastructure, green and conventional energy, focusing on utilising its balance sheet to construct assets, build businesses and create platforms across development, construction and operational phases.

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'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.

Note 3

Segment reporting continued

(i) Operating Segments continued

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.

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 the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of 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'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 ordinary activities.

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:

	Macquarie Asset Management $m	Banking and Financial Services $m
Net interest and trading (expense)/income	**(258)**	**838**
Fee and commission income/(expense)	**1,648**	**226**
Net operating lease income	**303**	**–**
Share of net profits/(losses) of associates and joint ventures	**83**	**(3)**
Credit and other impairment (charges)/reversal	**(5)**	**(42)**
Other operating income and charges	**108**	**–**
Internal management revenue/(charge)	**–**	**2**
Net operating income	**1,879**	**1,021**
Total operating expenses	**(755)**	**(636)**
Operating profit/(loss) before income tax	**1,124**	**385**
Income tax expense	**–**	**–**
(Profit)/loss attributable to non-controlling interests	**(2)**	**–**
Net profit/(loss) attributable to ordinary equity holders	**1,122**	**385**
Reportable segment assets	**10,368**	**68,880**
Net interest and trading (expense)/income	(252)	844
Fee and commission income/(expense)	1,538	232
Net operating lease income	335	–
Share of net profits/(losses) of associates and joint ventures	27	9
Credit and other impairment charges	(87)	(54)
Other operating income and charges	125	21
Internal management revenue/(charge)	107	–
Net operating income	1,793	1,052
Total operating expenses	(770)	(674)
Operating profit/(loss) before income tax	1,023	378
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(1)	–
Net profit/(loss) attributable to ordinary equity holders	1,022	378
Reportable segment assets	16,315	63,893
Net interest and trading (expense)/income	(217)	834
Fee and commission income/(expense)	1,292	244
Net operating lease income	327	–
Share of net profits/(losses) of associates and joint ventures	87	(1)
Credit and other impairment (charges)/reversal	(18)	(28)
Other operating income and charges	63	–
Internal management revenue/(charge)	–	2
Net operating income	1,534	1,051
Total operating expenses	(683)	(673)
Operating profit/(loss) before income tax	851	378
Income tax expense	–	–
Profit attributable to non-controlling interests	(1)	–
Net profit/(loss) attributable to ordinary equity holders	850	378
Reportable segment assets	15,491	61,623

Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
			HALF-YEAR TO 30 SEPTEMBER 2019
1,688	**(18)**	**167**	**2,417**
606	**415**	**(21)**	**2,874**
157	**–**	**1**	**461**
9	**(137)**	**(1)**	**(49)**
(35)	**(59)**	**2**	**(139)**
49	**576**	**23**	**756**
2	**38**	**(42)**	**–**
2,476	**815**	**129**	**6,320**
(1,338)	**(593)**	**(1,158)**	**(4,480)**
1,138	**222**	**(1,029)**	**1,840**
–	**–**	**(376)**	**(376)**
–	**1**	**(6)**	**(7)**
1,138	**223**	**(1,411)**	**1,457**
115,308	**12,763**	**12,176**	**219,495**
			HALF-YEAR TO 31 MARCH 2019
1,583	26	121	2,322
611	497	(13)	2,865
153	–	1	489
10	(102)	(7)	(63)
(147)	(179)	(9)	(476)
82	1,543	16	1,787
(9)	26	(124)	–
2,283	1,811	(15)	6,924
(1,403)	(569)	(1,346)	(4,762)
880	1,242	(1,361)	2,162
–	–	(505)	(505)
(1)	23	(6)	15
879	1,265	(1,872)	1,672
103,456	8,950	10,568	203,182
			HALF-YEAR TO 30 SEPTEMBER 2018
1,357	61	194	2,229
611	526	(12)	2,661
132	–	2	461
10	(89)	–	7
(18)	4	(16)	(76)
54	506	(75)	548
5	15	(22)	–
2,151	1,023	71	5,830
(1,286)	(504)	(979)	(4,125)
865	519	(908)	1,705
–	–	(374)	(374)
(1)	(10)	(9)	(21)
864	509	(1,291)	1,310
107,651	10,936	9,897	205,598

Note 3
Segment reporting continued

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

The below table represents a disaggregation of fee and commission income by Operating Segment:

	Macquarie Asset Management $m	Banking and Financial Services $m	Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
Fee and commission income						**HALF-YEAR TO 30 SEPTEMBER 2019**
Base and other asset management fees	**999**	**110**	**4**	**–**	**–**	**1,113**
Performance fees	**546**	**–**	**–**	**–**	**–**	**546**
Mergers and acquisitions, advisory and underwriting fees	**23**	**–**	**58**	**411**	**(10)**	**482**
Brokerage and other trading-related income	**4**	**25**	**383**	**–**	**–**	**412**
Other fee and commission income	**76**	**91**	**161**	**4**	**(11)**	**321**
Total	**1,648**	**226**	**606**	**415**	**(21)**	**2,874**
Fee and commission income						HALF-YEAR TO 31 MARCH 2019
Base and other asset management fees	947	112	3	–	–	1,062
Performance fees	483	–	–	94	–	577
Mergers and acquisitions, advisory and underwriting fees	23	–	16	396	(2)	433
Brokerage and other trading-related income	6	28	425	–	–	459
Other fee and commission income	79	92	167	7	(11)	334
Total	1,538	232	611	497	(13)	2,865
Fee and commission income						HALF-YEAR TO 30 SEPTEMBER 2018
Base and other asset management fees	930	121	6	–	–	1,057
Performance fees	282	–	–	–	–	282
Mergers and acquisitions, advisory and underwriting fees	12	–	55	508	(2)	573
Brokerage and other trading-related income	2	39	432	–	–	473
Other fee and commission income	66	84	118	18	(10)	276
Total	1,292	244	611	526	(12)	2,661

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;
- **Asset and wealth management**: distribution and manufacture of funds & wealth management products; and
- **Capital markets**: advisory & capital raising services, underwriting, facilitation and principal lending & investments.

	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	**2,864**	3,036	2,756
Financial markets	**3,194**	3,171	2,779
Asset and wealth management	**1,798**	1,731	1,488
Capital markets	**1,485**	2,309	1,404
Total revenue from external customers[1]	**9,341**	10,247	8,427

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 recorded. The operations of the Consolidated Entity are headquartered in Australia.

	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			
Australia	**3,154**	3,224	3,296
Americas[2]	**2,854**	2,964	2,320
Europe, Middle East and Africa[3]	**2,665**	3,450	2,207
Asia Pacific	**668**	609	604
Total	**9,341**	10,247	8,427

(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 $2,521 million (half-year to 31 March 2019: $2,809 million; half-year to 30 September 2018: $2,189 million).
(3) Includes external revenue generated in the United Kingdom of $2,091 million (half-year to 31 March 2019: $2,385 million; half-year to 30 September 2018: $1,698 million).

	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 *prima facie* tax payable

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Prima facie income tax expense on operating profit[1]	**(552)**	(648)	(512)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**204**	136	153
Other items	**(28)**	7	(15)
Total income tax expense	**(376)**	(505)	(374)

(ii) Tax benefit/(expense) relating to items of OCI

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
FVOCI reserve	**(2)**	4	5
Own credit risk	**8**	(8)	5
Cash flow hedges	**2**	7	4
Foreign currency translation and net investment hedge reserve	**–**	1	–
Share of other comprehensive (income)/expense of associates and joint ventures	**(6)**	7	6
Total tax benefit relating to items of OCI	**2**	11	20

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 paid or provided for

(i) Dividends paid

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Ordinary share capital and exchangeable shares			
Final dividend paid (2019: $3.60 (2018: $3.20) per share)	**1,224**	–	1,089
Interim dividend paid (2019: $2.15 per share)	**–**	730	–
Total dividends paid (Note 20)[(1)]	**1,224**	730	1,089

The 2019 final dividend paid during the period was franked at 45% based on tax paid at 30% (2018 final dividend franked at 45% based on tax paid at 30%; 2019 interim dividend franked at 45% based on tax paid at 30%). The dividends paid to the holders of the exchangeable shares were not franked (refer Note 19 *Contributed equity* for information on exchangeable shares).

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in Note 19 *Contributed equity*.

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

Since the end of the period, the Directors have resolved to pay an interim dividend for the half-year ended 30 September 2019 of $2.50 per fully paid ordinary share, franked at 40% based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 18 December 2019 from retained profits at 30 September 2019, but not recognised as a liability at the end of the period is $886 million (refer Note 19 *Contributed equity* for further details on these instruments). This amount has been estimated based on the number of shares as at 30 September 2019.

	Half-year to 30 Sep 19 $ per share	Half-year to 31 Mar 19 $ per share	Half-year to 30 Sep 18 $ per share
Cash dividend per ordinary share (distribution of current period profits)	**2.50**	3.60	2.15

(1) Includes $8 million (half-year to 31 March 2019: $6 million; half-year to 30 September 2018: $8 million) of dividend equivalent amount paid to Deferred Share Units (DSU) holders.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 6
Earnings per share

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

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

	Half-year to 30 Sep 19	Half-year to 31 Mar 19	Half-year to 30 Sep 18
			CENTS PER SHARE
Basic earnings per share	**430.1**	494.5	388.3
Diluted earnings per share	**419.5**	483.9	383.1
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m	$m
Profit after income tax	**1,464**	1,657	1,331
(Profit)/loss attributable to non-controlling interests:			
Macquarie Income Securities	**(6)**	(8)	(7)
Other non-controlling interests	**(1)**	23	(14)
Total profit attributable to ordinary equity holders of MGL	**1,457**	1,672	1,310
Less: profit attributable to participating unvested MEREP awards	**(53)**	(68)	(53)
Total earnings used in the calculation of basic earnings per share	**1,404**	1,604	1,257
Add back:			
Profit attributable to dilutive participating unvested MEREP awards	**34**	48	36
Interest expense on loan capital, net of tax (where applicable)			
Macquarie Group Capital Notes (MCN)(1)	**–**	–	6
Macquarie Bank Capital Notes (BCN)	**10**	10	11
Macquarie Group Capital Notes 2 (MCN2)(2)	**16**	17	–
Macquarie Group Capital Notes 3 (MCN3)	**24**	26	17
Macquarie Group Capital Notes 4 (MCN4)(3)	**22**	1	–
Total earnings used in the calculation of diluted earnings per share	**1,510**	1,706	1,327

(1) Redeemed on 7 June 2018.
(2) Anti-dilutive for the half-year ended 30 September 2018.
(3) Issued on 27 March 2019.

Note 6

Earnings per share continued

	Half-year to 30 Sep 19	Half-year to 31 Mar 19	Half-year to 30 Sep 18
			NUMBER OF SHARES
Total weighted average number of equity shares (net of treasury shares) adjusted for participating unvested MEREP awards used in the calculation of basic earnings per share[(1)]	**326,439,395**	324,357,451	323,717,192
Weighted average number of equity shares used in the calculation of diluted earnings per share:			
Weighted average number of equity shares used in the calculation of basic earnings per share	**326,439,395**	324,357,451	323,717,192
Potential dilutive equity shares:			
Weighted average unvested MEREP awards	**10,959,592**	12,529,703	12,197,548
Weighted average MCN	**–**	–	1,972,695
Weighted average BCN	**3,375,733**	3,397,148	3,440,532
Weighted average MCN 2	**4,174,298**	4,200,780	–
Weighted average MCN 3	**7,861,320**	7,911,192	5,078,786
Weighted average MCN 4	**7,118,354**	196,800	–
Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share	**359,928,692**	352,593,074	346,406,753

(1) Includes weighted average number of equity shares for additional equity shares issued during the current period under the Institutional Private Placement and Share Purchase Plan.

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

Note 7
Trading assets

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Equity securities			
Listed	**9,801**	8,287	9,307
Unlisted	**1**	1	28
Debt securities			
Commonwealth and foreign government securities	**7,580**	4,762	5,700
Corporate loans and securities	**1,232**	1,931	1,233
Treasury notes	**100**	783	762
Other debt securities	**2**	36	100
Commodities	**5,514**	2,870	3,028
Total trading assets	**24,230**	18,670	20,158

Note 8
Margin money and settlement assets

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Margin placed[1]	**8,752**	7,060	8,444
Security settlements	**8,234**	7,330	9,237
Commodity settlements	**3,326**	4,721	3,022
Total margin money and settlement assets	**20,312**	19,111	20,703

Note 9
Financial investments

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Equity securities			
Listed	**241**	260	142
Unlisted	**1,072**	1,051	1,074
Debt securities			
Bonds and NCDs	**5,751**	5,100	4,781
Corporate loans and securities	**173**	166	275
Other debt securities	**700**	584	361
Total financial investments	**7,937**	7,161	6,633

(1) Margin money represents collateral placed in respect of derivative positions. Of this $5,094 million (31 March 2019: $3,584 million, 30 September 2018: $3,740 million) relates to client segregated funds, with a portion hereof classified as cash and cash equivalents as disclosed in Note 21.

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

Note 10
Held for sale and other assets

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Held for sale assets			
Assets of disposal groups and interests in associates and joint ventures held for sale[(1),(2)]	**608**	9,023	2,153
Other assets			
Debtors and prepayments[(3)]	**4,093**	3,888	3,812
Income tax receivable	**487**	397	343
Life investment linked contracts and other unitholder assets	**374**	381	623
Inventory held for sale	**275**	299	226
Other	**396**	204	244
Total other assets	**5,625**	5,169	5,248

Note 11
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[(4)]	**48,392**	**(54)**	**48,338**	43,056	(60)	42,996	40,461	(52)	40,409
Asset financing[(4)]	**17,552**	**(235)**	**17,317**	18,667	(244)	18,423	18,822	(231)	18,591
Corporate, commercial and other lending	**17,162**	**(273)**	**16,889**	15,330	(233)	15,097	16,238	(226)	16,012
Investment lending	**2,524**	**(2)**	**2,522**	1,961	(3)	1,958	1,943	(2)	1,941
Total loan assets	**85,630**	**(564)**	**85,066**	79,014	(540)	78,474	77,464	(511)	76,953

(1) Previous period includes assets of $7,995 million relating to the Consolidated Entity's interest in MAF that was classified as held for sale during 31 March 2019, which was subsequently disposed of during the current period. Refer Note 25 *Acquisitions and disposals of subsidiaries and businesses*.
(2) Subsequent to 30 September 2019, material conditions precedent to the partial sale of a number of joint ventures were met. These sales are expected to close by the end of the year. A total pre-tax gain of approximately $400 million is expected to be recognised by the Consolidated Entity in the half-year ending 31 March 2020 in relation to these sales. The Consolidated Entity's remaining investment in the entities will continue to be accounted for as joint ventures.
(3) Includes $721 million (31 March 2019: $681 million; 30 September 2018: $710 million) of fee and commission receivables and $1,517 million (31 March 2019: $1,201 million; 30 September 2018: $806 million) of fee related contract assets.
(4) 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.

Note 12

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 12
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	**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. **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. **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. **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.
Upside	Possible	**Global**: Marginally higher growth in GDP over the baseline scenario during the forecast period. **Australia**: Marginally higher GDP over the baseline scenario during the forecast period. Following the RBA increasing the cash rate in late 2019, house prices decline but recover during 2021 and end higher than current peak price levels. **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. **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.
Downside	Possible	**Global**: Marginally lower growth in GDP over the baseline through to 2022. **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. **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. **Europe**: Very low levels of GDP growth through to 2023, 10-year government bond yields remain close to current levels and rising unemployment rates.
More severe downside	Unlikely	**Global**: A recession from 2020–2021 following a marked retraction in GDP growth before recovering in 2022. **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. **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. **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.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 12

Expected credit losses continued

The table below presents the gross exposure and related ECL allowance for assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the 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)]	**9,579**	**–**	9,787	–	9,625	–
Cash collateral on securities borrowed and reverse repurchase agreements[(2)]	**11,062**	**–**	10,201	–	11,564	–
Margin money and settlement assets[(2)]	**17,957**	**–**	15,364	–	18,532	–
Financial investments	**5,693**	**5**	5,310	91	4,965	61
Other assets[(3)]	**3,431**	**87**	4,075	102	3,408	110
Loan assets[(4)]	**84,376**	**676**	78,505	618	76,339	574
Loans to associates and joint ventures[(5)]	**1,418**	**108**	609	119	362	39
Undrawn credit commitments and financial guarantees[(6)]	**8,269**	**38**	6,834	29	6,317	23
Total	**141,785**	**914**	130,685	959	131,112	807

(1) Gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the 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 contract assets of $1,517 million (31 March 2019: $1,201 million; 30 September 2018: $806 million).
(4) Includes ECL allowance of $564 million (31 March 2019: $540 million; 30 September 2018; $511 million) on loan assets carried at amortised cost and $112 million (31 March 2019: $78 million; 30 September 2018: $63 million) on loan assets measured at FVOCI.
(5) Includes ECL allowance of $39 million (31 March 2019: $50 million; 30 September 2018; $36 million) on loans to associates and joint ventures carried at FVOCI and $69 million (31 March 2019: $69 million; 30 September 2018: $3 million) on loans to associates and joint ventures measured at amortised cost.
(6) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

Note 12
Expected credit losses continued

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

	Financial investments $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
Balance as at 1 Apr 2018	52	128	572	31	33	816
Impairment charge/(reversal) (Note 2)	5	3	46	8	(8)	54
Amounts written off, previously provided for	–	(18)	(45)	–	–	(63)
Foreign exchange, reclassifications and other movements	4	(3)	1	–	(2)	–
Balance as at 30 Sep 2018	61	110	574	39	23	807
Impairment charge (Note 2)	30	36	127	81	6	280
Amounts written off, previously provided for	–	(45)	(84)	–	–	(129)
Foreign exchange, reclassifications and other movements	–	1	1	(1)	–	1
Balance as at 31 Mar 2019	91	102	618	119	29	959
Impairment charge (Note 2)	**2**	**16**	**126**	**6**	**8**	**158**
Amounts written off, previously provided for	**–**	**(3)**	**(74)**	**–**	**–**	**(77)**
Foreign exchange, reclassifications and other movements	**(88)**	**(28)**	**6**	**(17)**	**1**	**(126)**
Balance as at 30 Sep 2019	**5**	**87**	**676**	**108**	**38**	**914**

'Foreign exchange reclassifications and other movements' within the current period include the derecognition of financial investments on restructuring and the recovery of previously provided for debtors within other assets.

Note 12
Expected credit losses continued

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

		LIFETIME ECL		
	Stage I 12 month ECL $m	Stage II Not credit impaired $m	Stage III Credit impaired $m	Total ECL Allowance $m
Balance as at 1 Apr 2018	147	239	186	572
Transfers during the period	23	(19)	(4)	–
Impairment (reversal)/charge (Note 2)	(26)	3	69	46
Amounts written off, previously provided for	–	–	(45)	(45)
Foreign exchange, reclassifications and other movements	1	–	–	1
Balance as at 30 Sep 2018	145	223	206	574
Transfers during the period	32	(41)	9	–
Impairment (reversal)/charge (Note 2)	(18)	14	131	127
Amounts written off, previously provided for	–	–	(84)	(84)
Foreign exchange, reclassifications and other movements	(1)	3	(1)	1
Balance as at 31 Mar 2019	158	199	261	618
Transfers during the period	**17**	**(11)**	**(6)**	**–**
Impairment (reversal)/charge (Note 2)	**(7)**	**6**	**127**	**126**
Amounts written off, previously provided for	**–**	**–**	**(74)**	**(74)**
Foreign exchange, reclassifications and other movements	**–**	**1**	**5**	**6**
Balance as at 30 Sep 2019	**168**	**195**	**313**	**676**

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.

Note 13
Property, plant and equipment

	AS AT 30 SEP 19			AS AT 31 MAR 19			AS AT 30 SEP 18		
	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m
Total assets for own use	1,611	(859)	752	1,418	(754)	664	1,481	(712)	769
Total assets under operating lease[(1)]	5,794	(1,857)	3,937	5,724	(1,687)	4,037	14,765	(4,173)	10,592
Total right-of-use assets[(2)]	890	(108)	782	–	–	–	–	–	–
Total property, plant and equipment	8,295	(2,824)	5,471	7,142	(2,441)	4,701	16,246	(4,885)	11,361

	Property $m	Commodity Storage $m	Technology $m	Others $m	Total $m
Right-of-use assets					AS AT 30 SEPTEMBER 2019
Balance as at 31 Mar 2019	–	–	–	–	–
Change on initial application of AASB 16	616	92	15	14	737
Restated balance as at 1 Apr 2019	616	92	15	14	737
Acquisitions/additions	137	12	8	–	157
Disposals	(11)	–	–	–	(11)
Depreciation	(81)	(20)	(6)	(1)	(108)
Foreign exchange movements and other adjustments	7	–	–	–	7
Balance as at 30 Sep 2019	668	84	17	13	782

(1) The operating lease assets pertaining to MAF were reclassified as held for sale during March 2019, which were subsequently disposed of.
(2) Represents operating leases recognised in statement of financial position following the adoption of AASB 16 as described in Note 1.

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

Note 14
Interests in associates and joint ventures

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Equity investments with no provisions for impairment	**6,165**	2,748	2,864
Equity investments with provisions for impairment			
Gross carrying value	**1,476**	1,423	1,274
Less: provisions for impairment	**(493)**	(483)	(349)
Equity investments with provisions for impairment	**983**	940	925
Total equity investments in associates and joint ventures	**7,148**	3,688	3,789
Loans to associates and joint ventures	**1,421**	600	357
Less: credit impairment charges	**(69)**	(69)	(3)
Total loans to associates and joint ventures	**1,352**	531	354
Total interests in associates and joint ventures[(1),(2)]	**8,500**	4,219	4,143

Disclosure of material associate and joint venture

The Consolidated Entity's material associate and joint venture at the balance date are:

Associate and joint venture	Carrying value ($m)	Ownership interest	Nature of investment	Nature of activities	Financial reporting date
Macquarie AirFinance	1,554	75%	Joint venture	Aircraft leasing	31 March
East Anglia ONE Limited	2,225	40%	Associate	Offshore windfarm	31 March

Macquarie AirFinance (MAF)

On 1 August 2019, the Consolidated Entity disposed of 25% of its Macquarie AirFinance (MAF) business which was classified as held for sale as at 31 March 2019. The retained interest in MAF is accounted as an equity-accounted joint venture on the basis of exercising joint control. The total carrying value of the investment represents $757 million of equity investment and $797 million of debt investment which is a long term interest in the joint venture. The joint venture has net assets of $2,072 million as at 30 September 2019 comprising of total assets of $8,969 million, primarily relating to aviation assets under operating leases and total liabilities of $6,897 million, primarily relating to debt funding in relation to these assets. The total contribution of the joint venture to the Consolidated Entity's income statement pertaining to the period under joint control was not material to the Consolidated Entity.

Refer Note 25 *Acquisitions and disposals of subsidiaries and businesses* for details of the disposal transaction.

East Anglia ONE Limited

On 30 August 2019, the Consolidated Entity acquired a 40% interest in East Anglia ONE Limited, a UK offshore wind farm. The acquisition was partially funded with borrowings of $1,824 million.

The Consolidated Entity has accounted for its interest as an equity-accounted associate on the basis of exercising significant influence. The carrying value of the investment in associate represents Macquarie's share in the fair value of the net assets of the associate.

(1) Includes $5,690 million (31 March 2019: $2,948 million; 30 September 2018: $3,337 million) relating to interests in associates and $2,810 million (31 March 2019: $1,271 million; 30 September 2018: $806 million) relating to interests in joint ventures.
(2) Financial statements of associates and joint ventures have various reporting dates.

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

Note 15
Trading liabilities

Equity securities			
Listed	**7,442**	8,088	6,181
Debt securities			
Foreign government securities	**677**	20	942
Corporate loans and securities	**8**	–	74
Commodities	**19**	–	–
Total trading liabilities	**8,146**	8,108	7,197

Note 16
Margin money and settlement liabilities

Margin money	**15,617**	12,733	13,552
Security settlements	**7,957**	7,066	9,086
Commodity settlements	**3,109**	2,777	2,264
Total margin money and settlement liabilities	**26,683**	22,576	24,902

Note 17
Held for sale and other liabilities

Held for sale liabilities			
Liabilities of disposal groups classified as held for sale[1]	**94**	6,809	504
Other liabilities			
Accrued charges, employment-related liabilities and provisions[2]	**2,971**	3,705	2,497
Creditors	**1,500**	1,745	1,657
Lease liabilities[3]	**993**	92	119
Income tax payable	**445**	413	268
Life investment linked contracts and other unitholder liabilities	**368**	377	617
Maintenance liabilities	**111**	108	958
Other	**274**	296	295
Total other liabilities	**6,662**	6,736	6,411

(1) Previous period includes liabilities of $6,643 million relating to the Consolidated Entity's interest in MAF that was classified as held for sale during 31 March 2019, which was subsequently disposed of during the current period. Refer Note 25 *Acquisitions and disposals of subsidiaries and businesses*.

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

(3) 30 September 2019 lease liabilities includes the impact of the adoption of AASB 16 on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated the comparative financial reporting periods. Refer Note 1 for the impact on initial adoption of AASB 16.

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

Note 18
Debt issued

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Bonds, negotiable certificates of deposit and commercial paper[1]	**53,968**	47,924	49,633
Structured notes[2]	**2,102**	2,264	2,032
Total debt issued[3],[4]	**56,070**	50,188	51,665

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)

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
United States dollar	**30,997**	30,756	31,113
Australian dollar	**15,762**	10,722	11,348
Euro	**5,213**	4,877	4,950
Japanese yen	**1,180**	1,079	1,023
Swiss franc	**1,122**	1,058	1,544
British pound	**834**	783	816
South African rand	**255**	288	276
Norwegian krone	**166**	164	170
Hong Kong dollar	**156**	148	126
Chinese renminbi	**150**	168	185
Korean won	**113**	114	114
Other	**122**	31	–
Total debt issued	**56,070**	50,188	51,665

(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 the debt issued measured at DFVTPL (Refer Note 23 *Measurement categories of financial instruments*) for the Consolidated Entity is $2,682 million (31 March 2019: $3,246 million; 30 September 2018: $3,155 million). This amount is based on the final notional amount rather than the fair value.
(4) Includes cumulative fair value gain of $6 million (31 March 2019: $31 million gain; 30 September 2018: $9 million gain) 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 19
Contributed equity

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Ordinary share capital	**9,282**	7,546	7,550
Treasury shares	**(1,568)**	(1,372)	(1,413)
Exchangeable shares	**7**	7	7
Total contributed equity	**7,721**	6,181	6,144

(i) Ordinary share capital[1]

	Number of shares	Total $m
Balance as at 1 Apr 2018	340,364,820	7,498
Issue of shares on retraction of exchangeable shares	17,918	2
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	–	331
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	–	25
Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity	–	2
Transfer from treasury shares for awards withdrawn/exercised on vesting for cash settled MEREP awards settled through equity	–	(2)
Transfer from treasury shares for awards withdrawn/exercised	–	(303)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	–	(3)
Balance as at 30 Sep 2018	340,382,738	7,550
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	–	39
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	–	(2)
Transfer from treasury shares for awards withdrawn/exercised	–	(41)
Balance as at 31 Mar 2019	340,382,738	7,546
Issue of shares pursuant to the Institutional Private Placement, net of transaction costs[2]	**8,333,333**	**991**
Issue of shares pursuant to the Share Purchase Plan (SPP)[3]	**5,660,150**	**679**
Issue of shares on retraction of exchangeable shares	**246**	**–**
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	**–**	**448**
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	**–**	**31**
Transfer from treasury shares for awards withdrawn/exercised	**–**	**(411)**
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	**–**	**(2)**
Balance as at 30 Sep 2019	**354,376,467**	**9,282**

(1) Ordinary shares have no par value.
(2) On 3 September 2019, MGL issued 8,333,333 fully paid ordinary shares at a price of $120 per share.
(3) On 30 September 2019, MGL issued 5,660,150 fully paid ordinary shares under the Share Purchase Plan offered to eligible existing shareholders with a registered address in Australia or New Zealand.

Note 19
Contributed equity continued

(ii) Treasury shares[1]

	Number of shares	Total $m
Balance as at 1 Apr 2018	(17,840,115)	(1,264)
Purchase of shares for employee MEREP awards	(3,990,786)	(454)
Transfer to ordinary share capital for awards exercised	4,819,645	303
Transfer to ordinary share capital for awards exercised on vesting for cash settled MEREP awards settled through equity	11,397	2
Purchase of shares for allocation under DRP scheme	(543,494)	(63)
Allocation of shares under DRP scheme	543,494	63
Balance as at 30 Sep 2018	(16,999,859)	(1,413)
Transfer to ordinary share capital for awards exercised	566,438	41
Purchase of shares for allocation under DRP scheme	(411,970)	(47)
Allocation of shares under DRP scheme	411,970	47
Purchase of shares for allocation under Macquarie Group Employee Share Plan (ESP) scheme	(13,040)	(1)
Allocation of shares under ESP scheme	13,040	1
Balance as at 31 Mar 2019	(16,433,421)	(1,372)
Purchase of shares for employee MEREP awards	**(4,960,137)**	**(607)**
Transfer to ordinary share capital for awards exercised	**5,563,022**	**411**
Purchase of shares for allocation under DRP scheme	**(701,215)**	**(85)**
Allocation of shares under DRP scheme	**701,215**	**85**
Balance as at 30 Sep 2019	**(15,830,536)**	**(1,568)**

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

Note 19
Contributed equity continued

(iii) Exchangeable shares[1]

	Number of shares	Total $m
Balance as at 1 Apr 2018	124,968	9
Retraction of exchangeable shares	(18,984)	(2)
Balance as at 30 Sep 2018	105,984	7
Balance as at 31 Mar 2019	105,984	7
Retraction of exchangeable shares	**(260)**	**–**
Balance as at 30 Sep 2019	**105,724**	**7**

(1) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity.

Notes to the consolidated financial statements

For the half-year ended 30 September 2019 continued

Note 20

Reserves, retained earnings and non-controlling interests

(i) Reserves

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Foreign currency translation and net investment hedge reserve			
Balance at the beginning of the period	**824**	713	375
Exchange differences on translation of foreign operations, net of hedge accounting and tax	**328**	111	338
Balance at the end of the period	**1,152**	824	713
FVOCI reserve			
Balance at the beginning of the period	**9**	60	71
Revaluation movement for the period, net of tax	**84**	(97)	(17)
Changes in ECL allowance, net of tax	**(58)**	46	6
Balance at the end of the period	**35**	9	60
Share-based payments reserve			
Balance at the beginning of the period	**1,086**	856	964
MEREP expense for the period	**336**	264	227
Additional deferred tax benefit on MEREP expense	**14**	3	21
Transfer to ordinary share capital on vesting of MEREP awards	**(448)**	(39)	(331)
Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards	**(31)**	2	(25)
Balance at the end of the period	**957**	1,086	856
Share-based payments capital reduction reserve(1)			
Balance at the beginning of the period	**(9)**	(9)	(12)
Transfer to ordinary share capital on vested and forfeited awards	**2**	–	3
Balance at the end of the period	**(7)**	(9)	(9)
Cash flow hedging reserve			
Balance at the beginning of the period	**(107)**	(38)	(49)
Revaluation movement for the period, net of tax	**(57)**	(82)	(1)
Transferred to income statement on realisation, net of tax	**28**	13	12
Transferred to share of reserves in associates and joint ventures	**(6)**	–	–
Balance at the end of the period(2)	**(142)**	(107)	(38)
Share of reserves in associates and joint ventures			
Balance at the beginning of the period	**(30)**	(15)	2
Share of other comprehensive losses of associates and joint ventures during the period, net of tax	**(44)**	(15)	(17)
Transferred from cash flow hedging reserve	**6**	–	–
Balance at the end of the period	**(68)**	(30)	(15)
Total reserves at the end of the period	**1,927**	1,773	1,567

(1) Share based payment capital reduction reserve represents the capital distribution attributable to all the unvested MEREP awards on the disposal of the Sydney Airport. At the time of distribution, the reserve was created which will be transferred to ordinary share capital on vesting of the MEREP awards.
(2) Includes ($2) million (31 March 2019: ($5) million; 30 September 2018: ($5) million) relating to the foreign currency basis spread of financial instruments that have been excluded from the hedge designation.

Note 20
Reserves, retained earnings and non-controlling interests continued

(ii) Retained earnings

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Balance at the beginning of the period	**9,807**	8,849	8,651
Change on initial application of AASB 16, net of tax	**(49)**	–	–
Restated balance	**9,758**	8,849	8,651
Profit attributable to the ordinary equity holders of MGL	**1,457**	1,672	1,310
Dividends paid on ordinary share capital and exchangeable shares (Note 5)	**(1,224)**	(730)	(1,089)
Loss on change in ownership interest	**(2)**	(2)	(11)
Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax	**(20)**	18	(12)
Balance at the end of the period	**9,969**	9,807	8,849

(iii) Non-controlling interests

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Macquarie Income Securities(1)			
4,000,000 MIS of $100 each	**400**	400	400
Less: transaction costs for original placement	**(9)**	(9)	(9)
Total Macquarie Income Securities	**391**	391	391
Other non-controlling interests(2)			
Share capital and partnership interests	**416**	205	190
Reserves	**(45)**	56	(3)
(Accumulated losses)/retained earnings	**(67)**	(49)	21
Total other non-controlling interests	**304**	212	208
Total non-controlling interests	**695**	603	599

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Distributions to Macquarie Income Securities(3)			
Macquarie Income Securities			
Distributions paid (net of distributions previously provided for)	**4**	5	4
Distributions provided for	**2**	3	3
Total distributions paid or provided for	**6**	8	7

(1) The MIS was issued by MBL, a subsidiary of MGL, and was listed for trading on the ASX on 19 October 1999. Whilst the MIS is a perpetual investment with no conversion rights, it became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7% per annum (31 March 2019: 1.7% per annum; 30 September 2018: 1.7% per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL.

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

(3) The distributions are reflected as 'Profit attributable to non-controlling interests' in the consolidated income statement and as part of the 'Dividends and distributions paid or provided for' in the consolidated statement of changes in equity.

Note 21

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:

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Cash and bank balances[(1),(2)]	**9,088**	9,488	9,307
Trading assets[(3)]	**101**	784	763
Financial investments[(4),(5)]	**624**	792	394
Margin money[(6)]	**2,676**	2,816	3,600
Held for sale assets[(7)]	**11**	248	42
Cash and cash equivalents at the end of the period	**12,500**	14,128	14,106

(1) Cash and bank balances includes cash at bank, overnight cash at bank and other loans to banks. Cash and bank balances includes $3,134 million (half-year to 31 March 2019: $3,205 million, half-year to 30 September 2018: $2,941 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 $444 million (half-year to 31 March 2019: $361 million, half-year to 30 September 2018: $561 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 the 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 also includes short-term debt securities with a maturity of three months or less from the date of acquisition. Financial investment also includes $266 million (half-year to 31 March 2019: $336 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.

(7) Includes cash and cash equivalents held as a part of assets of disposal groups held for sale.

Note 21
Notes to the consolidated statement of cash flows continued

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

	Half-year to 30 Sep 19[1] $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Profit after income tax	**1,464**	1,657	1,331
Adjustments to profit after income tax:			
Depreciation and amortisation	**828**	793	727
Unrealised foreign exchange and fair value movement on assets and liabilities	**468**	361	713
ECL and impairment charges	**153**	483	76
Investment income and gain on sale of operating lease assets and other non-financial assets	**(687)**	(1,610)	(479)
Share-based payments expense	**336**	264	227
Share of net losses/(profits) of associates and joint ventures	**49**	63	(7)
Changes in assets and liabilities:			
Change in carrying values of associates due to dividends received	**130**	110	109
Change in interest, fee and commission receivable and payable	**(483)**	(387)	(64)
Change in tax balances	**(238)**	(209)	(73)
Change in debtors, prepayments, accrued charges and creditors	**(747)**	1,933	(402)
Change in net trading assets and liabilities and net derivative financial instruments[2]	**(3,917)**	(5,059)	2,204
Change in other assets and liabilities	**(232)**	83	(209)
Change in loan assets	**(6,338)**	(1,104)	(3,101)
Change in operating lease assets	**(328)**	(1,116)	(557)
Change in deposits	**2,802**	3,499	4,218
Change in borrowings	**4,924**	788	3,887
Change in debt issued	**4,078**	(2,309)	(6,076)
Net cash flows generated from/(utilised in) operating activities	**2,262**	(1,760)	2,524

(iii) Cash flows from liabilities arising from financing activities

During the half-year ended 30 September 2018, the Consolidated Entity raised $1,000 million through the issue of MCN3 to replace the $600 million MCN that the Consolidated Entity redeemed on 7 June 2018. The statement of cash flow excludes a non cash movement of $330 million relating to MCN3 issued on exercise of the option by MCN holders to reinvest in MCN3.

(1) September 2019 financial results reflect the adoption of AASB 16 on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated the comparative financial reporting periods. Refer Note 1 for the impact on initial adoption of AASB 16.
(2) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.

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

Note 22
Contingent liabilities and commitments

	As at 30 Sep 19 $m	As at 31 Mar 19 $m	As at 30 Sep 18 $m
Contingent liabilities exist in respect of:			
Letters of credit	**1,185**	1,085	893
Guarantees	**593**	213	182
Indemnities	**556**	469	209
Performance related contingents	**296**	291	245
Total contingent liabilities[(1),(2)]	**2,630**	2,058	1,529
Commitments exist in respect of:			
Undrawn credit facilities and securities commitments[(3),(4),(5),(6)]	**14,791**	10,518	10,769
Property, plant and equipment and other assets[(7),(8)]	**2,114**	3,472	3,587
Total commitments	**16,905**	13,990	14,356
Total contingent liabilities and commitments	**19,535**	16,048	15,885

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that 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.
(2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(3) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.
(4) Includes $927 million (31 March 2019: $815 million; 30 September 2018: $826 million) in undrawn facilities where the loan and further commitment will be assigned to a third-party post first drawdown.
(5) 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 comparative previous reporting periods.
(6) Includes $720 million of equity commitment to an associate of the Consolidated Entity.
(7) Includes $261 million of commitment related to the acquisition of management rights in a mutual fund from Foresters Financial Holding Company. The commitment was settled subsequent to 30 September 2019.
(8) Previous period (31 March 2019: $1,475 million; 30 September 2018: $1,450 million) includes commitments for the purchase of assets relating to the MAF business which was deconsolidated during the current period. Refer Note 25 *Acquisitions and disposals of subsidiaries and businesses* for details.

Note 23

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 24 *Fair values of financial assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets									AS AT 30 SEPTEMBER 2019
Cash and bank balances	–	–	–	–	9,579	–	9,579	–	9,579
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	19,139	–	11,062	–	30,201	19,139	11,062
Trading assets[1]	24,230	–	–	–	–	–	24,230	24,230	–
Margin money and settlement assets	–	–	2,355	–	17,957	–	20,312	2,355	17,957
Derivative assets[2]	18,221	–	–	–	–	–	18,221	18,221	–
Financial investments									
Equity	–	–	1,313	–	–	–	1,313	1,313	–
Debt	–	–	911	5,713	–	–	6,624	6,624	–
Held for sale assets[3]	–	–	36	8	15	549	608	44	15
Other assets[3]	–	140	426	–	1,804	3,255	5,625	566	1,804
Loan assets[4]	–	11	1,329	609	83,117	–	85,066	1,949	83,630
Property, plant and equipment	–	–	–	–	–	5,471	5,471	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	7,148	7,148	–	–
Loans to associates and joint ventures[4]	–	–	39	207	1,106	–	1,352	246	1,108
Intangible assets	–	–	–	–	–	2,666	2,666	–	–
Deferred tax assets	–	–	–	–	–	1,079	1,079	–	–
Total assets	42,451	151	25,548	6,537	124,640	20,168	219,495	74,687	125,155
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	3,023	–	–	2,780	–	5,803	3,023	2,780
Trading liabilities	8,146	–	–	–	–	–	8,146	8,146	–
Margin money and settlement liabilities	–	–	–	–	26,683	–	26,683	–	26,683
Derivative liabilities[2]	14,514	–	–	–	–	–	14,514	14,514	–
Deposits	–	–	–	–	59,042	–	59,042	–	59,096
Held for sale liabilities[5]	–	–	–	–	67	27	94	–	67
Other liabilities[5]	–	456	–	–	2,299	3,907	6,662	456	1,306
Borrowings	–	–	–	–	14,626	–	14,626	–	14,687
Debt issued[4]	–	2,208	–	–	53,862	–	56,070	2,208	54,776
Deferred tax liabilities	–	–	–	–	–	297	297	–	–
Loan capital[4]	–	–	–	–	7,246	–	7,246	–	7,492
Total liabilities	22,660	5,687	–	–	166,605	4,231	199,183	28,347	166,887

(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 represent non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale, fee related contract assets, prepayments, tax receivable, inventory held for sale and investment property.
(4) Items measured at amortised cost includes, where applicable, hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale, accrued charges, employee related provisions, retained director profit share, tax payable, income received in advance, aircraft and rail maintenance liabilities. The fair value of other liabilities excludes the fair value of lease liabilities.

Note 23
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets								AS AT 31 MARCH 2019	
Cash and bank balances	–	–	–	–	9,787	–	9,787	–	9,787
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	19,147	–	10,201	–	29,348	19,147	10,201
Trading assets[1]	18,670	–	–	–	–	–	18,670	18,670	–
Margin money and settlement assets	–	–	3,747	–	15,364	–	19,111	3,747	15,364
Derivative assets[2]	14,457	–	–	–	–	–	14,457	14,457	–
Financial investments									
Equity	–	–	1,311	–	–	–	1,311	1,311	–
Debt	–	–	633	5,217	–	–	5,850	5,850	–
Held for sale assets[3]	–	–	–	68	696	8,259	9,023	68	696
Other assets[3]	–	80	439	–	2,008	2,642	5,169	519	2,008
Loan assets[4]	–	190	374	568	77,342	–	78,474	1,132	77,607
Property, plant and equipment	–	–	–	–	–	4,701	4,701	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	3,688	3,688	–	–
Loans to associates and joint ventures[4]	–	–	35	173	323	–	531	208	323
Intangible assets	–	–	–	–	–	2,031	2,031	–	–
Deferred tax assets	–	–	–	–	–	1,031	1,031	–	–
Total assets	33,127	270	25,686	6,026	115,721	22,352	203,182	65,109	115,986
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,732	–	–	3,106	–	4,838	1,732	3,106
Trading liabilities	8,108	–	–	–	–	–	8,108	8,108	–
Margin money and settlement liabilities	–	–	–	–	22,576	–	22,576	–	22,576
Derivative liabilities[2]	12,666	–	–	–	–	–	12,666	12,666	–
Deposits	–	–	–	–	56,191	–	56,191	–	56,247
Held for sale liabilities[5]	–	–	–	–	5,379	1,430	6,809	–	5,379
Other liabilities[5]	–	565	–	–	1,495	4,676	6,736	565	1,495
Borrowings	–	–	–	–	9,318	–	9,318	–	9,353
Debt issued[4]	–	2,405	–	–	47,783	–	50,188	2,405	48,094
Deferred tax liabilities	–	–	–	–	–	425	425	–	–
Loan capital[4]	–	–	–	–	6,963	–	6,963	–	7,094
Total liabilities	20,774	4,702	–	–	152,811	6,531	184,818	25,476	153,344

(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 represent non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale, fee related contract assets, prepayments, tax receivables, inventory held for sale and investment property.
(4) Items measured at amortised cost includes, where applicable, hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale, accrued charges, employee related provisions, retained director profit share, tax payable, income received in advance, aircraft and rail maintenance liabilities. The fair value of other liabilities excludes the fair value of lease liabilities.

Note 23

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets							AS AT 30 SEPTEMBER 2018		
Cash and bank balances	–	–	–	–	9,625	–	9,625	–	9,625
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	16,273	–	11,564	–	27,837	16,273	11,564
Trading assets(1)	20,158	–	–	–	–	–	20,158	20,158	–
Margin money and settlement assets	–	–	2,172	–	18,531	–	20,703	2,172	18,531
Derivative assets(2)	18,115	–	–	–	–	–	18,115	18,115	–
Financial investments									
Equity	–	–	1,216	–	–	–	1,216	1,216	–
Debt	–	73	413	4,931	–	–	5,417	5,417	–
Held for sale assets(3)	-	-	-	203	109	1,841	2,153	203	109
Other assets(3)	-	128	622	-	2,180	2,318	5,248	750	2,180
Loan assets(4)	–	234	920	714	75,085	–	76,953	1,868	75,287
Property, plant and equipment	–	–	–	–	–	11,361	11,361	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	3,789	3,789	–	–
Loans to associates and joint ventures(4)	–	–	18	199	137	–	354	217	138
Intangible assets	–	–	–	–	–	1,894	1,894	–	–
Deferred tax assets	–	–	–	–	–	775	775	–	–
Total assets	38,273	435	21,634	6,047	117,231	21,978	205,598	66,389	117,434
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	2,329	–	–	4,587	–	6,916	2,329	4,587
Trading liabilities	7,197	–	–	–	–	–	7,197	7,197	–
Margin money and settlement liabilities	–	–	–	–	24,902	–	24,902	–	24,902
Derivative liabilities(2)	18,205	–	–	–	–	–	18,205	18,205	–
Deposits	–	–	–	–	52,620	–	52,620	–	52,647
Held for sale liabilities(5)	–	–	–	–	143	361	504	–	143
Other liabilities(5)	–	711	–	–	1,489	4,211	6,411	711	1,489
Borrowings	–	–	–	–	13,336	–	13,336	–	13,364
Debt issued(4)	–	2,154	–	–	49,511	–	51,665	2,154	49,834
Deferred tax liabilities	–	–	–	–	–	800	800	–	–
Loan capital(4)	–	–	–	–	5,883	–	5,883	–	6,062
Total liabilities	25,402	5,194	–	–	152,471	5,372	188,439	30,596	153,028

(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 represent non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale, fee related contract assets, prepayments, tax receivables, inventory held for sale and investment property.
(4) Items measured at amortised cost includes, where applicable, hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale, accrued charges, employee related provisions, retained director profit share, tax payable, income received in advance, aircraft and rail maintenance liabilities. The fair value of other liabilities excludes the fair value of lease liabilities.

Note 24
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 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 term deposits is estimated by a reference to the current market rates offered on similar deposits appropriate to the term of the deposits
- 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 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 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
- 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

Note 24
Fair values of financial assets and liabilities continued

- 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 the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

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.

Note 24

Fair values of financial assets and liabilities continued

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**AS AT 30 SEPTEMBER 2019**
Cash and bank balances	**9,579**	**–**	**–**	**9,579**
Cash collateral on securities borrowed and reverse repurchase agreements	**–**	**11,062**	**–**	**11,062**
Margin money and settlement assets	**7,281**	**10,676**	**–**	**17,957**
Held for sale and other assets	**–**	**1,819**	**–**	**1,819**
Loan assets	**–**	**6,894**	**76,736**	**83,630**
Loans to associates and joint ventures	**–**	**–**	**1,108**	**1,108**
Total assets	**16,860**	**30,451**	**77,844**	**125,155**
Liabilities				
Cash collateral on securities lent and repurchase agreements	**–**	**2,780**	**–**	**2,780**
Margin money and settlement liabilities	**15,694**	**10,989**	**–**	**26,683**
Deposits	**46,455**	**12,641**	**–**	**59,096**
Held for sale and other liabilities(1)	**–**	**1,373**	**–**	**1,373**
Borrowings	**185**	**13,772**	**730**	**14,687**
Debt issued	**–**	**46,471**	**8,305**	**54,776**
Loan capital	**3,034**	**4,458**	**–**	**7,492**
Total liabilities	**65,368**	**92,484**	**9,035**	**166,887**
Assets				AS AT 31 MARCH 2019
Cash and bank balances	9,787	–	–	9,787
Cash collateral on securities borrowed and reverse repurchase agreements	–	10,201	–	10,201
Margin money and settlement assets	5,611	9,753	–	15,364
Held for sale and other assets	–	2,704	–	2,704
Loan assets	–	5,993	71,614	77,607
Loans to associates and joint ventures	–	–	323	323
Total assets	15,398	28,651	71,937	115,986
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	3,106	–	3,106
Margin money and settlement liabilities	14,411	8,165	–	22,576
Deposits	42,910	13,337	–	56,247
Held for sale and other liabilities	–	1,365	5,509	6,874
Borrowings	625	8,322	406	9,353
Debt issued	–	43,098	4,996	48,094
Loan capital	2,944	4,150	–	7,094
Total liabilities	60,890	81,543	10,911	153,344

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

Note 24
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	9,625	–	–	9,625
Cash collateral on securities borrowed and reverse repurchase agreements	–	11,564	–	11,564
Margin money and settlement assets	7,127	11,404	–	18,531
Held for sale and other assets	–	2,289	–	2,289
Loan assets	–	5,757	69,530	75,287
Loans to associates and joint ventures	–	–	138	138
Total assets	16,752	31,014	69,668	117,434
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	4,587	–	4,587
Margin money and settlement liabilities	13,551	11,351	–	24,902
Deposits	42,660	9,987	–	52,647
Held for sale and other liabilities	–	1,632	–	1,632
Borrowings	–	7,894	5,470	13,364
Debt issued	–	45,442	4,392	49,834
Loan capital	2,005	4,057	–	6,062
Total liabilities	58,216	84,950	9,862	153,028

Note 24
Fair values of financial assets and liabilities continued

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**AS AT 30 SEPTEMBER 2019**
Reverse repurchase agreements	**–**	**19,139**	**–**	**19,139**
Trading assets[1]	**16,529**	**7,066**	**635**	**24,230**
Margin money and settlement assets	**1,585**	**770**	**–**	**2,355**
Derivative assets	**210**	**17,384**	**627**	**18,221**
Financial investments	**649**	**6,002**	**1,286**	**7,937**
Held for sale and other assets	**10**	**550**	**50**	**610**
Loan assets	**–**	**1,383**	**566**	**1,949**
Loans to associates and joint ventures	**–**	**–**	**246**	**246**
Total assets	**18,983**	**52,294**	**3,410**	**74,687**
Liabilities				
Repurchase agreements	**–**	**3,023**	**–**	**3,023**
Trading liabilities	**6,740**	**1,406**	**–**	**8,146**
Derivative liabilities	**416**	**13,774**	**324**	**14,514**
Held for sale and other liabilities	**3**	**450**	**3**	**456**
Debt issued	**–**	**2,208**	**–**	**2,208**
Total liabilities	**7,159**	**20,861**	**327**	**28,347**
Assets				AS AT 31 MARCH 2019
Reverse repurchase agreements	–	19,147	–	19,147
Trading assets[1]	13,045	5,400	225	18,670
Margin money and settlement assets	1,547	2,200	–	3,747
Derivative assets	248	13,638	571	14,457
Financial investments	486	5,173	1,502	7,161
Held for sale and other assets	9	481	97	587
Loan assets	–	511	621	1,132
Loans to associates and joint ventures	–	–	208	208
Total assets	15,335	46,550	3,224	65,109
Liabilities				
Repurchase agreements	–	1,732	–	1,732
Trading liabilities	6,790	1,318	–	8,108
Derivative liabilities	329	12,004	333	12,666
Held for sale and other liabilities	41	524	–	565
Debt issued	–	2,405	–	2,405
Total liabilities	7,160	17,983	333	25,476

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

Note 24
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
Reverse repurchase agreements	–	16,273	–	16,273
Trading assets[1]	14,343	5,500	315	20,158
Margin money and settlement assets	1,317	855	–	2,172
Derivative assets	876	16,624	615	18,115
Financial investments	578	4,589	1,466	6,633
Held for sale and other assets	32	716	205	953
Loan assets	–	1,167	701	1,868
Loans to associates and joint ventures	–	–	217	217
Total assets	17,146	45,724	3,519	66,389
Liabilities				
Repurchase agreements	–	2,329	–	2,329
Trading liabilities	5,705	1,492	–	7,197
Derivatives liabilities	1,125	16,699	381	18,205
Held for sale and other liabilities	–	710	1	711
Debt issued	–	2,148	6	2,154
Total liabilities	6,830	23,378	388	30,596

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.

Note 24
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	Held for sale and other assets $m
Balance as at 1 Apr 2018	213	1,039	173
Purchases, originations, issuances and other additions	93	430	29
Sales, settlements and repayments	(53)	(233)	–
Transfers into Level 3[2]	46	157	–
Transfers out of Level 3[2]	(2)	(59)	–
Fair value movements recognised in the income statement[3]	18	131	3
Fair value movements recognised in OCI[3]	–	1	–
Balance as at 30 Sep 2018	315	1,466	205
Fair value movements for the period included in the income statements for assets and liabilities held at the end of the period[3]	17	13	3
Balance as at 1 Oct 2018	315	1,466	205
Purchases, originations, issuances and other additions	–	231	54
Sales, settlements and repayments	(19)	(125)	(237)
Transfers into Level 3[2]	–	–	–
Transfers out of Level 3[2]	(45)	(28)	–
Fair value movements recognised in the income statement[3]	(26)	31	75
Fair value movements recognised in OCI[3]	–	(73)	–
Balance as at 31 Mar 2019	225	1,502	97
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[3]	(11)	34	(2)
Balance as at 1 Apr 2019	**225**	**1,502**	**97**
Purchases, originations, issuances and other additions	**245**	**119**	**44**
Sales, settlements and repayments	**(36)**	**(317)**	**(71)**
Transfers into Level 3[2]	**212**	**66**	**7**
Transfers out of Level 3[2]	**(35)**	**(214)**	**(45)**
Fair value movements recognised in the income statement[3]	**24**	**110**	**18**
Fair value movements recognised in OCI[3]	**–**	**20**	**–**
Balance as at 30 Sep 2019	**635**	**1,286**	**50**
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[3]	**24**	**77**	**4**

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $627 million (31 March 2019: $571 million; 30 September 2018: $615 million) and derivative liabilities are $324 million (31 March 2019: $333 million; 30 September 2018: $381 million).
(2) Assets and liabilities transferred into or out of Level 3 are presented as 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	Held for sale and other liabilities $m	Debt issued $m	Derivative financial instruments (net replacement values)[1] $m	Total $m
714	204	(1)	(6)	301	2,637
287	41	–	–	54	934
(306)	(6)	–	–	(72)	(670)
–	–	–	–	2	205
–	(28)	–	–	12	(77)
9	18	–	–	(63)	116
(3)	(12)	–	–	–	(14)
701	217	(1)	(6)	234	3,131
9	18	–	–	(64)	(4)
701	217	(1)	(6)	234	3,131
135	64	1	6	(22)	469
(180)	(44)	–	–	(3)	(608)
–	–	–	–	8	8
–	(8)	–	–	–	(81)
(27)	2	–	–	21	76
(8)	(23)	–	–	–	(104)
621	208	–	–	238	2,891
(3)	(8)	–	–	22	32
621	**208**	**–**	**–**	**238**	**2,891**
217	**105**	**(3)**	**–**	**17**	**744**
(164)	**(33)**	**–**	**–**	**(23)**	**(644)**
–	**–**	**–**	**–**	**21**	**306**
(113)	**(6)**	**–**	**–**	**(55)**	**(468)**
36	**(23)**	**–**	**–**	**105**	**270**
(31)	**(5)**	**–**	**–**	**–**	**(16)**
566	**246**	**(3)**	**–**	**303**	**3,083**
30	**(23)**	**–**	**–**	**105**	**217**

Note 24
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. Financial assets reclassified out of the fair value hierarchy disclosure due to recognition and measurement category changes or due to significant influence or control are also presented as transfers out of Level 3.

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	**185**	174	178
Deferral on new transactions	**91**	52	19
Amounts recognised in the income statement during the period	**(50)**	(41)	(23)
Balance at the end of the period	**226**	185	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	OCI $m	Profit or loss $m	OCI $m
Product type				**AS AT 30 SEPTEMBER 2019**
Equity and equity-linked products	**87**	**–**	**(95)**	**–**
Commodities	**113**	**–**	**(112)**	**–**
Interest rate and other products	**21**	**45**	**(21)**	**(45)**
Total	**221**	**45**	**(228)**	**(45)**
Product type				AS AT 31 MARCH 2019
Equity and equity-linked products	68	–	(71)	–
Commodities	107	–	(114)	–
Interest rate and other products	24	54	(24)	(54)
Total	199	54	(209)	(54)
Product type				AS AT 30 SEPTEMBER 2018
Equity and equity-linked products	59	–	(60)	–
Commodities	68	–	(56)	–
Interest rate and other products	54	59	(54)	(59)
Total	181	59	(170)	(59)

Note 24

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 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.

					RANGE OF INPUTS	
	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Minimum value $m	Maximum value $m
					AS AT 30 SEPTEMBER 2019	
Equity and equity-linked products	**781**	**–**	Discounted cash flows	Discount rate	5.0%	10.7%
			Pricing model	Earnings multiple	1.5x	14.9x
			Market comparability	Price in %(1)		
Commodities	**1,055**	**319**	Pricing model	Volatility	0.0%	100.0%
Interest rate and other products	**1,574**	**8**	Discounted cash flows	Discount rate(2)		
			Pricing model	Correlation	0.0%	100.0%
			Market comparability	Price in %(1)		
Total	**3,410**	**327**				
					AS AT 31 MARCH 2019	
Equity and equity-linked products	728	2	Discounted cash flows	Discount rate	5.0%	11.0%
			Pricing model	Earnings multiple	1x	16x
	–	–	Market comparability	Price in %(1)		
Commodities	629	328	Pricing model	Volatility	0.0%	176.4%
Interest rate and other products	1,867	3	Discounted cash flows	Discount rate(2)		
			Pricing model	Correlation	0.0%	100.0%
			Market comparability	Price in %(1)		
Total	3,224	333				
					AS AT 30 SEPTEMBER 2018	
Equity and equity-linked products	664	6	Discounted cash flows	Discount rate	5.0%	11.0%
			Pricing model	Earnings multiple	1.7x	17.5x
			Market comparability	Price in %(1)		
Commodities	645	370	Pricing model	Volatility	5.1%	126.7%
Interest rate and other products	2,210	12	Discounted cash flows	Discount rate(2)		
			Pricing model	Correlation	0.0%	102.5%
			Market comparability	Price in %(1)		
Total	3,519	388				

(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.
(2) The range of inputs relating to discounted cash flows has not been disclosed as the diverse nature of the underlying products results in a wide range of inputs.

Note 24
Fair values of financial assets and liabilities continued

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.

Note 25
Acquisitions and disposals of subsidiaries and businesses

Significant acquisition of entities or businesses:

There were no individual significant entities or businesses where control was gained during the period ended 30 September 2019.

Other entities or businesses acquired:

Premier Technical Services Group, The Dovel Group, LLC, Ace Info Solutions LLC, Kisielice Wind Limited, Lake Wind AB and Trisol 81 S.r.l.

The impact of the acquisitions on the Consolidated Entity's revenue and earnings is immaterial.

The purchase price allocation for the business combinations are provisional as at 30 September 2019.

During the half-year ended 31 March 2019, other entities or businesses acquired or consolidated due to the acquisition of control were: American Alpha Master Fund, Savion LLC and Macquarie Emerging Markets Small Cap Fund.

During the half-year ended 30 September 2018, other entities or businesses acquired or consolidated due to the acquisition of control were:

ValueInvest Asset Management S.A., KGG Partners GmbH, GLL Real Estate Partners GmbH, Nuix Pty Limited, FTI Consulting Inc., Conergy Asia Pte Ltd and its subsidiaries.

Aggregate provisional details of the abovementioned entities and businesses acquired are as follows:

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Fair value of net assets acquired			
Cash and bank balances	**37**	47	80
Other financial assets	**–**	52	–
Held for sale and other assets	**181**	10	77
Property, plant and equipment	**86**	–	11
Intangible assets	**211**	119	384
Payables, provisions, borrowings and other liabilities	**(405)**	(35)	(162)
Non-controlling interests	**(19)**	(58)	(45)
Total fair value of net assets acquired	**91**	135	345
Consideration			
Cash consideration (net of transaction costs)	**715**	123	516
Deferred consideration	**–**	5	69
Fair value of equity interest held before the acquisition date	**–**	33	270
Total consideration (net of transaction costs)	**715**	161	855
Goodwill recognised on acquisition	**624**	26	510
Net cash flow			
Cash consideration	**(715)**	(123)	(516)
Less: cash and cash equivalents acquired	**37**	47	80
Net cash outflow	**(678)**	(76)	(436)

Notes to the consolidated financial statements

Note 25

Acquisitions and disposals of subsidiaries and businesses continued

Significant disposal of entities or businesses:

There were no individual significant entities or businesses where control was lost during the period ended 30 September 2019.

Other disposal of entities:

On 1 August 2019, the Consolidated Entity disposed of 25% of its Macquarie AirFinance (MAF) business which was classified as held for sale as at 31 March 2019. This was achieved by contributing the net assets of the business to a newly formed joint venture along with a third-party investor. Rental income and other operating lease related charges up to the date of the disposal have been included under net operating lease income of the Consolidated Entity and adjusted in the carrying value of assets and liabilities of the disposal group. The Consolidated Entity has accounted for its 75% retained interest as an equity-accounted joint venture.

Other entities or businesses disposed of or deconsolidated due to the loss of control were:
Energy S. LSIS, Achim Solar Power Co. Ltd, Aran Solar Company Limited, Suri Solar Company Limited, Sosu Solar Company Limited, Mir Solar Company Limited, Maru Solar Company Limited, Laon Solar Company Limited, Nuix Pty Ltd, Nuix North America Inc., Nuix USG Inc., Nuix Ireland Ltd, Nuix Technology UK Ltd, Nuix Pte. Ltd, Nuix Holding Pty Ltd, Nuix Philippines ROHQ, Dalmatia WtE EUR Topco Limited, LPC Venture I, LLC, Godo Kaisha Alpha Mega Solar Project No. 1, Godo Kaisha Alpha Mega Solar Project No. 2, Alchemy Telco Solutions Limited and American Alpha Master Fund.

During the half-year ended 31 March 2019, other entities or businesses disposed of or deconsolidated due to the loss of control were: Energetics Gas Ltd, Fuujin Power Ltd, Electrodes Holdings and its subsidiaries, Canadian Breaks Sponsor Co. LLC, UCITS Global Value Equity Fund, Macquarie Absolute Return Real Estate Fund.

During the half-year ended 30 September 2018, other entities or businesses disposed of or deconsolidated due to the loss of control were: ADL Software Pty Limited, Cadent Gas Plc, Lal Lal Wind Farms Fin Co Pty Limited, M Acquisition Sponsor II LLC, M Acquisition Company II Corp and Parachute Investments Limited.

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

	Half-year to 30 Sep 19 $m	Half-year to 31 Mar 19 $m	Half-year to 30 Sep 18 $m
Carrying value of assets and liabilities			
Cash and bank balances	**74**	67	1
Other financial assets	**–**	13	–
Held for sale and other assets[1]	**9,591**	235	1,742
Property, plant and equipment	**27**	690	–
Interests in associates and joint ventures	**44**	151	–
Intangible assets	**453**	1	2
Held for sale, borrowings and other liabilities[1]	**(7,095)**	(583)	(295)
Non-controlling interests	**(137)**	(5)	(1,170)
Total carrying value of net assets	**2,957**	569	280
Consideration			
Cash consideration (net of cost of disposal)	**1,056**	1,045	264
Consideration receivable	**17**	4	2
Fair value of investment retained	**680**	49	43
Interest acquired through contribution to the joint venture[2]	**1,558**	–	–
Total consideration	**3,311**	1,098	309
Direct costs relating to disposal	**(4)**	(13)	–
Net cash flow			
Cash consideration	**1,056**	1,045	264
Less: cash and cash equivalents disposed of or deconsolidated[3]	**(1,110)**	(67)	(1)
Net cash (outflow)/inflow[4]	**(54)**	978	263

(1) Held for sale assets disposed of primarily relate to cash and bank balances and aviation assets under operating lease and the held for sale liabilities primarily relate to the bank borrowings and maintenance liabilities.
(2) Refer Note 14 *Interests in associates and joint ventures* for details of the interest in the joint venture.
(3) Includes $1,036 million of cash and bank balances included under held for sale and other assets above.
(4) Net cash outflow for the period ended 30 September 2019 includes $464 million of cash inflow, net of cash deconsolidated from the disposal of certain businesses and $518 million of cash outflow for cash deconsolidated, net of cash consideration for the disposal of certain businesses.

Note 26
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

Macquarie Group Limited

In the Directors' opinion:

(a) the financial statements and notes set out on pages 19 to 77 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 Group Limited will be able to pay its debts as and when they become due and payable.

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

Peter Warne
Independent Director and Chairman

Shemara Wikramanayake
Managing Director and Chief Executive Officer

Sydney
1 November 2019

Independent auditor's review report

To the members of Macquarie Group Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Macquarie Group 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 Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(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

PricewaterhouseCoopers, ABN 52 780 433 757

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

Contact details

Macquarie Group
Principal Administrative Office

50 Martin Place
Sydney NSW 2000
Australia

Registered Office
Macquarie Group Limited

Level 6, 50 Martin Place
Sydney NSW 2000
Australia