

# Interim Financial Report

**Macquarie Group**

Half-year ended 30 September 2018



## 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. Macquarie Group Limited's (MGL and its subsidiaries, being the Consolidated Entity) most recent annual financial report is available at [www.macquarie.com](http://www.macquarie.com) as part of Macquarie's 2018 Annual Report. MGL has also released information to the Australian Securities Exchange operated by ASX Limited ("ASX") in compliance with the continuous disclosure requirements of the ASX Listing Rules. Announcements made by MGL under such rules are available on ASX's internet site [www.asx.com.au](http://www.asx.com.au) (MGL's ASX code is "MQG").

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 given 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 2 November 2018. The Board of Directors has the power to amend and reissue the Financial Report.

**INTERIM FINANCIAL REPORT**  
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

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# 1

# DIRECTORS' REPORT

## **DIRECTORS**

### **FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018**

The Directors of MGL submit their report with the financial report of the Consolidated Entity for the half-year ended 30 September 2018.

#### **DIRECTORS**

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

##### **Independent Directors**

P.H. Warne, Chairman  
G.R. Banks AO  
G.M. Cairns  
P.M. Coffey  
M.J. Coleman  
D.J. Grady AM  
M.J. Hawker AM  
G.R. Stevens AC  
N.M. Wakefield Evans

##### **Executive Voting Directors**

N.W. Moore, Managing Director and Chief Executive Officer  
S.R. Wikramanyake, Managing Director and Chief Executive Officer-Designate

Other than Mr Coffey and Ms Wikramanayake, 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.

On 26 July 2018, MGL announced that Nicholas Moore indicated his intention to retire as Managing Director and Chief Executive Officer of MGL effective 30 November 2018, with Shemara Wikramanayake to replace him as Managing Director and Chief Executive Officer of MGL.

#### **RESULT**

The financial report for the half-year ended 30 September 2018 and the results herein are prepared in accordance with AASB 134 – *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was \$A1,310 million (half-year to 31 March 2018: \$A1,309 million; half-year to 30 September 2017: \$A1,248 million).

## OPERATING AND FINANCIAL REVIEW FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### Review of Group performance and financial position

#### Overview

Profit attributable to ordinary equity holders of \$A1,310 million for the half-year ended 30 September 2018 increased 5% from \$A1,248 million in the prior corresponding period<sup>(1)</sup> and increased <1% from \$A1,309 million in the prior period<sup>(2)</sup>.

	HALF-YEAR TO			MOVEMENT	
	30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am	31 Mar 18 %	30 Sep 18 %
Net operating income	5,830	5,523	5,397	6	8
Operating expenses	(4,125)	(3,763)	(3,693)	10	12
Income tax expense	(374)	(435)	(448)	(14)	(17)
Profit attributable to non-controlling interests	(21)	(16)	(8)	31	163
<b>Profit attributable to ordinary equity holders</b>	<b>1,310</b>	<b>1,309</b>	<b>1,248</b>	<b>&lt;1</b>	<b>5</b>

#### Net profit contribution<sup>(3)</sup> by Operating Group

##### Annuity-style businesses

Macquarie Asset Management  
**29%**

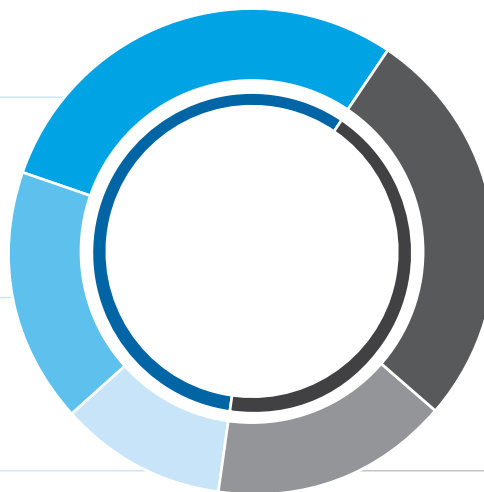
Corporate and Asset Finance  
**17%**

Banking and Financial Services  
**11%**

##### Capital markets facing businesses

Commodities and Global Markets  
**27%**

Macquarie Capital  
**16%**



(1) Prior corresponding period (pcp) refers to the six months ended 30 September 2017.

(2) Prior period refers to the six months ended 31 March 2018.

(3) Where referenced in this document, net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

## OPERATING AND FINANCIAL REVIEW FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### OPERATING GROUPS

Summary of the Operating Groups' performance for the half-year ended 30 September 2018.

#### Macquarie's annuity-style businesses

Macquarie's annuity-style businesses generated a combined net profit contribution for the half-year ended 30 September 2018 of \$A1,495 million, down 29% on the prior corresponding period.

#### MACQUARIE ASSET MANAGEMENT

**\$A762m**

↓ **36%** on pcp

- Performance fees down on a strong prior corresponding period
- Decreased investment-related income largely due to gains on reclassification of certain investments in the prior corresponding period
- Higher operating expenses mainly due to business growth, the impact of acquisitions and foreign exchange movements.

Partially offset by:

- Increased base fees primarily driven by higher assets under management (AUM) including favourable foreign exchange movements.

#### CORPORATE AND ASSET FINANCE

**\$A437m**

↓ **29%** on pcp

- Decreased income from early repayments, realisations and investment-related income in the Principal Finance portfolio
- Lower interest income largely as a result of the reduction in the Principal Finance portfolio size
- Asset Finance portfolio broadly in line with the prior corresponding period.

#### BANKING AND FINANCIAL SERVICES

**\$A296m**

↑ **3%** on pcp

- Growth in deposit, Australian loan portfolio and funds on platform average volumes.

Partially offset by:

- Increased costs associated with investment in technology and headcount in key areas to support business growth
- Platform margin fee compression
- Entire period effect of Australian Government Major Bank Levy relative to the prior corresponding period.



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**Macquarie's capital markets facing businesses**

Macquarie's capital markets facing businesses delivered a combined net profit contribution for the half-year ended 30 September 2018 of \$A1,106 million, up 95% on the prior corresponding period.

**COMMODITIES AND GLOBAL MARKETS**

**\$A700m**

↑ **85%** on pcp

- Increased contribution across the commodities platform driven by client activity and improved trading opportunities
- Increased fee and commission income in Asia driven by increased market turnover and client activity, and an increased contribution from equity capital markets fee income from Asia-Pacific.

Partially offset by:

- Reduced opportunities and challenging markets impacting equity trading activities
- Increased operating expenses reflecting increased client activity, the impact of acquisitions completed in the prior year, and an increase in investment in technology platforms.

**MACQUARIE CAPITAL**

**\$A406m**

↑ **114%** on pcp

- Increased net income on equity and debt investments due to asset realisations and reclassifications, particularly in green energy and technology
- Higher fee income across mergers and acquisitions, debt capital markets and equity capital markets.

Partially offset by:

- Higher share of losses of associates and joint ventures and other expenses reflecting underlying investing activity including expenditure on green energy and other projects in the development phase
- Higher operating expenses mainly due to additional headcount, unfavourable foreign exchange movements and increased investing activity.

► Further information on Macquarie's performance is detailed on pages 8 to 9 and the review of Operating Groups is contained on pages 14 to 15.

## OPERATING AND FINANCIAL REVIEW

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

#### Net operating income

Net operating income of \$A5,830 million for the half-year ended 30 September 2018 increased 8% from \$A5,397 million in the prior corresponding period from higher Net interest and trading income, higher Fee and commission income as well as lower Credit and Other impairment charges.

#### Key drivers included:

##### Net interest and trading income

HALF-YEAR TO			↑ <b>18%</b> on prior corresponding period
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am	
2,229	2,051	1,892	

- Increased contribution across the commodities platform driven by client activity and improved trading opportunities in CGM
- Growth in deposit and Australian loan portfolio in BFS
- Impact of changes in fair value on economic hedges and higher earnings on capital in Corporate.

Partially offset by:

- Reduced income from early repayments, realisations and the reduction in the Principal Finance portfolio size in CAF.

##### Fee and commission income

HALF-YEAR TO			↑ <b>4%</b> on prior corresponding period
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am	
2,661	2,102	2,568	

- Increase in brokerage commission in Futures and Cash equity markets from increased market turnover and client activity in Asia, and an increase in equity capital markets fee income from Asia-Pacific in CGM
- Higher fee income from mergers and acquisitions, debt and equity capital markets in Macquarie Capital
- Following the adoption of AASB 15, \$A141 million of fee expenses relating to stock borrowing activities and certain recoverable costs previously presented net of associated revenues have been reclassified to Operating expenses.

Partially offset by:

- Lower performance fees compared to a strong prior corresponding period in MAM.

##### Net operating lease income

HALF-YEAR TO			↓ <b>2%</b> on prior corresponding period
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am	
461	466	469	

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

##### Share of net profits of associates and joint ventures

HALF-YEAR TO			↓ <b>93%</b> on prior corresponding period
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am	
7	138	103	

- Losses from associates and joint ventures reflecting underlying investing activity including expenditure on green energy and other projects in the development phase in Macquarie Capital.

Partially offset by:

- An increase in share of net profits from the sale and revaluation of a number of underlying assets within equity accounted investments in MAM.

##### Other operating income and charges

HALF-YEAR TO			↑ <b>29%</b> on prior corresponding period
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am	
472	766	365	

- Credit and Other impairment charges down on the prior corresponding period which recognised impairments relating to legacy assets in Corporate and underperforming financing facilities in CGM
- Investment income up primarily due to gains generated across ANZ, Europe and the US from unlisted investments in the green energy and technology sectors in Macquarie Capital, partially offset by the non-recurrence of gains on reclassification of certain investments in MAM and an investment in a toll road in the UK by CAF
- An increase in Other income predominately relating to asset sales in CAF, partially offset by expenditure on green energy projects in the development phase in Macquarie Capital.

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**Operating expenses**

Total operating expenses of \$A4,125 million for the half-year ended 30 September 2018 increased 12% from \$A3,693 million in the prior corresponding period.

**Key drivers included:**

**Employment expenses**

HALF-YEAR TO		
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am
2,454	2,232	2,261

↑ **9%**  
 on prior  
 corresponding  
 period

- Higher average headcount across the Consolidated Entity
- Increased share-based payments expense mainly driven by Macquarie's share price movement
- Unfavourable foreign exchange movements.

**Brokerage, commission and trading-related expenses**

HALF-YEAR TO		
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am
579	408	422

↑ **37%**  
 on prior  
 corresponding  
 period

- Following the adoption of AASB 15, \$A141 million of fee expenses relating to stock borrowing activities and certain recoverable costs previously presented net of associated revenues have been reclassified to Brokerage, commission and trading-related expenses.

**Non-salary technology expenses**

HALF-YEAR TO		
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am
331	309	295

↑ **12%**  
 on prior  
 corresponding  
 period

- Higher project activity in BFS
- Increased investment in technology platforms in CGM.

**Occupancy and Other operating expenses**

HALF-YEAR TO		
30 Sep 18 \$Am	31 Mar 18 \$Am	30 Sep 17 \$Am
761	814	715

↑ **6%**  
 on prior  
 corresponding  
 period

- Increased business activity in the majority of Operating Groups
- Unfavourable foreign exchange movements.

**Income tax expense**

Income tax expense for the half-year ended 30 September 2018 was \$A374 million, a 17% decrease from \$A448 million in the prior corresponding period. The decrease was mainly due to a reduction in US tax rates and the geographic composition and nature of earnings.

The effective tax rate for the half-year ended 30 September 2018 was 22.2%, down from 26.4% in the prior corresponding period and 24.9% in the prior period.

**Note on adoption of new Australian Accounting Standards**

The September 2018 financial results reflect the adoption of AASB 9 – *Financial Instruments* (AASB 9) and AASB 15 – *Revenue from contracts with customers* (AASB 15) on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 1 – Summary of significant accounting policies in the Financial Report for details regarding the Consolidated Entity's transition to AASB 9 and AASB 15.

## OPERATING AND FINANCIAL REVIEW

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

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#### FINANCIAL POSITION

##### Balance sheet

The Consolidated Entity's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half-year ended 30 September 2018.

##### Total assets

AS AT		↑ <b>7%</b> on 31 Mar 18
30 Sep 18 \$Ab	31 Mar 18 \$Ab	
<b>205.6</b>	191.3	

Total assets of \$A205.6 billion at 30 September 2018 increased 7% from \$A191.3 billion at 31 March 2018 mainly due to an increase in Derivative assets, Trading assets, Loan assets, Other assets and Intangible assets. These increases were partially offset by decreases in Receivables from financial institutions and Financial investments.

- Derivative assets of \$A18.1 billion at 30 September 2018 increased 40% from \$A12.9 billion at 31 March 2018 mainly due to price movements in underlying physical commodities, particularly energy related commodities, as well as the revaluation of interest rate and foreign exchange derivatives
- Trading assets of \$A20.2 billion at 30 September 2018 increased 31% from \$A15.3 billion at 31 March 2018 mainly due to an increase in long equity positions
- Loan assets of \$A77.0 billion at 30 September 2018 increased 5% from \$A73.5 billion at 31 March 2018 mainly due to net new loans written in BFS including \$A3.4 billion for Australian mortgages and \$A0.5 billion for Business Banking. The current period also included additional loans in US debt capital markets in Macquarie Capital. This was partially offset by a 5% decrease in CAF's loan and finance lease portfolio to \$A23.1 billion at 30 September 2018 from \$A24.3 billion at 31 March 2018 primarily due to repayments in Principal Finance and Vehicles portfolios
- Other assets of \$A28.1 billion at 30 September 2018 increased 5% from \$A26.7 billion at 31 March 2018 mainly due to an increase in unsettled trade balances in CGM and held for sale assets in Macquarie Capital, partially offset by a reduction in held for sale investments in MAM including the sale of an investment in a UK gas distribution network
- Intangible assets of \$A1.9 billion at 30 September 2018 increased 91% from \$A1.0 billion at 31 March 2018 mainly due to goodwill and management rights related to acquisitions in MAM, as well as intangibles related to an acquisition in Macquarie Capital
- Receivables from financial institutions of \$A37.5 billion at 30 September 2018 decreased 3% from \$A38.6 billion at 31 March 2018 mainly due to a decrease in stock borrowing and reverse repurchase trades in CGM driven by short-term funding opportunities and client flow, partially offset by Treasury's funding and liquidity management activities during the half-year ended 30 September 2018
- Financial investments of \$A6.6 billion at 30 September 2018 decreased 7% from \$A7.2 billion at 31 March 2018 mainly due to the disposal of investments as part of Treasury's liquidity management activities.

##### Total liabilities

AS AT		↑ <b>9%</b> on 31 Mar 18
30 Sep 18 \$Ab	31 Mar 18 \$Ab	
<b>188.4</b>	173.1	

Total liabilities of \$A188.4 billion at 30 September 2018 increased 9% from \$A173.1 billion at 31 March 2018 mainly driven by an increase in Derivative liabilities, Payables to financial institutions, Deposits, Other liabilities and Loan capital. These increases were partially offset by a decrease in Debt issued and Trading liabilities.

- Derivative liabilities of \$A18.2 billion at 30 September 2018 increased 53% from \$A11.9 billion at 31 March 2018 mainly due to price movements in underlying physical commodities, particularly energy related commodities, as well as the revaluation of interest rate and foreign exchange derivatives
- Payables to financial institutions of \$A20.3 billion at 30 September 2018 increased 41% from \$A14.4 billion at 31 March 2018 mainly due to debt restructuring for Macquarie Air Finance in CAF and Treasury's funding management activities
- Deposits of \$A52.6 billion at 30 September 2018 increased 9% from \$A48.4 billion at 31 March 2018 mainly due to increased volumes across the retail and business deposit portfolios
- Other liabilities of \$A31.8 billion at 30 September 2018 increased 12% from \$A28.3 billion at 31 March 2018 mainly due to an increase in unsettled trade balances and call margin money in CGM
- Loan capital of \$A5.9 billion at 30 September 2018 increased 9% from \$A5.4 billion at 31 March 2018 mainly due to issuance of MCN3 (net of redemption of MCN) during the current period
- Debt issued of \$A51.7 billion at 30 September 2018 decreased 8% from \$A55.9 billion at 31 March 2018, mainly driven by Treasury's funding and liquidity management activities (including repayment of short-term debt), as well as repayments in CAF leasing facilities
- Trading liabilities of \$A7.2 billion at 30 September 2018 decreased 11% from \$A8.1 billion at 31 March 2018 mainly due to a decrease in short listed equity positions

##### Total equity

AS AT		↓ <b>6%</b> on 31 Mar 18
30 Sep 18 \$Ab	31 Mar 18 \$Ab	
<b>17.2</b>	18.2	

Total equity decreased 6% to \$A17.2 billion at 30 September 2018 from \$A18.2 billion at 31 March 2018.

The decrease was mainly due to the de-recognition of a Non-controlling interest in a UK gas distribution network following sale of this investment in the current period. This was partially offset by an increase in the Foreign currency translation reserve primarily driven by the depreciation of the Australian Dollar against the United States Dollar since 31 March 2018.

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**Funding**

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

Macquarie has a funding base that is stable with minimal reliance on short-term wholesale funding markets. At 30 September 2018, Macquarie's term assets were covered by term funding maturing beyond one-year, stable deposits and equity.

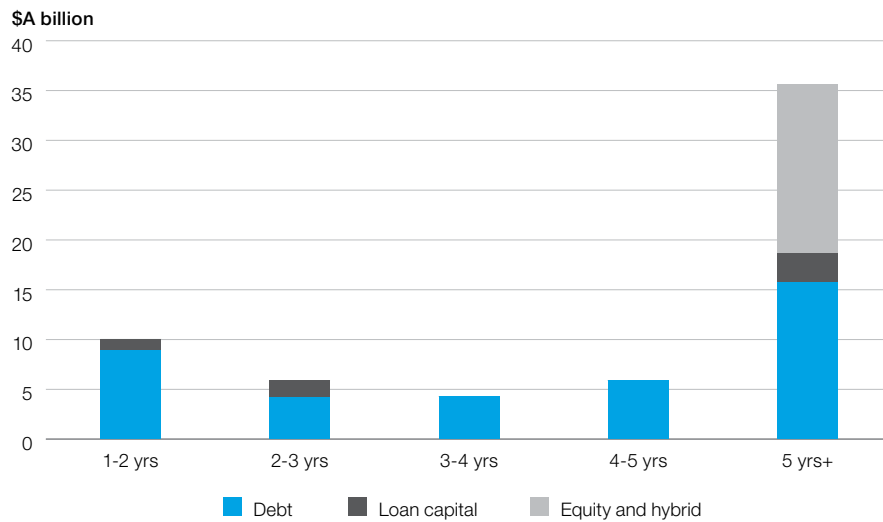
The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding, and securitisations) was 4.6 years at 30 September 2018.

**4.6 years**

The weighted average term to maturity of term funding maturing beyond one year at 30 September 2018

**Term funding profile**

Detail of drawn funding maturing beyond one year

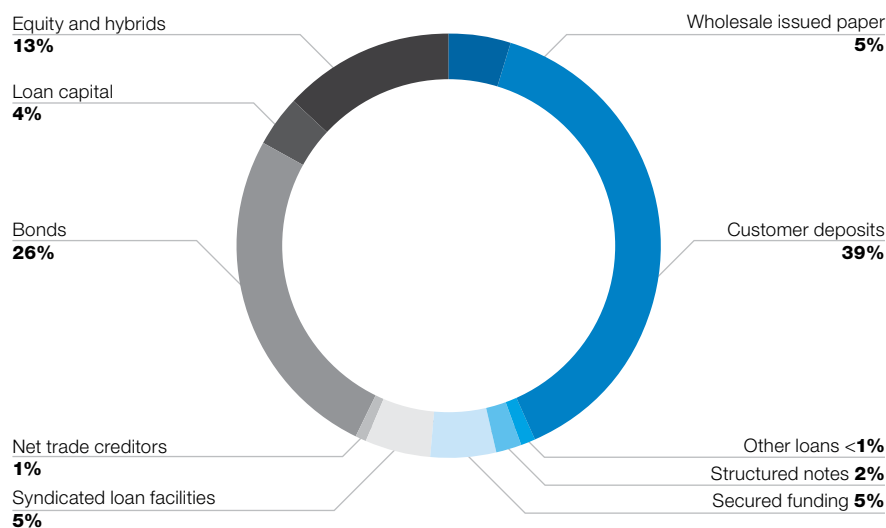


## OPERATING AND FINANCIAL REVIEW

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

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#### Diversity of funding source



Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2018, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2018 and 30 September 2018:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Secured funding	Term securitisation and other secured finance	–	0.7	0.7
Issued paper	Senior and subordinated	0.5	–	0.5
Loan facilities	MGL loan facilities	–	3.7	3.7
Loan capital	Subordinated notes	–	1.0	1.0
<b>Total</b>		<b>0.5</b>	<b>5.4</b>	<b>5.9</b>

Macquarie has continued to develop its major funding markets and products during the half-year ended 30 September 2018.

## Capital

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

- the Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA authorised deposit-taking institution (ADI) Prudential Standards
- the Non-Bank Group's capital requirement, calculated using Macquarie's Board approved Economic Capital Adequacy Model (ECAM). Transactions internal to Macquarie are eliminated.

Macquarie remains well capitalised with APRA Basel III Group capital of \$A19.8 billion at 30 September 2018, with a Group surplus of \$A3.4 billion (\$A5.7 billion on a Harmonised<sup>(1)</sup> Basel III basis). Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer (CCB), with at least 7% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110<sup>(2)</sup>.

In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum BCBS Basel III leverage ratio requirement of 3% was effective from 1 January 2018<sup>(3)</sup>.

As at 30 September 2018, the Bank Group had the following capital adequacy ratios:

Bank Group Basel III ratios as at 30 September 2018	Harmonised Basel III	APRA Basel III
Common Equity Tier 1 Capital Ratio	13.0%	10.4%
Tier 1 Capital Ratio	14.8%	12.1%
Leverage Ratio	6.4%	5.6%

- For further information relating to the capital adequacy of Macquarie, refer to section 6.0 Capital of the Management Discussion and Analysis at [macq.co/1H19MDA](http://macq.co/1H19MDA)

**\$A3.4b**  
 Group capital surplus

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

(2) Based on materiality, the countercyclical capital buffer (CCyB) of ~6bps has not been included.

(3) APRA released a discussion paper on their proposed implementation of the leverage ratio with a minimum requirement for the leverage ratio of 4% from July 19.

## OPERATING AND FINANCIAL REVIEW

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

For internal reporting and risk management purposes, Macquarie is divided into five Operating Groups, which are supported by four Central Service Groups. The Operating Groups are split between annuity-style businesses and capital markets facing businesses.

A summary of the Operating Groups' performance for the half-year ended 30 September 2018 and medium-term outlook is provided below.

#### Macquarie's annuity-style business

### MACQUARIE ASSET MANAGEMENT

MAM is Macquarie's asset management business, offering a diverse range of products through three divisions:

**Macquarie Infrastructure and Real Assets (MIRA):** a leader in alternative asset management worldwide, specialising in infrastructure, real estate, agriculture and energy via public and private funds, co-investments, partnerships and separately managed accounts.

**Macquarie Investment Management (MIM):** offering securities investment management capabilities across a number of asset classes including fixed income, currencies, equities, hedge funds and multi-asset allocation solutions.

**Macquarie Specialised Investment Solutions (MSIS):** offering a range of investment solutions for its fiduciary clients within the infrastructure debt sector. In addition, MSIS provides financing solutions for ship owners, hedge funds, private equity and private credit funds as well as real estate funds along with a market leading capability in arranging and underwriting Export Credit Agency backed debt facilities.

#### Performance

MAM delivered a net profit contribution of \$A762 million for the half-year ended 30 September 2018, down 36% from \$A1,189 million in the prior corresponding period. Performance fee income of \$A282 million was down from a strong prior corresponding period of \$A537 million which included performance fees from MEIF3, Atlas Arteria – ALX (formerly MQA) and other managed funds, Australian managed accounts and co-investors. Base fees of \$A884 million were up 11% from \$A795 million in the prior corresponding period, benefiting from investments made by MIRA-managed funds, increases in AUM primarily driven by foreign exchange impacts and positive market movements, as well as contributions from businesses acquired during the period (GLL Real Estate Partners and ValueInvest). This was partially offset by asset realisations by MIRA-managed funds. Investment-related income was lower than the prior corresponding period which included gains on reclassification of certain investments.

#### Medium-term

MAM is an annuity-style business that is diversified across regions, products, asset classes and investor types. This diversification of capabilities allows for the business to be well placed to grow assets under management in different market conditions. MAM is also well positioned for organic growth with several strongly performing products and an efficient operating platform.

Assets under management  
as at 30 September 2018

**\$A549.5b**

### CORPORATE AND ASSET FINANCE

CAF consists of an Asset Finance business and a Principal Finance business. CAF services clients in over 50 countries and manages asset and loan portfolios of \$A33.7 billion as at 30 September 2018. CAF is comprised of the following businesses:

**Asset Finance:** Provides tailored finance and asset management solutions to clients across specialised assets through the cycles, with asset finance expertise in aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

**Principal Finance:** Provides flexible primary financing solutions and engages in secondary market investing across the capital structure. It operates globally in both corporate and real estate sectors.

#### Performance

CAF delivered a net profit contribution of \$A437 million for the half-year ended 30 September 2018, down 29% from \$A619 million in the prior corresponding period. The decrease was mainly driven by reduced income from early repayments, realisations and investment-related income and lower portfolio volumes in Principal Finance. The Asset Finance contribution was broadly in line with the prior corresponding period driven by improved income from the Energy and Technology portfolios offset by lower underlying net operating lease income in Aviation. The remaining portfolios continued to perform well. CAF's asset and loan portfolios of \$A33.7 billion decreased 2% from 31 March 2018.

#### Medium-term

CAF's medium-term focus is to leverage its deep industry expertise to maximise growth potential in asset and loan portfolios. CAF is positioned for further asset acquisitions and realisations, subject to market conditions, with funding from asset securitisations expected throughout the cycle.

Asset and loan portfolios  
as at 30 September 2018

**\$A33.7b**

### BANKING AND FINANCIAL SERVICES

BFS serves the Australian market, and is organised into the following three business divisions:

**Personal Banking:** Provides a diverse range of retail banking products to clients with mortgages, credit cards, transaction and savings accounts.

**Wealth Management:** Provides clients with a wide range of wrap platform and cash management services, investment and superannuation products, financial advice, private banking and stockbroking.

**Business Banking:** Provides a full range of deposit, lending and payment solutions, as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms.

#### Performance

BFS delivered a net profit contribution of \$A296 million for the half-year ended 30 September 2018, up 3% from \$A286 million in the prior corresponding period. The improved result reflects increased income from growth in deposit, Australian loan portfolio and funds on platform average volumes partly offset by entire period effect of Australian Government Major Bank Levy relative to the prior corresponding period and increased costs associated with investment in technology projects and headcount in key areas to support business growth. The current period also includes expenses associated with bringing together the private bank and private wealth businesses. Total BFS deposits<sup>(1)</sup> of \$A49.4 billion increased 8% on 31 March 2018 and funds on platform<sup>(2)</sup> of \$A88.1 billion increased 7% on 31 March 2018. The Australian mortgage portfolio of \$A36.1 billion increased 10% on 31 March 2018, representing approximately 2% of the Australian mortgage market.

#### Medium-term

BFS remains focused on: strong growth opportunities through intermediary and direct retail client distribution, white labelling, platforms and client service; opportunities to increase financial services engagement with existing business banking clients and extend into adjacent segments; and modernising technology to improve client experience and support growth.

Australian client numbers  
More than

**1 million**



Directors  
 Operating and financial review  
 Auditor's Independence declaration

## Macquarie's capital markets facing businesses

### COMMODITIES AND GLOBAL MARKETS

CGM provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities. The platform covers more than 25 markets and over 160 products and has evolved over more than three decades to provide clients with access to markets, financing, financial hedging, research and market analysis and physical execution. CGM comprises seven divisions: Cash Equities, Commodity Markets and Finance, Credit Markets, Equity Derivatives and Trading, Fixed Income and Currencies, Futures, and Central (CGM-wide services).

#### Performance

CGM delivered a net profit contribution of \$A700 million for the half-year ended 30 September 2018, up 85% from \$A378 million in the prior corresponding period. The result primarily reflects an increased contribution across the commodities platform driven by client activity, improved trading opportunities, increased fee and commission income in Asia driven by increased market turnover and client activity, and an increased contribution from equity capital markets fee income in Asia-Pacific. This was partially offset by reduced opportunities and challenging markets impacting equity trading activities and increased operating expenses reflecting increased client activity, the impact of acquisitions completed in the prior year, and an increase in technology investment.

#### Medium-term

CGM remains focused on: opportunities to grow the commodities business, both organically and through acquisition; the development of institutional coverage for specialised credit, rates and foreign exchange products; increasing financing activities; growing the client base across all regions; leveraging a strong market position in Asia-Pacific through investment in the equities platform and further integration of the business across CGM.

Ranked by Platts

# No.2

US Physical Gas Marketer  
 in North America in Q2 CY18

### MACQUARIE CAPITAL

Macquarie Capital provides advisory, and capital raising services, and undertakes investing activities globally to support clients. It also invests Macquarie's balance sheet to develop and create assets, platforms and businesses. In addition, Macquarie Capital partners with financial sponsor clients to provide capital solutions, with a particular focus on technology. Macquarie Capital also offers specialist expertise across infrastructure, energy, real estate, telecommunications and media, technology, consumer, gaming and leisure, business services, resources, industrials, healthcare and financial institutions.

#### Performance

Macquarie Capital delivered a net profit contribution of \$A406 million for the half-year ended 30 September 2018, up 114% from \$A190 million in the prior corresponding period. The result reflects higher investment-related income, higher fee income from both debt and equity capital markets and higher M&A fee income. During the half-year ended 30 September 2018, Macquarie advised on 228 transactions valued at \$A267 billion<sup>(3)</sup> including being joint financial adviser to the Sydney Transport Partners consortium on its acquisition of a 51% interest in WestConnex for \$A9.3 billion from the NSW Government and joint lead manager, bookrunner and underwriter to Transurban Group on its \$A4.2 billion entitlement offer, the largest M&A fund raising by an ASX listed company in the last decade<sup>(4)</sup>. During the half-year ended 30 September 2018, Macquarie Capital completed a number of balance sheet transactions including the acquisition and development of a 235MW onshore wind farm (under construction) in central Sweden and raised €270 million of related construction financing and successfully exited its investment in TriTech Software Systems and subsequently acted as financial adviser on its merger with Superior and Aptean and joint bookrunner on the \$US1.0 billion related financing.

#### Medium-term

Macquarie Capital is positioned to benefit from any continued improvement in M&A and capital markets activity. It also continues to tailor the business offering to current opportunities, market conditions and strengths in each region and sector.

Advised on 228<sup>(3)</sup> transactions valued at

# \$A267b

during the half-year ended  
 30 September 2018

- ▶ For more details on the financial performance of the Operating Groups, see section 3.0 Segment analysis of the Management Discussion and Analysis available at [macq.co/1H19MDA](http://macq.co/1H19MDA)
- ▶ For more details on the operational performance of the Operating Groups, see slides of the Investors presentation available at [macq.co/1H19investorpresentation](http://macq.co/1H19investorpresentation)

- (1) Total BFS deposits exclude corporate/wholesale deposits.
- (2) Funds on platform includes Macquarie Wrap and Vision.
- (3) Dealogic and IJGlobal for Macquarie Group completed M&A, balance sheet positions, ECM and DCM transactions, converted at September 30 FX rate. Deal values reflect the full transaction value and not an attributed value.
- (4) Dealogic (since 2007, by value).

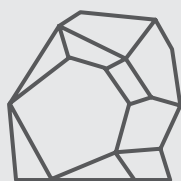
**OPERATING AND FINANCIAL REVIEW**  
**FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018**  
CONTINUED

# What We Stand For

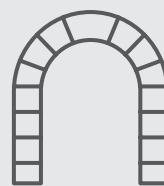
These long-held principles form the basis of Macquarie's expectations of our staff and adherence to them is required under our *Code of conduct*.



**Opportunity**



**Accountability**



**Integrity**

## Business strategy

Consistent with our *What We Stand For* principles, Macquarie's business strategy is focused on the medium-term with the following key aspects:

### Risk Management Approach

Adopting a conservative approach to risk management. Macquarie's robust risk management framework is embedded across all Operating and Central Service Groups.

This equips the business for unanticipated disruptions with the objective of ensuring that both the relevant business and Macquarie can survive a worst case outcome from any existing or new activity.

### Strong Balance Sheet

Maintaining a strong and conservative balance sheet.

This is consistent with Macquarie's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie remains well funded, with diversified funding sources.

We continue to pursue the strategy of diversifying funding sources by growing our deposit base and accessing different funding markets.

### Business Mix

Conducting a mix of annuity-style and capital markets facing businesses that deliver solid returns in a range of market conditions.

Macquarie has dynamically developed its annuity-style businesses, providing steady returns to the business and Macquarie shareholders, and stability to clients.

### Diversification

Operating a diversified set of businesses across different locations and service offerings: asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities.

Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie.

### Proven Expertise

Utilising proven deep expertise has allowed Macquarie to establish leading market positions as a global specialist in sectors including renewables, infrastructure, resources and commodities, energy, financial institutions and real estate. This is coupled with deep knowledge of Asia-Pacific financial markets.

### Adjacencies

Expanding progressively by pursuing adjacencies through organic opportunities and selective acquisitions.

These include products and geographies adjacent to Macquarie's established areas of expertise. This results in sustainable evolutionary growth.

### Pursuit Of Growth Opportunities

Targeting continued evolution and growth through innovation. We start with knowledge and skill, and we encourage ingenuity and entrepreneurial spirit coupled with accountability.

Ideas for new businesses are typically generated in the Operating Groups. Additionally, there are no specific businesses, markets, or regions in which our strategy dictates that we operate. This means we retain operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the *Risk Appetite Statement* (RAS) approved by the Board.

## OPERATING AND FINANCIAL REVIEW

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

#### OUTLOOK

While the impact of future market conditions makes forecasting difficult, we currently expect the result for the financial year ended 31 March 2019 to be up approximately 10% on the financial year ended 31 March 2018.

Macquarie's short-term outlook remains subject to: the conduct of period end reviews and the completion rate of transactions, noting that the sale of Quadrant Energy has not been included in our current outlook; market conditions; the impact of foreign exchange; potential regulatory changes and tax uncertainties and the geographic composition of income.

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

#### EVENTS AFTER THE REPORTING DATE

With the exception of the group transaction, discussed below, and matters disclosed elsewhere in this report, there were no material events subsequent to 30 September 2018 that have not been reflected in the financial statements.

#### Restructure of CAF's Principal Finance and Transportation Finance Businesses

On 24 October 2018, APRA approved the return of capital by Macquarie Bank Ltd (MBL) to the Consolidated Entity that would follow the transfer of CAF's Principal Finance and Transportation Finance businesses (the 'Businesses') from MBL to Macquarie Financial Holdings Pty Limited (MFHPL), both 100% held subsidiaries of MGL. On 2 November 2018, MBL, MGL, MFHPL and Macquarie B.H. Pty Ltd (MBHPL) (MBL's intermediate holding company), executed a Restructure Deed to transfer the Businesses with an effective date of 10 December 2018. The transfers are intended to simplify the Consolidated Entity's structure by better reflecting the latest activities of individual parts of the Businesses.

CAF Principal Finance provides flexible primary financing solutions and engages in secondary market investing across the capital structure and CAF Transportation Finance provides the financing of aircraft, rotorcraft and rail assets.

Given that the Businesses are ultimately controlled by MGL both before and after the transfer and that the transaction involves only entities that are 100% consolidated by MGL, the transfer of the Businesses will have no impact on the Consolidated Entity's statement of financial position, results of operations or cash flows.

#### INTERIM DIVIDEND

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2018 of \$A2.15 per fully paid ordinary MGL share on issue at 13 November 2018.

The dividend will be 45% franked and paid on 18 December 2018.

#### SHARE BUYBACK

Given significant business growth in the half-year ended 30 September 2018, Macquarie did not purchase any shares under the share buyback program announced at the half-year ended 30 September 2017 result announcement.

There is currently no prospect of buying any shares under the share buyback program announced at the half-year ended 30 September 2017 result announcement and so the program has ended.

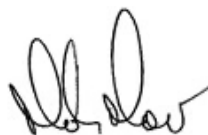
#### ROUNDING OF AMOUNTS

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

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



**Peter Warne**  
Independent Director and Chairman



**Nicholas Moore**  
Managing Director and Chief Executive Officer

Sydney  
2 November 2018

## AUDITOR'S INDEPENDENCE DECLARATION FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018



### AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Macquarie Group Limited for the half-year ended 30 September 2018, 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.

A handwritten signature in black ink that reads 'K. G. Smith'.

**K.G. Smith**  
Partner  
PricewaterhouseCoopers

Sydney  
2 November 2018

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

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# FINANCIAL REPORT

## CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

	Notes	Half-year to 30 Sep 18 <sup>(1)</sup> \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
Interest and similar income	2	2,687	2,481	2,462
Interest and similar expense	2	(1,689)	(1,506)	(1,451)
Net interest income		998	975	1,011
Fee and commission income	2	2,661	2,102	2,568
Net trading income	2	1,231	1,076	881
Net operating lease income	2	461	466	469
Share of net profits of associates and joint ventures	2	7	138	103
Other operating income and charges	2	472	766	365
Net operating income		5,830	5,523	5,397
Employment expenses	2	(2,454)	(2,232)	(2,261)
Brokerage, commission and trading-related expenses	2	(579)	(408)	(422)
Occupancy expenses	2	(207)	(203)	(199)
Non-salary technology expenses	2	(331)	(309)	(295)
Other operating expenses	2	(554)	(611)	(516)
Total operating expenses		(4,125)	(3,763)	(3,693)
<b>Operating profit before income tax</b>		<b>1,705</b>	1,760	1,704
Income tax expense	4	(374)	(435)	(448)
<b>Profit after income tax</b>		<b>1,331</b>	1,325	1,256
Profit attributable to non-controlling interests:				
Macquarie Income Securities	16	(7)	(7)	(7)
Other non-controlling interests		(14)	(9)	(1)
Profit attributable to non-controlling interests		(21)	(16)	(8)
<b>Profit attributable to ordinary equity holders of Macquarie Group Limited</b>		<b>1,310</b>	1,309	1,248
			<b>Cents per share</b>	
<b>Basic earnings per share</b>	6	<b>388.3</b>	387.5	370.4
<b>Diluted earnings per share</b>	6	<b>383.1</b>	379.9	360.2

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

(1) The September 2018 financial results reflect the adoption of AASB 9 – *Financial Instruments* (AASB 9) and AASB 15 – *Revenue from contracts with customers* (AASB 15) on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 1 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.



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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

	Notes	Half-year to 30 Sep 18 <sup>(1)</sup> \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>Profit after income tax</b>		<b>1,331</b>	1,325	1,256
Other comprehensive income/(loss) <sup>(2)</sup> :				
Movements in items that may be subsequently reclassified to the income statement:				
Fair value through other comprehensive income (FVOCI) reserve <sup>(3)</sup> :				
Revaluation losses recognised in other comprehensive income	16	(17)	(43)	(86)
Changes in allowance for expected credit losses	16	6	–	–
Transferred to income statement on:				
Impairment	16	–	9	7
Sale or reclassification	16	–	(25)	(238)
Cash flow hedges, net movement recognised in OCI	16	11	18	36
Share of other comprehensive (loss)/income of associates and joint ventures	16	(17)	(5)	7
Exchange differences on translation and hedge of foreign operations		308	273	(10)
Movement 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	16	(12)	40	(3)
<b>Total other comprehensive income/(loss)</b>		<b>279</b>	267	(287)
<b>Total comprehensive income</b>		<b>1,610</b>	1,592	969
Total comprehensive loss/(income) attributable to non-controlling interests:				
Macquarie Income Securities		(7)	(7)	(7)
Other non-controlling interests		16	(96)	(50)
<b>Total comprehensive loss/(income) attributable to non-controlling interests</b>		<b>9</b>	(103)	(57)
<b>Total comprehensive income attributable to ordinary equity holders of Macquarie Group Limited</b>		<b>1,619</b>	1,489	912

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

(1) The September 2018 financial results reflect the adoption of AASB 9 and AASB 15 on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 1 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.

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

(3) Represents the available for sale reserve for periods prior to adoption of AASB 9 on 1 April 2018.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 SEPTEMBER 2018

	Notes	As at 30 Sep 18 <sup>(1)</sup> \$m	As at 31 Mar 18 \$m	As at 30 Sep 17 \$m
<b>Assets</b>				
Receivables from financial institutions		37,462	38,559	40,345
Trading assets	7	20,158	15,341	18,596
Derivative assets		18,115	12,937	12,360
Other assets	8	28,104	26,695	26,049
Financial investments	9	6,633	7,160	5,761
Loan assets	10	76,953	73,509	70,387
Property, plant and equipment		11,361	11,426	10,960
Interests in associates and joint ventures		4,143	4,055	3,622
Intangible assets		1,894	993	991
Deferred tax assets		775	650	689
<b>Total assets</b>		<b>205,598</b>	<b>191,325</b>	<b>189,760</b>
<b>Liabilities</b>				
Trading liabilities	12	7,197	8,061	7,451
Derivative liabilities		18,205	11,925	10,717
Deposits		52,620	48,395	49,330
Other liabilities	13	31,817	28,306	26,687
Payables to financial institutions		20,252	14,390	17,799
Debt issued	14	51,665	55,927	54,551
Deferred tax liabilities		800	749	746
<b>Total liabilities excluding loan capital</b>		<b>182,556</b>	<b>167,753</b>	<b>167,281</b>
<b>Loan capital</b>		<b>5,883</b>	<b>5,392</b>	<b>5,380</b>
<b>Total liabilities</b>		<b>188,439</b>	<b>173,145</b>	<b>172,661</b>
<b>Net assets</b>		<b>17,159</b>	<b>18,180</b>	<b>17,099</b>
<b>Equity</b>				
Contributed equity	15	6,144	6,243	6,188
Reserves	16	1,567	1,297	999
Retained earnings	16	8,849	8,817	8,170
<b>Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited</b>		<b>16,560</b>	<b>16,357</b>	<b>15,357</b>
Non-controlling interests	16	599	1,823	1,742
<b>Total equity</b>		<b>17,159</b>	<b>18,180</b>	<b>17,099</b>

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

(1) The September 2018 financial position reflects the adoption of AASB 9 on 1 April 2018. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. Prior comparative periods have been reclassified to conform to current period presentation. Refer to Note 1 for the impact of the initial adoption of AASB 9 and other presentation changes.

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
Balance as at 1 April 2017		6,290	1,396	7,877	15,563	1,707	17,270
Profit after income tax		–	–	1,248	1,248	8	1,256
Other comprehensive (loss)/income, net of tax		–	(333)	(3)	(336)	49	(287)
Total comprehensive (loss)/income		–	(333)	1,245	912	57	969
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,16	–	–	(952)	(952)	–	(952)
Purchase of shares by MEREP Trust	15	(373)	–	–	(373)	–	(373)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	–	–	(9)	(9)
Dividends and distributions paid or provided for		–	–	–	–	(13)	(13)
Other equity movements:							
MEREP expense	16	–	200	–	200	–	200
Additional deferred tax benefit on MEREP expense	16	–	7	–	7	–	7
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	15,16	250	(250)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense from share based payments reserve on vesting of MEREP awards.	15,16	28	(28)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	15,16	(7)	7	–	–	–	–
		(102)	(64)	(952)	(1,118)	(22)	(1,140)
<b>Balance as at 30 September 2017</b>		<b>6,188</b>	<b>999</b>	<b>8,170</b>	<b>15,357</b>	<b>1,742</b>	<b>17,099</b>
Profit after income tax		–	–	1,309	1,309	16	1,325
Other comprehensive income, net of tax		–	140	40	180	87	267
Total comprehensive income		–	140	1,349	1,489	103	1,592
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,16	–	–	(697)	(697)	–	(697)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(5)	(5)	36	31
Dividends and distributions paid or provided for		–	–	–	–	(58)	(58)
Other equity movements:							
MEREP expense	16	–	183	–	183	–	183
Additional deferred tax benefit on MEREP expense	16	–	30	–	30	–	30
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	15,16	43	(43)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense from share based payments reserve on vesting of MEREP awards.	15,16	12	(12)	–	–	–	–
		55	158	(702)	(489)	(22)	(511)
<b>Balance as at 31 March 2018</b>		<b>6,243</b>	<b>1,297</b>	<b>8,817</b>	<b>16,357</b>	<b>1,823</b>	<b>18,180</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
Balance as at 1 April 2018		6,243	1,297	8,817	16,357	1,823	18,180
Change on initial application of AASB 9	1	–	54	(166)	(112)	(16)	(128)
<b>Restated balance as at 1 April 2018</b>		<b>6,243</b>	<b>1,351</b>	<b>8,651</b>	<b>16,245</b>	<b>1,807</b>	<b>18,052</b>
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		–	321	1,298	1,619	(9)	1,610
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends paid	5,16	–	–	(1,089)	(1,089)	–	(1,089)
Purchase of shares by MEREP Trust	15	(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	16	–	227	–	227	–	227
Additional deferred tax benefit on MEREP expense	16	–	21	–	21	–	21
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	15,16	331	(331)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	15,16	25	(25)	–	–	–	–
Transfer from other liabilities on vesting of MEREP awards	15	2	–	–	2	–	2
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	15,16	(3)	3	–	–	–	–
		(99)	(105)	(1,100)	(1,304)	(1,199)	(2,503)
<b>Balance as at 30 September 2018</b>		<b>6,144</b>	<b>1,567</b>	<b>8,849</b>	<b>16,560</b>	<b>599</b>	<b>17,159</b>

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

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## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

	Notes	Half-year to 30 Sep 18 <sup>(1)</sup> \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>Cash flows generated from operating activities</b>				
Interest and similar income received		2,690	2,443	2,465
Interest and similar expenses paid		(1,669)	(1,446)	(1,494)
Fees and other non-interest income received		2,406	2,240	2,165
Fees and commissions paid		(451)	(475)	(402)
Operating lease income received		1,098	969	862
Dividends and distributions received		158	148	80
Employment expenses paid		(2,753)	(1,422)	(2,491)
Operating expenses paid		(830)	(987)	(849)
Income tax paid		(448)	(175)	(308)
Changes in operating assets and liabilities:				
Net change in trading related assets and liabilities		4,162	5,560	(724)
Net loan assets granted		(3,101)	(2,869)	(851)
Net payments for assets under operating lease		(557)	(672)	(530)
Net increase/(decrease) in deposits		4,218	(1,199)	1,864
Net increase/(decrease) in payables to financial institutions		3,887	655	(524)
Net (decrease)/increase in debt issued		(6,076)	846	1,498
Net change in other assets and liabilities		(209)	128	(60)
Life business:				
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		611	485	619
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		(612)	(488)	(611)
Net cash flows generated from operating activities	17	2,524	3,741	709
<b>Cash flows generated from/(utilised in) investing activities</b>				
Net proceeds from/(payments for) financial investments		1,353	(1,079)	1,190
Proceeds from the disposal of or capital return from associates, subsidiaries and businesses, net of cash deconsolidated		1,791	2,193	1,317
Payments for the acquisition of associates or capital contribution, subsidiaries and businesses, net of cash acquired		(1,285)	(1,620)	(2,604)
Proceeds from the disposal of property, plant and equipment and intangible assets		6	58	–
Payments for the acquisition of property, plant and equipment and intangible assets		(574)	(180)	(75)
Net cash flows generated from/(utilised in) investing activities		1,291	(628)	(172)
<b>Cash flows utilised in financing activities</b>				
Payments for non-controlling interests		(71)	(18)	(15)
Proceeds from the issue of loan capital		670	–	–
Payments on redemption of loan capital		(270)	–	(330)
Dividends and distributions paid		(1,096)	(704)	(959)
Payments for acquisition of treasury shares		(454)	–	(373)
Net cash flows utilised in financing activities		(1,221)	(722)	(1,677)
<b>Net increase/(decrease) in cash and cash equivalents</b>				
Cash and cash equivalents at the beginning of the period		13,005	10,614	11,754
<b>Cash and cash equivalents at the end of the period</b>	17	<b>15,599</b>	<b>13,005</b>	<b>10,614</b>

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

(1) The September 2018 financial results reflect the adoption of AASB 9 and AASB 15 on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 1 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### NOTE 1

#### Summary of significant accounting policies

##### (i) Basis of preparation

This general purpose interim set of financial statements for the half-year period ended 30 September 2018 has been prepared in accordance with Australian Accounting Standard AASB 134. 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 information 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 2018 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 off 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 2018, other than where disclosed and with the exception of changes in accounting policies required following the adoption of new accounting standards on 1 April 2018. AASB 9 and AASB 15 are effective for the Consolidated Entity from 1 April 2018. 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. Under AASB 9, determining the appropriate business model for a group of financial assets and assessing whether the cash flows generated by an asset constitute solely payment of principal and interest (SPPI test) are new areas of accounting judgement as disclosed in the section titled "*New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current period*". The section also describes the changes to estimates and assumptions under AASB 9 and AASB 15 which respectively affect the timing and amount of the Consolidated Entity's credit impairment provisions and the timing and amount of revenue recognition. The basis of other key judgements and estimation uncertainty 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 2018.

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

###### AASB 16 Leases

AASB 16 – *Leases* (AASB 16) replaces the current AASB 117 – *Leases* standard for the Consolidated Entity's financial reporting period commencing on 1 April 2019. AASB 16 sets out a comprehensive model for identifying and the subsequent measurement of lease arrangements. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. Contracts that are determined to be a lease within the scope of AASB 16 from the lessee's perspective will require the recognition of a 'right-of-use' (ROU) asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the Consolidated Entity's statement of financial position as well as a change in the recognition of interest expense on the lease liability and depreciation on the ROU asset. The pattern of expense recognition will also change with higher costs in the earlier stages of the lease as a result of the interest expense being determined on a lease liability that amortises over the lease term. Classification of leases from the Consolidated Entity's perspective as lessor is expected to remain largely unchanged under AASB 16.

Alternative methods of calculating the ROU asset are allowed under AASB 16 which impact the size of the transition adjustment. The Consolidated Entity is still evaluating which method to apply.

An initial assessment has been performed based on operating leases that existed in the current reporting period. Based on this assessment it is not anticipated that there will be a material impact to the Consolidated Entity's retained earnings, although the adoption of AASB 16 will result in the recognition of additional liabilities and related ROU assets. The transition adjustment at the date of adoption of AASB 16 will be a function of the leases that exist at that date, the future expected lease payments and the Consolidated Entity's borrowing rate. The Consolidated Entity is currently evaluating AASB 16's various transition elections which will affect the determination of the lease liability and associated ROU assets. A schedule of current operating lease commitments is disclosed in Note 34 of the annual financial report for the year ended 31 March 2018.

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## NOTE 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

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

Interpretation 23 which clarifies the application of the recognition and measurement criteria in AASB 112 – *Income Taxes* where there is uncertainty over income tax treatments, 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 will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

Interpretation 23 will apply to the Consolidated Entity from 1 April 2019. Based on an initial assessment it is not expected that the implementation of Interpretation 23 will materially impact the Consolidated Entity's statement of financial position or income statement or reserves. This assessment is subject to the matters relevant at the date of transition.

##### Revised IFRS Conceptual Framework

The IASB has issued the revised IFRS Conceptual Framework ("Framework") for financial reporting. The main purpose of the Framework is to assist the IASB in developing accounting standards and assist financial report preparers to develop accounting policies when there is no specific or similar standard that addresses a particular issue.

Amendments made include the definition and recognition criteria for assets, liabilities, income and expenses, and other relevant financial reporting concepts. The Framework is effective for annual periods beginning on or after 1 January 2020. The Consolidated Entity is currently assessing the impact of the Framework and timing of adoption.

The Australian equivalent Conceptual Framework has not yet been amended.

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

#### (a) AASB 9 Financial Instruments and related amendments

AASB 9 replaced AASB 139 – *Financial Instruments: Recognition and Measurement* from 1 April 2018. AASB 9 results in changes to accounting policies for the classification and measurement of financial assets and financial liabilities and the manner in which credit impairments are required to be determined as well as requirements with respect to hedge accounting.

The Consolidated Entity early adopted the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value due to the Consolidated Entity's own credit risk in other comprehensive income (OCI) from 1 October

2016. The Consolidated Entity has applied all other provisions of AASB 9 in the current financial year beginning 1 April 2018 in respect of the classification and measurement of financial assets, impairment of financial assets and hedge accounting, for which a transition adjustment has been recognised in its retained earnings and OCI as at 1 April 2018. As permitted by AASB 9, the Consolidated Entity's comparative financial statements were not restated.

The key changes in significant accounting policies and impacts from the transition are summarised below:

#### Classification and subsequent measurement:

##### Financial assets:

AASB 9 has three classification categories for financial assets; amortised cost, FVOCI and fair value through profit or loss. The classification is based on the business model under which the financial asset is managed and its contractual cash flows.

Compared to AASB 139, the FVOCI and amortised cost categories have been added and the held-to-maturity, loans and receivables and available for sale classification categories have been removed.

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

The Consolidated Entity applies the following principal policies for the new financial assets' classifications in terms of AASB 9.

##### Amortised cost

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

- (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements.

##### Fair value through other comprehensive income (FVOCI)

A financial asset is measured at FVOCI if both of the following conditions are met:

- (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements.

Changes in the fair value of debt financial assets that are classified as FVOCI are recognised in OCI, except for the recognition of expected credit losses, interest revenue and foreign exchange gains and losses which are recognised in the income statement.

Expected credit losses are recognised in both the income statement and OCI. When debt financial assets at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to 'Other operating income' in the income statement. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### (i) Basis of preparation continued

###### *Fair value through profit or loss*

Financial assets that are not measured at amortised cost or FVOCI are measured at fair value through profit or loss. For the purposes of the Consolidated Entity's financial statements, the AASB 9 fair value through profit or loss classification has been further split between assets that are held for active trading (held for trading or 'HFT'), financial assets that have been designated to be measured at fair value through profit or loss (DFVTPL) and financial assets in a business model whose objective is achieved by selling the financial assets or managing the financial assets on a fair value basis or financial assets that fail the SPPI test (FVTPL). Equity financial assets are measured at FVTPL unless the Consolidated Entity irrevocably elects to present subsequent changes in the fair value in OCI. This election is made on an individual instrument basis and upon realisation of the equity instrument, the fair value gain or loss is transferred from OCI directly to retained earnings. The Consolidated Entity has not made this election for its equity instruments.

The Consolidated Entity may also irrevocably elect to classify a financial asset as DFVTPL if doing so eliminates or significantly reduces an accounting mismatch. Interest income from these FVTPL financial assets, which are calculated at contractual rates, is included in 'interest and similar income'.

##### Business model assessment

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

- (i) how the performance of the financial assets held within that business model is evaluated and reported to the Consolidated Entity's key management personnel;
- (ii) the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- (iii) how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The Consolidated Entity exercises judgement to determine the appropriate level at which to assess its business models and its intention with respect to financial assets.

##### Financial liabilities:

AASB 9 largely retains the existing requirements of AASB 139 for the classification and measurement of financial liabilities.

Financial liabilities are measured at amortised cost, except for those financial liabilities that are DFVTPL.

The component of the change in the fair value of financial liabilities that are DFVTPL due to the Consolidated Entity's own credit risk is presented in OCI, unless this creates an accounting mismatch. After this component is recorded in OCI, it is not subsequently transferred to the income statement but is instead reclassified as retained earnings. If a mismatch is created or enlarged, changes in fair value (due to the Consolidated Entity's credit risk) are presented in profit or loss. Under AASB 139, this component was

recognised in profit or loss. This treatment was early adopted prospectively from 1 October 2016.

##### Impairment:

AASB 9 replaces the AASB 139's incurred loss model with an expected loss model. Whilst the ultimate credit loss under both AASB 9 and AASB 139 is the same over the lifetime of the asset, AASB 9's expected credit loss (ECL) requirements requires earlier recognition of credit impairments.

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

In terms of AASB 9's ECL requirements, the Consolidated Entity applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward-looking or macroeconomic information. Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions used involve uncertainty at the time that they are made. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The determination of the ECL, which is unbiased and probability weighted, incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events, time value of money and economic conditions at the reporting date.

The ECL is determined with reference to the following stages:

##### (i) Stage 1: 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) or for those financial assets for which the credit risk is considered to be low, ECL is determined based on the PD over the next 12 months and the life time losses associated with such PD, adjusted for forward looking information (FLI).

Interest income is determined with reference to the financial asset's EIR and the financial asset's gross carrying amount.

##### (ii) Stage 2: Lifetime ECL not credit-impaired

When there has been a SICR, the ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for FLI. The Consolidated Entity assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable FLI that includes significant management judgment. Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based on the contractual maturity of the financial asset. For revolving facilities, the Consolidated Entity exercises judgement based on the behavioural, rather than contractual characteristics of the facility type.

Interest income is determined with reference to the financial asset's EIR and the financial asset's gross carrying amount.



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### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

##### (iii) Stage 3: Lifetime ECL credit-impaired

Financial assets are classified as stage 3 where they are determined to be credit impaired, which generally matches the Australian Prudential Regulatory Authority (APRA) definition of default and includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. For credit-impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for FLI. Interest income is determined with reference to the financial asset's EIR and the financial asset's amortised cost carrying value, being the exposure's gross carrying value after the ECL provision.

##### (iv) Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired (POCI) financial assets are initially recognised at fair value with interest income subsequently being recognised based on a credit-adjusted EIR.

The ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for FLI or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit-adjusted EIR, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in income statement as an impairment gain or loss.

ECL for financial guarantee contracts and loan commitments are recognised as a provision.

#### Modified financial assets and financial liabilities at amortised cost:

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated loan is substantially different from the existing financial instrument. When the modification does not result in derecognition, a gain or loss is recognised in the income statement as the difference between the financial instrument's original contractual cash flows and the modified cash flows discounted at the original EIR. Where the modification results in derecognition, newly recognised financial assets are assessed to determine whether the assets are required to be classified as POCI.

#### Hedge accounting:

The Consolidated Entity has adopted the hedge accounting requirements under AASB 9 prospectively for the reporting period beginning 1 April 2018.

The new hedge accounting requirements under AASB 9 simplify hedge accounting by more closely aligning hedge relationships with the Consolidated Entity's risk management activities. Hedge accounting may be applied to a greater variety of hedged items and related hedged risks. Hedge effectiveness testing is less prescriptive than that under AASB 139 and is generally expected to result in the Consolidated Entity achieving hedge accounting in more scenarios. Also, as permitted by AASB 9, the foreign currency basis spread on a derivative hedging instrument has been excluded from designated hedge relationships and has been separately accounted for as a cost of hedging reserve in OCI.

#### Transition:

As permitted by AASB 9, the Consolidated Entity has not restated its comparative financial statements and has recorded a transition adjustment to its opening balance sheet, retained earnings and OCI at 1 April 2018 for the impact of the adoption of AASB 9's classification and measurement, impairment and hedge accounting requirements.

The transition adjustment, which materially relates to AASB 9's ECL requirements, has reduced the Consolidated Entity's shareholders' equity by \$128 million after tax and does not have a material impact on the Consolidated Entity's minimum regulatory capital requirements.

Refer to the "Change on initial application of AASB 9" section following this note for the detailed transition impact.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### (i) Basis of preparation continued

##### Amendments to statement of financial position presentation following the adoption of AASB 9

Although the Consolidated Entity has not, as permitted by AASB 9, restated its comparative financial statements, the Consolidated Entity has:

- (i) included a new statement of financial position line item, being 'Financial investments' which typically includes equity and debt investments at FVTPL, debt investments designated at FVTPL and debt investments at FVOCI. Financial assets that were previously disclosed within the line item 'Other financial assets at fair value through profit or loss', with the exception of loan assets designated at FVTPL, and line item 'Investment Securities available for sale' have been reclassified to 'Financial investments' to align with the disclosure in the current period,
- (ii) aligned the category for 'Loan assets' in the current period to include loans previously reported under 'Loan assets held at amortised cost' which are now measured at either amortised cost, FVOCI or FVTPL. 'Loan assets' also include financial assets DFVTPL which were previously reported under 'Other financial assets at fair value through profit or loss' and certain loans classified as FVTPL which were previously reported under 'Trading assets', and
- (iii) aligned the category for 'Debt issued' in the current period to include debt previously reported under 'Debt issued at amortised cost' and 'Other debt issued at fair value through profit or loss' with the exception of other liabilities that are DFVTPL.

##### Other amendments to statement of financial position presentation

The Consolidated Entity has made other voluntary changes in the presentation of certain items in its statement of financial position. Margin money placed has been reclassified from 'Loan assets' to 'Other assets'. Similarly, segregated funds and margin money held have been reclassified from 'Deposits' and 'Payables to financial institutions' to 'Other liabilities'. The change in presentation for financial assets and financial liabilities aligns with the presentation of similar financial instruments and therefore provides more information regarding the effect of these financial instruments on the financial position and performance of the Consolidated Entity. This has had no effect on the measurement of these items and therefore on retained earnings or profit for any period. The effect of these presentational changes on the statement of financial position has been disclosed in the "Change on initial application of AASB 9" section of this note and as footnotes to the other relevant notes to the financial statements.

##### Amendments to income statement presentation

The Consolidated Entity has made certain presentation changes in its Income statement and Note 2 – Operating Profit before income tax, in order to align the presentation of items of income and expense with the categories of financial instruments presented in the statement of financial position.

##### AASB 7 Financial Instruments: Disclosures

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

The disclosures relevant for this interim set of financial statements have been included in this financial report. A full set of disclosures as required by revised AASB 7 will be provided in the Consolidated Entity's annual financial statements for the year ending 31 March 2019.

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

AASB 2017-6 amends AASB 9 to permit entities to measure at amortised cost or FVOCI, particular financial assets that would otherwise have contractual cash flows that meet the SPPI test but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at FVTPL.

The Consolidated Entity has early adopted the amendment from 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

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

AASB 2017-7 clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which the equity method is not applied. Such long term interests are accounted under AASB 9 before applying the loss allocation and impairment requirements in AASB 128 – *Investments in Associates and Joint Ventures*. These long term interests are in the nature of debt instruments. The Consolidated Entity calculates the ECL on these long-term interests under the AASB 9 impairment model.

AASB 2017-7 is effective for annual periods beginning on or after 1 January 2019. The Consolidated Entity has early adopted the amendment in the financial year beginning 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

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## NOTE 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

##### Change on initial application of AASB 9

The section entitled "*AASB 9 Financial Instruments and related amendments*" sets out an explanation regarding the Consolidated Entity's adoption of AASB 9. The following table summarises the presentation changes as well as changes in the carrying amounts in the Consolidated Entity's statement of financial position as a result of the adoption of AASB 9 as at 1 April 2018. It includes a comparison of AASB 139's measurement categories and the new measurement categories determined in accordance with AASB 9 and the impact of the classification and measurement changes and the new ECL requirements on the Consolidated Entity's statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

	AASB 139 measurement category	Carrying amount at 31 Mar 18 \$m	Presentation changes \$m	Revised presentation at 31 Mar 18 \$m	AASB 9 classification & measurement changes \$m
<b>Assets</b>					
Receivables from financial institutions <sup>(A)</sup>	Amortised cost	38,559	–	38,559	(16,083)
		–	–	–	16,083
Trading assets <sup>(1)</sup>	FVTPL	15,585	(244)	15,341	–
Derivative assets	FVTPL	12,937	–	12,937	–
Financial investments <sup>(2),(3),(B)</sup>	Available for sale	–	6,166	6,166	(856)
	FVTPL (designated)	–	994	994	(891)
		–	–	–	1,747
Investment securities available for sale <sup>(2)</sup>	Available for sale	6,166	(6,166)	–	–
Other assets <sup>(3),(4),(C),(D)</sup>	Amortised cost	12,830	8,182	21,012	(566)
	FVTPL	647	–	647	254
	FVTPL (designated)	–	143	143	–
		–	–	–	312
	Non financial asset	4,893	–	4,893	–
Loan assets <sup>(1),(3),(4),(E),(F)</sup>	Amortised cost	81,150	(8,182)	72,968	(1,385)
	FVTPL	–	244	244	710
	FVTPL (designated)	–	297	297	–
		–	–	–	675
Other financial assets at fair value through profit or loss <sup>(3)</sup>	FVTPL (designated)	1,434	(1,434)	–	–
Property, plant and equipment	Non financial asset	11,426	–	11,426	–
Interests in associates and joint ventures – equity	Non financial asset	3,641	–	3,641	–
Interests in associates and joint ventures – loans <sup>(3)</sup>	Amortised cost	414	–	414	(274)
		–	–	–	14
		–	–	–	260
Intangible assets	Non financial asset	993	–	993	–
Deferred tax assets	Non financial asset	650	–	650	–
<b>Total assets</b>		<b>191,325</b>	<b>–</b>	<b>191,325</b>	<b>–</b>
<b>Liabilities</b>					
Trading liabilities	FVTPL	8,061	–	8,061	–
Derivative liabilities	FVTPL	11,925	–	11,925	–
Deposits <sup>(4)</sup>	Amortised cost	59,412	(11,017)	48,395	–
Other liabilities <sup>(4),(5)</sup>	Amortised cost	9,847	12,067	21,914	–
	FVTPL (designated)	640	153	793	–
	Non financial liability	5,599	–	5,599	–
Payables to financial institutions <sup>(4),(A)</sup>	Amortised cost	15,440	(1,050)	14,390	(2,522)
		–	–	–	2,522
Debt issued <sup>(5)</sup>	Amortised cost	53,717	–	53,717	–
	FVTPL (designated)	–	2,210	2,210	–
Other debt issued at fair value through profit or loss <sup>(5)</sup>	FVTPL (designated)	2,363	(2,363)	–	–
Deferred tax liabilities	Non financial liability	749	–	749	–
<b>Total liabilities excluding loan capital</b>		<b>167,753</b>	<b>–</b>	<b>167,753</b>	<b>–</b>
Loan capital	Amortised cost	5,392	–	5,392	–
<b>Total liabilities</b>		<b>173,145</b>	<b>–</b>	<b>173,145</b>	<b>–</b>
<b>Net assets</b>		<b>18,180</b>	<b>–</b>	<b>18,180</b>	<b>–</b>
<b>Equity</b>					
Contributed equity		6,243	–	6,243	–
Reserves		1,297	–	1,297	–
Retained earnings <sup>(4)</sup>		8,817	–	8,817	–
<b>Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited</b>		<b>16,357</b>	<b>–</b>	<b>16,357</b>	<b>–</b>
Non-controlling interests		1,823	–	1,823	–
<b>Total equity</b>		<b>18,180</b>	<b>–</b>	<b>18,180</b>	<b>–</b>

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AASB 9 remeasurement				AASB 9 measurement categories					
Classification changes \$m	ECL \$m	Tax impact \$m	Net impact \$m	Carrying amount at 1 Apr 18 \$m	Amortised cost \$m	HFT \$m	FVTPL \$m	DFVTPL \$m	FVOCI \$m
-	-	-	-	22,476	22,476	-	-	-	-
-	-	-	-	16,083	-	-	16,083	-	-
-	-	-	-	15,341	-	15,341	-	-	-
-	-	-	-	12,937	-	12,937	-	-	-
-	-	-	-	5,310	-	-	-	-	5,310
-	-	-	-	103	-	-	-	103	-
-	-	-	-	1,747	-	-	1,747	-	-
-	-	-	-	-	-	-	-	-	-
-	(20)	-	(20)	20,426	20,426	-	-	-	-
-	-	-	-	901	-	-	901	-	-
-	-	-	-	143	-	-	-	143	-
-	-	-	-	312	-	-	-	-	312
-	-	-	-	4,893	-	-	-	-	-
-	(170)	-	(170)	71,413	71,413	-	-	-	-
-	-	-	-	954	-	-	954	-	-
-	-	-	-	297	-	-	-	297	-
(27)	72	-	45	720	-	-	-	-	720
-	-	-	-	-	-	-	-	-	-
-	-	-	-	11,426	-	-	-	-	-
-	-	-	-	3,641	-	-	-	-	-
-	-	-	-	140	140	-	-	-	-
-	-	-	-	14	-	-	14	-	-
(18)	18	-	-	260	-	-	-	-	260
-	-	-	-	993	-	-	-	-	-
-	-	50	50	700	-	-	-	-	-
(45)	(100)	50	(95)	191,230	114,457	28,278	19,699	543	6,600
-	-	-	-	8,061	-	8,061	-	-	-
-	-	-	-	11,925	-	11,925	-	-	-
-	-	-	-	48,395	48,395	-	-	-	-
-	33	-	33	21,947	21,947	-	-	-	-
-	-	-	-	793	-	-	-	793	-
-	-	-	-	5,599	-	-	-	-	-
-	-	-	-	11,868	11,868	-	-	-	-
-	-	-	-	2,522	-	-	-	2,522	-
-	-	-	-	53,717	53,717	-	-	-	-
-	-	-	-	2,210	-	-	-	2,210	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	749	-	-	-	-	-
-	33	-	33	167,786	135,927	19,986	-	5,525	-
-	-	-	-	5,392	5,392	-	-	-	-
-	33	-	33	173,178	141,319	19,986	-	5,525	-
(45)	(133)	50	(128)	18,052	-	-	-	-	-
-	-	-	-	6,243	-	-	-	-	-
(85)	153	(14)	54	1,351	-	-	-	-	-
40	(270)	64	(166)	8,651	-	-	-	-	-
(45)	(117)	50	(112)	16,245	-	-	-	-	-
-	(16)	-	(16)	1,807	-	-	-	-	-
(45)	(133)	50	(128)	18,052	-	-	-	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### (i) Basis of preparation continued

Footnotes to the AASB 9 Transition Table

##### Presentation changes

On adoption of AASB 9 the Consolidated Entity elected to make the following presentation changes to certain of its financial assets and liabilities in order to better reflect the nature of the underlying assets and liabilities:

- (1) Corporate loans (March 2018: \$244 million; September 2017: \$38 million) that were managed on a fair value basis and that were previously presented under 'Trading assets' were re-presented to be included as part of 'Loan assets' held at FVTPL.
- (2) Available for sale debt and equity securities (March 2018: \$6,166 million; September 2017: \$4,752 million) were re-presented to be included within 'Financial investments'.
- (3) Debt and equity securities (March 2018: \$1,434 million; September 2017: \$1,510 million) that were previously presented as part of 'Other financial assets at fair value through profit or loss' were re-presented to be included as part of 'Financial investments' (March 2018: \$994 million; September 2017: \$1,009 million), 'Loan assets' (March 2018: \$297 million; September 2017: \$361 million) and 'Other assets' (March 2018: \$143 million; September 2017: \$140 million).
- (4) Margin placed (March 2018: \$8,182 million; September 2017: \$6,901 million) that was previously presented as part of 'Loan assets' was re-presented to be included as part of 'Other assets'. Similarly, margin received that was previously presented in 'Deposits' (March 2018: \$11,017 million; September 2017: \$9,676 million) and margin received that were presented in 'Payable to financial institutions' (March 2018: \$1,050 million; September 2017: \$1,266 million) were re-presented to be included in 'Other liabilities'.
- (5) Financial liabilities that were previously presented as part of 'Other debt issued at fair value through profit or loss' were re-presented to be included in 'Other liabilities' (March 2018: \$153 million; September 2017: \$nil) and 'Debt issued' (March 2018: \$2,210 million; September 2017: \$2,268 million).

##### AASB 9 classification and measurement changes

Following the adoption of AASB 9, the following classification and measurement changes arose:

- (A) Reverse repurchase agreements of \$16,083 million that were classified as at amortised cost in terms of AASB 139 were determined to be held within a business model in which such assets were managed on a fair value basis in terms of AASB 9 and were accordingly re-classified to FVTPL. In order to eliminate an accounting mismatch, repurchase agreements of \$2,522 million that were classified as at amortised cost in terms of AASB 139 were reclassified to DFVTPL on adoption of AASB 9.
- (B) Financial investments (debt and equity) that were classified in terms of AASB 139 as available for sale of \$856 million and as FVTPL (designated) of \$891 million were determined to be held within a business model in which such assets are managed on a fair value basis in terms of AASB 9. The financial investments were accordingly re-classified to FVTPL on adoption of AASB 9.
- (C) Commodity debtors of \$254 million which were classified as at amortised cost in terms of AASB 139 were determined to be managed on a fair value basis in terms of AASB 9. The commodity debtors were accordingly reclassified as at FVTPL on adoption of AASB 9.
- (D) Loans to associates of \$312 million that have been classified as held for sale in terms of AASB 5 – *Non-current assets held for sale and discontinued operations* were previously classified as at amortised cost in terms of AASB 139. These loans are held within a business model to both collect cash flows and to realise through sale and were re-classified to FVOCI on adoption of AASB 9.
- (E) Loans of \$710 million that were classified as at amortised cost in terms of AASB 139 had certain loan features that resulted in the loan not meeting the AASB 9's SPPI requirements and have accordingly been re-classified to FVTPL on adoption of AASB 9.
- (F) Loans of \$675 million that were classified as at amortised cost in terms of AASB 139 were determined to be held within a business model to both collect cash flows and to realise through sale. These loans were accordingly re-classified as at FVOCI on adoption of AASB 9.
- (G) Loans to associates and joint ventures of \$260 million were reclassified to FVOCI on adoption of AASB 9 since the loans are held within a business model whose objective is to both collect contractual cash flows and to realise through sale. Further, loans of \$14 million were reclassified to FVTPL as such assets are managed on a fair value basis in terms of AASB 9.
- (H) The \$40 million increase in retained earnings for changes in classification and measurement of financial assets materially relates to the reversal of fair value impairment losses on certain available for sale debt securities that were recognised previously in retained earnings in terms of AASB 139. Such fair value impairment losses are now recognised within OCI in terms of AASB 9. An ECL impairment loss has been separately recognised on these debt securities in retained earnings on adoption of AASB 9.

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

The following table provides a reconciliation between the closing impairment allowance for financial assets in accordance with AASB 139 (incurred credit loss) to the opening impairment allowance determined in accordance with AASB 9 (expected credit loss) as at 1 April 2018. Changes to the impairment allowance from AASB 139 to AASB 9 are due to the reclassification of financial assets between amortised cost and fair value and the remeasurement of impairment allowances in terms of AASB 9's new ECL requirements on all debt financial assets that are either classified as amortised cost or at FVOCI as well as certain off balance sheet credit arrangements.

Financial assets	Measurement Category under AASB 139	Measurement category under AASB 9	Loss allowance under AASB 139 \$m	Reclassification \$m	Remeasurement <sup>(1)</sup> \$m	Adjusted in fair value at transition date <sup>(2)</sup> \$m	ECL allowance under AASB 9 \$m
Financial investments	Available for sale	FVOCI	–	–	52	–	<b>52</b>
Other assets	Amortised cost	Amortised cost	108	–	20	–	<b>128</b>
Loan assets	Amortised cost	Amortised cost	470	(139)	170	–	501
		FVTPL	–	67	–	(67)	–
		FVOCI	–	72	(1)	–	71
							<b>572</b>
Interests in associates and joint ventures – loans	Amortised cost	Amortised cost	19	(18)	–	–	1
		FVOCI	–	18	12	–	30
							<b>31</b>
Undrawn commitments and financial guarantees			–	–	33	–	<b>33</b>
<b>Total expected credit loss allowance</b>			<b>597</b>	<b>–</b>	<b>286</b>	<b>(67)</b>	<b>816</b>

(1) The ECL movement on loan assets of \$170 million primarily represents an increase in Stage 2 provisions due to a lifetime ECL allowance recognised on exposures that have experienced a SICR since origination.

(2) Represents an AASB 139 impairment allowance on amortised cost financial assets that were reclassified to FVTPL on transition to AASB 9.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### (i) Basis of preparation continued

##### (b) AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services is transferred to the customer.

The Consolidated Entity adopted AASB 15 on 1 April 2018. On conclusion of the transition project, no material adjustment to opening retained earnings was recognised as the amendments to its accounting policies did not result in significant changes to the timing or amount of revenue recognised at 31 March 2018. However, the Consolidated Entity has prospectively presented certain amounts of gains and losses, which were previously presented on a net basis within fee and commission income, on a gross basis in terms of AASB 15 within fee and commission income and operating expenses.

The key judgements in applying AASB 15 include the timing and amount of variable consideration to be recognised in relation to performance fees from funds; determining whether multiple services provided in a single contract are distinct; and determining when incurred expenses can be presented net of any associated revenue.

The Consolidated Entity's revenue from contracts with customers is primarily in the nature of fees and commission income as presented in the income statement.

##### Base management and performance fees

The Consolidated Entity provides asset management services for listed and unlisted funds. It has been determined that the provision of asset management services is typically a single performance obligation. Base management fees are for asset management services that are provided over the life of the contract and are recognised periodically over time. Any associated performance fees are deemed to be a variable component of the same asset management services that is constrained and are recognised only when it is highly probable that the performance hurdles are met and a reversal will not occur. Determining the amount and timing of performance fees to be recognised involves judgement and the use of estimates. Factors taken into consideration include the:

- nature of underlying fund assets and potential for volatility of investment returns
- returns on assets realised to-date
- time remaining until realisation of fund assets or crystallisation date
- the proportion of assets already realised
- downside valuation on remaining unrealised assets and reliability of those estimates.

##### Mergers and acquisitions, advisory and underwriting fees

The Consolidated Entity earns revenue through its role as advisor on mergers and acquisitions and other corporate transactions as well as through its role as manager and underwriter of equity and debt capital raisings. The revenue from these arrangements is recognised at a point in time, when it has been established that the customer has received the benefit of the service. For advisory services this is typically on close of the transaction. Where mandates contain rights to invoice upon reaching certain milestones, the Consolidated Entity will assess if there are distinct services transferred at these milestones and recognise revenue accordingly, otherwise it will defer recognition until it is determined that the promised service has been completed. Management and underwriting of debt or equity capital raisings are each considered distinct performance obligations that are typically satisfied on allocation where the Consolidated Entity is not expected to take up a portion of the allocation.

##### Brokerage and commission

The Consolidated Entity enters into contracts with customers to act as an agent to buy and sell securities. Brokerage and Commissions are recognised at a point in time, being on trade date, when the transfer of control of the underlying security has occurred. The brokerage and commission income is presented net of any rebates.

##### Other fee and commission income

Other fee and commission income includes fees earned on a range of banking products and services platforms, wealth services, credit cards, structuring fees, lending services and income on structured products.

##### Contract assets, contract liabilities and capitalised expenses

Where the Consolidated Entity provides services to clients, consideration is due immediately upon satisfaction of a point in time service or at the end of a pre-specified period for an over time service. Where receivables are recorded, they are presented within other assets.

Where the Consolidated Entity has recognised revenue in relation to performance fees, an associated contract asset is recognised until the right to invoice becomes unconditional. Contract assets are assessed for impairment in accordance with the guidance in AASB 9.

Contract liabilities relate to prepayments received from customers where the Consolidated Entity is yet to satisfy its performance obligation.

The Consolidated Entity has applied the practical expedient that allows for costs incurred to obtain a contract to be expensed as incurred where the amortisation period for any asset recognised would be less than 12 months.

##### (ii) Comparatives

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



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	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>NOTE 2</b>			
<b>Operating profit before income tax</b>			
<b>Net interest income</b>			
Interest and similar income <sup>(1)</sup>	2,687	2,481	2,462
Interest and similar expense <sup>(2)</sup>	(1,689)	(1,506)	(1,451)
Net interest income	998	975	1,011
<b>Fee and commission income</b>			
Base fees	899	828	804
Performance fees <sup>(3)</sup>	282	58	537
Mergers and acquisitions, advisory and underwriting fees	573	462	458
Brokerage and commissions	406	388	386
Other fee and commission income	501	366	383
Total fee and commission income <sup>(4)</sup>	2,661	2,102	2,568
<b>Net trading income<sup>(5)</sup></b>			
Equities	242	256	310
Commodities <sup>(6)</sup>	811	696	436
Credit, interest rate and foreign exchange products	178	124	135
Net trading income	1,231	1,076	881
<b>Net operating lease income</b>			
Rental income <sup>(7)</sup>	1,091	1,001	900
Depreciation on operating lease assets	(630)	(535)	(431)
Net operating lease income	461	466	469
<b>Share of net profits of associates and joint ventures</b>	<b>7</b>	<b>138</b>	<b>103</b>

(1) Includes interest income calculated using the EIR method of \$2,168 million (half-year to 31 March 2018: \$2,159 million; half-year to 30 September 2017: \$2,150 million) on financial assets that are measured at amortised cost and \$182 million (half-year to 31 March 2018: \$91 million; half-year to 30 September 2017: \$77 million) on financial assets measured at FVOCI.

(2) Includes interest expense of \$1,609 million (half-year to 31 March 2018: \$1,443 million; half-year to 30 September 2017: \$1,427 million) on financial liabilities that are measured at amortised cost.

(3) Includes \$236 million (half-year to 31 March 2018: \$29 million; half-year to 30 September 2017: \$420 million) earned from the Consolidated Entity's associates.

(4) Upon adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of \$77 million and certain recoverable costs of \$64 million previously recognised net of associated revenue have been reclassified to fee and commission expenses. Prior period comparatives were not reclassified.

(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 where hedge accounting requirements are not met.

(6) Includes \$204 million (half-year to 31 March 2018: \$287 million; half-year to 30 September 2017: \$124 million) of transportation and storage costs.

(7) Includes \$55 million (half-year to 31 March 2018: \$76 million; half-year to 30 September 2017: \$79 million) of net supplemental rent on aircraft.

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### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

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	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>NOTE 2</b>			
<b>Operating profit before income tax continued</b>			
<b>Other operating income and charges</b>			
<b>Investment income</b>			
Net gain on equity investments <sup>(1)</sup>	148	36	157
Net gain on debt investments <sup>(2)</sup>	13	46	2
Net gain/(loss) on sale of interests in associates and joint ventures	126	241	(17)
Net gain on change of control, joint control or/and significant influence and reclassifications to/from held for sale <sup>(3)</sup>	198	464	304
<b>Total investment income</b>	<b>485</b>	<b>787</b>	<b>446</b>
<b>Credit impairment (charges)/reversal<sup>(4)</sup></b>			
Loan assets <sup>(5)</sup>	(46)	(8)	(80)
Loans to associates and joint ventures	(8)	(8)	(9)
Other assets	(3)	(35)	(18)
Financial investments measured at FVOCI	(5)	–	–
Undrawn commitments and financial guarantees	8	–	–
Recovery of exposures previously written off	10	52	26
<b>Total credit impairment (charges)/reversal</b>	<b>(44)</b>	<b>1</b>	<b>(81)</b>
<b>Other impairment charges</b>			
Equity investment securities available for sale	–	(15)	(10)
Interests in associates and joint ventures	(30)	(178)	(6)
Intangible assets and other non-financial assets	(2)	(32)	(45)
<b>Total other impairment charges</b>	<b>(32)</b>	<b>(225)</b>	<b>(61)</b>
Other income	63	203	61
<b>Total other operating income and charges</b>	<b>472</b>	<b>766</b>	<b>365</b>
<b>Net operating income</b>	<b>5,830</b>	<b>5,523</b>	<b>5,397</b>

(1) The current period includes fair value gains and losses and dividend income from investments that have been classified as at FVTPL. Prior period includes fair value gains and losses on investments FVTPL – designated (half-year to 31 March 2018: \$24 million loss; half-year to 30 September 2017: \$91 million gain) and gains and losses on sale of and dividend income from available for sale investments (half-year to 31 March 2018: \$60 million; half-year to 30 September 2017: \$66 million).

(2) Half-year to 31 March 2018 primarily includes gain on sale of debt investments DFVTPL.

(3) Includes gains of \$174 million (half-year to 31 March 2018: \$289 million; half-year to 30 September 2017: \$268 million) attributable to fair value measurement of interests in investments retained.

(4) The change in ECL relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for September 2017 and March 2018 remain in accordance with AASB 139 and have not been restated.

(5) Prior comparative period impairment charges includes loan assets written off (half-year to 31 March 2018: \$66 million; half-year to 30 September 2017: \$68 million).

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	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>NOTE 2</b>			
<b>Operating profit before income tax continued</b>			
<b>Employment expenses</b>			
Salary and related costs including commissions, superannuation and performance-related profit share	(2,033)	(1,890)	(1,908)
Share-based payments <sup>(1)</sup>	(247)	(202)	(208)
Provision for long service leave and annual leave	(17)	1	(14)
Total compensation expenses	(2,297)	(2,091)	(2,130)
Other employment expenses including on-costs, staff procurement and staff training	(157)	(141)	(131)
Total employment expenses	(2,454)	(2,232)	(2,261)
<b>Brokerage, commission and trading-related expenses</b>			
Brokerage and other trading-related expenses	(347)	(323)	(338)
Other fee and commission expenses <sup>(2)</sup>	(232)	(85)	(84)
Total brokerage, commission and trading-related expenses	(579)	(408)	(422)
<b>Occupancy expenses</b>			
Operating lease rentals	(116)	(109)	(115)
Depreciation: buildings, furniture, fittings and leasehold improvements	(39)	(38)	(37)
Other occupancy expenses	(52)	(56)	(47)
Total occupancy expenses	(207)	(203)	(199)
<b>Non-salary technology expenses</b>			
Information services	(99)	(91)	(90)
Depreciation: equipment	(11)	(12)	(12)
Service provider and other non-salary technology expenses	(221)	(206)	(193)
Total non-salary technology expenses	(331)	(309)	(295)
<b>Other operating expenses</b>			
Professional fees	(202)	(220)	(191)
Travel and entertainment expenses	(91)	(89)	(74)
Advertising and promotional expenses	(45)	(40)	(43)
Amortisation of intangible assets	(22)	(20)	(21)
Auditor's remuneration	(19)	(18)	(17)
Communication expenses	(14)	(15)	(16)
Depreciation: infrastructure assets	(16)	(16)	(10)
Other expenses	(145)	(193)	(144)
Total other operating expenses	(554)	(611)	(516)
<b>Total operating expenses</b>	<b>(4,125)</b>	<b>(3,763)</b>	<b>(3,693)</b>
<b>Operating profit before income tax</b>	<b>1,705</b>	<b>1,760</b>	<b>1,704</b>

(1) Includes \$20 million (half-year to 31 March 2018: \$18 million; half-year to 30 September 2017: \$8 million) of share based payment expense for cash settled awards.

(2) Upon adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of \$77 million and certain recoverable costs of \$64 million previously recognised net of associated revenue have been reclassified to fee and commission expenses. Prior period comparatives were not reclassified.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 3

#### Segment reporting

##### (i) Operating segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into five Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

- **MAM** provides clients with access to a diverse range of capabilities and products, including infrastructure, real assets, equities, fixed income, liquid alternatives and multi-asset investment management solutions
- **CAF** is a global provider of specialist financing, investing and asset management solutions. CAF has expertise in flexible primary financing, secondary market investing and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment
- **BFS** provides a diverse range of personal banking, wealth management and business banking products and services to retail clients, advisers, brokers and business clients
- **CGM** provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities
- **Macquarie Capital** provides advisory and capital raising services and undertakes global investing activities, offering specialist expertise across infrastructure, energy, real estate, telecommunications and media, technology, consumer, gaming and leisure, business services, resources, industrials, healthcare and financial institutions.

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

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

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

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

#### Internal funding arrangements

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

In certain cases, Operating Groups may source funding directly from external sources – typically where the funding is issued by the assets of the Operating Group. In such cases the Operating Group bears the funding costs directly and Group Treasury may levy additional charges where applicable.

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

#### Transactions between Operating Groups

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms or as agreed by the Consolidated Entity's Chief Executive Officer 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 as appropriate.

#### Accounting for derivatives that economically hedge interest rate risk

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

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## NOTE 3

### Segment reporting continued

#### (i) Operating segments continued

##### Central service groups

Central service groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. Central service groups include 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) is recognised in the Corporate segment and not allocated to Operating Groups.

##### Income tax

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Macquarie Asset Management \$m	Corporate and Asset Finance \$m	Banking and Financial Services \$m	Annuity-style businesses \$m
<b>NOTE 3</b>				
<b>Segment reporting continued</b>				
<b>(i) Operating segments continued</b>				
The following is an analysis of the Consolidated Entity's revenue and results by reportable segment.				
Net interest and trading (expense)/income	(14)	200	634	820
Fee and commission income/(expense)	1,284	20	237	1,541
Net operating lease income	1	458	–	459
Share of net profits/(losses) of associates and joint ventures	80	2	(1)	81
Other operating income and charges:				
Credit and other impairment charges	(7)	(12)	(9)	(28)
Other operating income and charges	66	86	1	153
Internal management revenue/(charge)	–	4	2	6
Net operating income	1,410	758	864	3,032
Total operating expenses	(647)	(318)	(568)	(1,533)
Operating profit/(loss) before income tax	763	440	296	1,499
Income tax expense	–	–	–	–
Profit attributable to non-controlling interests	(1)	(3)	–	(4)
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>762</b>	<b>437</b>	<b>296</b>	<b>1,495</b>
<b>Reportable segment assets</b>	<b>8,428</b>	<b>35,568</b>	<b>46,008</b>	<b>90,004</b>
Net interest and trading (expense)/income	(35)	246	598	809
Fee and commission income/(expense)	961	19	232	1,212
Net operating lease income	–	464	–	464
Share of net profits/(losses) of associates and joint ventures	121	(3)	2	120
Other operating income and charges:				
Credit and other impairment (charges)/reversal	(176)	(16)	(18)	(210)
Other operating income and charges	150	245	10	405
Internal management revenue/(charge)	41	3	–	44
Net operating income	1,062	958	824	2,844
Total operating expenses	(564)	(367)	(550)	(1,481)
Operating profit/(loss) before income tax	498	591	274	1,363
Income tax expense	–	–	–	–
Profit attributable to non-controlling interests	(2)	(4)	–	(6)
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>496</b>	<b>587</b>	<b>274</b>	<b>1,357</b>
<b>Reportable segment assets</b>	<b>8,959</b>	<b>36,901</b>	<b>42,318</b>	<b>88,178</b>
Net interest and trading (expense)/income	(17)	336	584	903
Fee and commission income/(expense)	1,446	22	234	1,702
Net operating lease income	3	465	–	468
Share of net profits of associates and joint ventures	42	–	1	43
Other operating income and charges:				
Credit and other impairment (charges)/reversal	(1)	1	(8)	(8)
Other operating income and charges	257	106	8	371
Internal management revenue/(charge)	–	1	3	4
Net operating income	1,730	931	822	3,483
Total operating expenses	(543)	(312)	(536)	(1,391)
Operating profit/(loss) before income tax	1,187	619	286	2,092
Income tax expense	–	–	–	–
Loss/(profit) attributable to non-controlling interests	2	–	–	2
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>1,189</b>	<b>619</b>	<b>286</b>	<b>2,094</b>
<b>Reportable segment assets</b>	<b>9,351</b>	<b>37,457</b>	<b>39,278</b>	<b>86,086</b>

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Commodities and Global Markets \$m	Macquarie Capital \$m	Capital markets facing businesses \$m	Corporate \$m	Total \$m
Half-year to 30 September 2018				
1,260	(45)	1,215	194	2,229
594	538	1,132	(12)	2,661
–	–	–	2	461
10	(84)	(74)	–	7
(18)	(14)	(32)	(16)	(76)
13	457	470	(75)	548
1	15	16	(22)	–
1,860	867	2,727	71	5,830
(1,160)	(453)	(1,613)	(979)	(4,125)
700	414	1,114	(908)	1,705
–	–	–	(374)	(374)
–	(8)	(8)	(9)	(21)
700	406	1,106	(1,291)	1,310
99,174	6,523	105,697	9,897	205,598
Half-year to 31 March 2018				
1,056	(15)	1,041	201	2,051
457	442	899	(9)	2,102
–	–	–	2	466
13	4	17	1	138
(32)	(40)	(72)	58	(224)
87	498	585	–	990
5	20	25	(69)	–
1,586	909	2,495	184	5,523
(1,054)	(395)	(1,449)	(833)	(3,763)
532	514	1,046	(649)	1,760
–	–	–	(435)	(435)
–	(4)	(4)	(6)	(16)
532	510	1,042	(1,090)	1,309
89,644	5,062	94,706	8,441	191,325
Half-year to 30 September 2017				
904	(57)	847	142	1,892
436	436	872	(6)	2,568
–	–	–	1	469
8	52	60	–	103
(56)	(20)	(76)	(58)	(142)
22	170	192	(56)	507
7	1	8	(12)	–
1,321	582	1,903	11	5,397
(943)	(390)	(1,333)	(969)	(3,693)
378	192	570	(958)	1,704
–	–	–	(448)	(448)
–	(2)	(2)	(8)	(8)
378	190	568	(1,414)	1,248
89,202	4,990	94,192	9,482	189,760

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

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### NOTE 3

#### Segment reporting continued

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

The below table represents disaggregation of fee and commission income by operating segments:

	Macquarie Asset Management \$m	Corporate and Asset Finance \$m	Banking and Financial Services \$m	Annuity-style businesses \$m	Commodities and Global Markets \$m	Macquarie Capital \$m	Capital markets facing businesses \$m	Corporate \$m	Total \$m
<b>Fee and commission income</b>									
Half-year to 30 September 2018									
Base fees	884	–	14	898	1	–	1	–	899
Performance fees	282	–	–	282	–	–	–	–	282
Mergers and acquisitions, advisory and underwriting fees	–	–	–	–	55	520	575	(2)	573
Brokerage and commissions	1	–	38	39	367	–	367	–	406
Other fee and commission income	117	20	185	322	171	18	189	(10)	501
<b>Total fee and commission income</b>	<b>1,284</b>	<b>20</b>	<b>237</b>	<b>1,541</b>	<b>594</b>	<b>538</b>	<b>1,132</b>	<b>(12)</b>	<b>2,661</b>
<b>Fee and commission income</b>									
Half-year to 31 March 2018									
Base fees	813	–	14	827	1	–	1	–	828
Performance fees	58	–	–	58	–	–	–	–	58
Mergers and acquisitions, advisory and underwriting fees	–	(2)	–	(2)	29	435	464	–	462
Brokerage and commissions	1	–	40	41	345	2	347	–	388
Other fee and commission income	89	21	178	288	82	5	87	(9)	366
<b>Total fee and commission income</b>	<b>961</b>	<b>19</b>	<b>232</b>	<b>1,212</b>	<b>457</b>	<b>442</b>	<b>899</b>	<b>(9)</b>	<b>2,102</b>
<b>Fee and commission income</b>									
Half-year to 30 September 2017									
Base fees	795	–	8	803	1	–	1	–	804
Performance fees	537	–	–	537	–	–	–	–	537
Mergers and acquisitions, advisory and underwriting fees	–	–	1	1	39	418	457	–	458
Brokerage and commissions	1	–	41	42	341	3	344	–	386
Other fee and commission income	113	22	184	319	55	15	70	(6)	383
<b>Total fee and commission income</b>	<b>1,446</b>	<b>22</b>	<b>234</b>	<b>1,702</b>	<b>436</b>	<b>436</b>	<b>872</b>	<b>(6)</b>	<b>2,568</b>



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## NOTE 3

### Segment reporting continued

#### (iii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the Consolidated Entity have been divided into four areas:

- **Lending:** corporate and structured finance, banking activities, mortgages and leasing
- **Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products
- **Asset and Wealth Management:** investment management, manufacture and distribution of fund management products
- **Capital Markets:** advisory, underwriting, facilitation, broking, principal investments and real estate/property development.

	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>Revenues from external customers</b>			
Lending	3,036	3,176	2,893
Financial Markets	2,423	2,143	1,716
Capital Markets	1,495	1,542	1,272
Asset and Wealth Management	1,473	1,177	1,674
<b>Total revenue from external customers<sup>(1)</sup></b>	<b>8,427</b>	8,038	7,555

(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.

#### (iv) Geographical areas

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

	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>Revenues from external customers</b>			
Australia	3,296	3,033	2,920
Americas <sup>(1)</sup>	2,320	2,141	1,734
Europe, Middle East and Africa <sup>(2)</sup>	2,207	2,250	2,307
Asia Pacific	604	614	594
<b>Total</b>	<b>8,427</b>	8,038	7,555

(1) Includes external revenue generated in the United States of America of \$2,189 million (half-year to 31 March 2018: \$1,969 million; half-year to 30 September 2017: \$1,689 million).

(2) Includes external revenue generated in the United Kingdom of \$1,698 million (half-year to 31 March 2018: \$1,817 million; half-year to 30 September 2017: \$1,905 million).

#### (v) Major customers

The Consolidated Entity does not rely on any major customers.

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	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>NOTE 4</b>			
<b>Income tax expense</b>			
<b>(i) Numerical reconciliation of income tax expense to <i>prima facie</i> tax payable</b>			
<i>Prima facie</i> income tax expense on operating profit <sup>(1)</sup>	(512)	(528)	(511)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	153	97	76
Other items	(15)	(4)	(13)
<b>Total income tax expense</b>	<b>(374)</b>	<b>(435)</b>	<b>(448)</b>
<b>(ii) Tax benefit relating to items of other comprehensive income</b>			
Available for sale reserve	–	23	121
FVOCI reserve	5	–	–
Own credit risk	5	(17)	14
Cash flow hedges	4	(5)	(8)
Share of other comprehensive (loss)/income of associates and joint ventures	6	–	(1)
<b>Total tax benefit relating to items of other comprehensive income</b>	<b>20</b>	<b>1</b>	<b>126</b>

(1) *Prima facie* income tax expense on operating profit is calculated at the rate of 30% (half-year to 31 March 2018: 30%; half-year to 30 September 2017: 30%).

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

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	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>NOTE 5</b>			
<b>Dividends paid or provided for</b>			
<b>(i) Dividends paid</b>			
<b>Ordinary share capital and exchangeable shares</b>			
Final dividend paid (2018: \$3.20 (2017: \$2.80) per share)	1,089	–	952
Interim dividend paid (2018: \$2.05 per share)	–	697	–
<b>Total dividends paid (Note 16)<sup>(1)</sup></b>	<b>1,089</b>	<b>697</b>	<b>952</b>

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

The 2018 final dividend paid during the period was franked at 45% based on tax paid at 30% (2017 final dividend franked at 45% based on tax paid at 30%; 2018 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 15 – 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 15 – 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 2018 of \$2.15 per fully paid ordinary share, franked at 45% based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 18 December 2018 from retained profits, but not recognised as a liability at the end of the period is \$732 million. This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 30 September 2018.

	Half-year to 30 Sep 18 \$ per share	Half-year to 31 Mar 18 \$ per share	Half-year to 30 Sep 17 \$ per share
Cash dividend per ordinary share (distribution of current period profits)	2.15	3.20	2.05

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	Half-year to 30 Sep 18	Half-year to 31 Mar 18	Half-year to 30 Sep 17
<b>NOTE 6</b>			
<b>Earnings per share</b>			
		Cents per share	
<b>Basic earnings per share</b>	<b>388.3</b>	387.5	370.4
<b>Diluted earnings per share</b>	<b>383.1</b>	379.9	360.2
<b>Reconciliation of earnings used in the calculation of basic and diluted earnings per share</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Profit after income tax	<b>1,331</b>	1,325	1,256
Profit attributable to non-controlling interests:			
Macquarie Income Securities	<b>(7)</b>	(7)	(7)
Other non-controlling interests	<b>(14)</b>	(9)	(1)
<b>Total profit attributable to ordinary equity holders of MGL</b>	<b>1,310</b>	1,309	1,248
Less: profit attributable to participating unvested MEREP awards	<b>(53)</b>	(58)	(55)
<b>Total earnings used in the calculation of basic earnings per share</b>	<b>1,257</b>	1,251	1,193
Add back:			
Profit attributable to dilutive participating unvested MEREP awards	<b>36</b>	41	35
Interest expense on loan capital, net of tax			
Macquarie Group Capital Notes	<b>6</b>	16	16
Macquarie Bank Capital Notes	<b>11</b>	10	10
Macquarie Group Capital Notes 2	<b>–</b>	17	17
Macquarie Group Capital Notes 3	<b>17</b>	–	–
Exchangeable Capital Securities	<b>–</b>	–	5
<b>Total earnings used in the calculation of diluted earnings per share</b>	<b>1,327</b>	1,335	1,276
		Number of shares	
<b>Total weighted average number of equity shares (net of treasury shares) used in the calculation of basic earnings per share</b>	<b>323,717,192</b>	322,810,538	322,124,248
Weighted average number of equity shares used in the calculation of diluted earnings per share:			
Weighted average fully paid equity shares (net of treasury shares)	<b>323,717,192</b>	322,810,538	322,124,248
Potential equity shares:			
Weighted average unvested MEREP awards	<b>12,197,548</b>	13,516,775	12,364,613
Weighted average Macquarie Group Capital Notes	<b>1,972,695</b>	5,800,733	6,947,846
Weighted average Macquarie Bank Capital Notes	<b>3,440,532</b>	4,151,492	4,972,463
Weighted average Macquarie Group Capital Notes 2	<b>–</b>	5,133,572	6,148,752
Weighted average Macquarie Group Capital Notes 3	<b>5,078,786</b>	–	–
Weighted average Exchangeable Capital Securities	<b>–</b>	–	1,703,126
<b>Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share</b>	<b>346,406,753</b>	351,413,110	354,261,048

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## NOTE 6

### Earnings per share continued

#### Information about potential equity shares

##### Macquarie Group Employee Retained Equity Plan

In December 2009, the Company's shareholders approved the implementation of the MEREP. Unvested MEREP awards are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Vested MEREP awards are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of vesting.

##### Macquarie Group Capital Notes (MCN)

On 7 June 2013, MGL issued 6 million MCN at face value of \$100 each. On 7 June 2018, MGL redeemed the MCN. These instruments were non-cumulative and unsecured and could also be exchanged into a variable number of MGL ordinary shares (subject to certain conditions being satisfied). No MCN were exchanged for MGL ordinary shares during the period before their redemption. MCN has not been included in the determination of basic earnings per share and has been included in diluted earnings per share to the extent of conversion features measured as if 7 June 2018 was the conversion date.

##### Macquarie Bank Capital Notes 2 (BCN)

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

BCN may also be exchanged into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. The BCN may also be exchanged earlier on an acquisition event (where a person acquires control of MGL or MBL) or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). BCN has not been included in the determination of basic earnings per share and has been included in diluted earnings per share to the extent of conversion features measured as if 30 September 2018 was the conversion date.

##### Macquarie Group Capital Notes 2 (MCN2)

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

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

MCN2 has not been included in the determination of basic earnings per share. In previous reporting periods MCN2 was included in the calculation of diluted earnings per share. For the current period the notes were excluded from the calculation of diluted earnings per share as they are antidilutive.

##### Macquarie Group Capital Notes 3 (MCN3)

On 7 June 2018, MGL issued 10 million MCN3 at face value of \$100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 16 December 2024, 16 June 2025 or 15 December 2025 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval. MCN3 may also be exchanged into a variable number of the MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 15 December 2027. The MCN3 may also be exchanged earlier on an acquisition event (where a person acquires control of MGL) or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). MCN3 has not been included in the determination of basic earnings per share and has been included in diluted earnings per share to the extent of conversion features measured as if 30 September 2018 was the conversion date.

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	As at 30 Sep 18 \$m	As at 31 Mar 18 \$m	As at 30 Sep 17 \$m
<b>NOTE 7</b>			
<b>Trading assets</b>			
Equities			
Listed	9,307	4,494	7,269
Unlisted	28	17	13
Debt securities			
Commonwealth and foreign government securities	5,700	5,846	5,997
Corporate loans and securities	1,233	851	971
Treasury notes	762	611	298
Other debt securities	100	699	225
Commodities	3,028	2,823	3,823
<b>Total trading assets</b>	<b>20,158</b>	<b>15,341</b>	<b>18,596</b>

## NOTE 8

### Other assets

Security settlements	9,279	7,343	7,595
Margin placed	8,444	8,182	6,901
Commodity settlements	2,969	2,766	2,309
Other	684	985	589
<b>Trading related assets</b>	<b>21,376</b>	<b>19,276</b>	<b>17,394</b>
Debtors and prepayments <sup>(1)</sup>	3,267	2,836	2,936
Assets of disposal groups and interests in associates held for sale <sup>(2),(3)</sup>	2,153	3,341	4,175
Life investment linked contracts and other unitholder assets	623	647	677
Income tax receivable	343	376	434
Other	342	219	433
<b>Total other assets</b>	<b>28,104</b>	<b>26,695</b>	<b>26,049</b>

(1) Includes \$710 million (31 March 2018: \$514 million; 30 September 2017: \$524 million) of fee and commission receivables and \$806 million (31 March 2018: \$675 million; 30 September 2017: \$671 million) of fee related contract assets. The change in contract asset is primarily driven by performance fee recognised during the period driven by the valuation of underlying fund assets.

(2) Includes \$nil (31 March 2018: \$1,855 million; 30 September 2017: \$1,802 million) relating to an indirect investment in a gas distribution network in the United Kingdom acquired during the financial year 31 March 2017 exclusively with an intention to sell. The investment was held in a consortium vehicle that formed part of the Consolidated Entity. The investment was deconsolidated during the period due to loss of control. Non-controlling interest for the amounts contributed by external investors to the consortium vehicle of \$nil (31 March 2018: \$1,254 million; 30 September 2017: \$1,219 million) are included in Note 16 – Reserves, retained earnings and non-controlling interests.

(3) Subsequent to 30 September 2018, the Consolidated Entity disposed of assets and liabilities that had been classified as held for sale for a pre-tax gain of approximately \$330 million. The gain on disposal will be recognised by the Consolidated Entity in the half-year ending 31 March 2019.

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	As at 30 Sep 18 \$m	As at 31 Mar 18 \$m	As at 30 Sep 17 \$m
<b>NOTE 9</b>			
<b>Financial investments</b>			
Equities			
Listed	142	157	283
Unlisted	1,074	1,123	1,275
Debt investments <sup>(1)</sup>	5,417	5,880	4,203
<b>Total financial investments<sup>(2)</sup></b>	<b>6,633</b>	<b>7,160</b>	<b>5,761</b>

- (1) Represents fair value of the debt investments. ECL on debt investments measured at FVOCI (refer Note 19) is recognised in the income statement with a corresponding effect in OCI and it does not reduce the carrying amount of the debt investments.
- (2) Refer to the transition disclosure Note 1 for the impact of the change in classification of instruments previously included as part of 'Investment securities available for sale' and 'Other financial assets at fair value through profit or loss' to 'Financial investments'.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

#### NOTE 10

##### Loan assets

	As at 30 Sep 18			As at 31 Mar 18			As at 30 Sep 17		
	Gross \$m	ECL allowance \$m	Net \$m	Gross \$m	Individually assessed provisions for impairment <sup>(1)</sup> \$m	Net \$m	Gross \$m	Individually assessed provisions for impairment <sup>(1)</sup> \$m	Net \$m
Mortgage <sup>(2)</sup>	40,461	(52)	40,409	36,937	(3)	36,934	33,997	(3)	33,994
Asset financing <sup>(2)</sup>	18,822	(231)	18,591	19,307	(41)	19,266	19,745	(60)	19,685
Corporate commercial and other lending	16,238	(226)	16,012	15,568	(133)	15,435	15,555	(338)	15,217
Investment lending	1,943	(2)	1,941	2,167	–	2,167	1,907	(1)	1,906
<b>Total</b>	<b>77,464</b>	<b>(511)</b>	<b>76,953</b>	<b>73,979</b>	<b>(177)</b>	<b>73,802</b>	<b>71,204</b>	<b>(402)</b>	<b>70,802</b>
Less: collective allowance for credit losses <sup>(1)</sup>			–			(293)			(415)
<b>Total loan assets<sup>(3)</sup></b>			<b>76,953</b>			<b>73,509</b>			<b>70,387</b>

(1) The current period results reflect the adoption of AASB 9. The ECL relating to loan assets under AASB 9 are recorded under ECL allowance. As prior periods have not been restated for AASB 9, individually assessed provisions and collective allowance for credit losses provided for in September 2017 and March 2018 remain in accordance with AASB 139 and are therefore not necessarily comparable to the ECL allowance recorded in the current period.

(2) Includes \$9,630 million (31 March 2018: \$11,560 million; 30 September 2017: \$14,066 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(3) Gross balance as at 30 September 2018 includes \$920 million of loans measured at FVTPL and \$234 million of loans measured at DFVTPL which are not subject to ECL allowance under AASB 9. This also includes \$714 million of loans measured at FVOCI on which an ECL allowance of \$63 million has been recognised in OCI and is hence not included in the carrying value above.

The table below represents the movements in individually assessed provisions and collective allowance for credit losses for the half years ended 31 March 2018 and 30 September 2017. Refer to Note 11 – Expected credit losses, for the reconciliation of ECL on loan assets for the half-year ended 30 September 2018.

	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>Individually assessed provisions for impairment</b>		
Balance at the beginning of the period	402	417
Provided for during the period	56	49
Loan assets written off or sold, previously provided for	(267)	(58)
Recovery of loans previously provided for	(25)	(2)
Net transfer from collective provisions	5	2
Foreign exchange movements	6	(6)
<b>Balance at the end of the period</b>	<b>177</b>	<b>402</b>
<b>Individually assessed provisions as a percentage of total gross loan assets</b>	<b>0.24%</b>	<b>0.56%</b>
<b>Collective allowance for credit losses</b>		
Balance at the beginning of the period	415	457
Reversed during the period	(114)	(37)
Disposal during the period	(7)	(2)
Net transfer to individually assessed provisions	(5)	(2)
Foreign exchange movements	4	(1)
<b>Balance at the end of the period</b>	<b>293</b>	<b>415</b>



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## NOTE 11

### Expected credit losses

#### Background

The Consolidated Entity adopted AASB 9 on 1 April 2018. Whilst AASB was adopted retrospectively, the Consolidated Entity's comparative financial information has not been restated. The current period's results, which have been prepared in accordance with AASB 9's ECL requirements, and the comparative financial results, which have been prepared in accordance with AASB 139, are not directly comparable.

#### Presentation

At the reporting date the Consolidated Entity has presented the ECL allowances in its statement of financial position as follows:

- *Financial assets measured at amortised cost:* Deduction against the gross carrying amount.
- *Debt investments measured at FVOCI:* Included in OCI since the asset's carrying value is measured at fair value.
- *Undrawn credit commitments, financial guarantee contracts and letters of credit:* Recognised as a provision and included in other liabilities.
- *Purchased or originated credit-impaired financial assets:* Recognised as part of the net carrying value of the asset.

#### Transition impact

On transition to AASB 9 on 1 April 2018 the Consolidated Entity's total credit impairment allowances increased by \$286 million as a result of the following principle differences between AASB 139's incurred credit loss requirements and AASB 9's expected credit loss impairment requirements:

- *FLI:* AASB 9 requires the determination of the ECL to include FLI, which includes macro-economic information. Previously AASB 139 required only the consideration of historical information that was updated to reflect current events at the balance sheet date.
- *A 12-month minimum ECL requirement (stage 1):* AASB 9 requires a 12-month ECL impairment allowance to be held on all exposures, unless the contractual period is shorter.
- *SICR (stage 2):* AASB 9 requires the Consolidated Entity to determine whether there has been a SICR, and in such instances, to classify the exposure as stage 2 and recognise a lifetime loss.
- *Off balance sheet exposures:* AASB 9's scope includes certain off balance sheet exposures such as undrawn credit commitments, financial guarantee contracts and letters of credit for which an ECL is required to be recognised. No impairment allowance was specifically required to be recognised under AASB 139.

#### Model inputs

The Consolidated Entity models the ECL for on-balance sheet financial assets measured at amortised cost or FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees and letters of credit. For this purpose, Macquarie segments its credit portfolio between retail and wholesale exposures, and further splits these portfolios into representative

groupings which are typically based on shared risk characteristics. Unlike wholesale portfolio exposures, retail portfolios are generally modelled on a collective basis. These groupings are subject to review to ensure that the portfolios remain homogeneous.

The key model inputs used in measuring the ECL include:

- *Exposure at default:* The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default.
- *Probability of default:* The development of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. In calculating the PD, credit performance information for each portfolio is gathered and statistically analysed to determine an unadjusted PD. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for both retail and wholesale portfolios are also adjusted for FLI.
- *LGD:* The LGD is the magnitude of the expected credit loss in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, seniority, industry, recovery costs and the structure of the facility. LGD estimates are also adjusted for FLI, which is further addressed in the pages that follow.

#### Method of determining SICR

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposure's credit risk. This may result in exposures being classified in stage 2 that are of a higher credit quality than other exposures that are classified as stage 1. Accordingly, while increases in the quantum of stage 2 exposures will suggest an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Quantitative factors are described below for the Consolidated Entity's material retail and wholesale portfolios. Qualitative factors include, but are not be limited to, whether an exposure has been identified and placed on CreditWatch (the Consolidated Entity's internal governance framework that is used to identify counterparties whose credit risk is deteriorating). All exposures on CreditWatch are classified as stage 2 or, if defaulted, as stage 3.

#### Retail exposures

Exposures are assigned a behavioural score which considers the exposure's lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposure's behaviour. The score includes factors such as limit utilisation, payment history (including delinquency) and product specific features (for example cash advances for credit cards or changes in novation status for selected car leases).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 11

#### Expected credit losses continued

SICR thresholds referencing the movement between origination and reporting date behavioural score movements have been established that, where exceeded, result in the exposure being categorised as stage 2. Where the behavioural score subsequently improves, the exposure is assessed for categorisation back to stage 1. The pre-defined SICR thresholds are periodically reviewed and calibrated based on historical default experience.

#### Wholesale exposures

The Consolidated Entity assigns an internal credit rating to each exposure at origination based on information available at that date. These internal ratings are broadly aligned to external credit rating agencies such as Standard & Poor's and Moody's. The internal ratings for each exposure are re-assessed on an on-going basis. This assessment may consider factors such as payment history, credit limit utilisation, requests to modify the debt or forbearance, changes in the exposure's business, external data from credit reference agencies, media reports, external credit ratings and external quoted bond and credit default swap prices.

Where an exposure's assigned credit rating deteriorates beyond pre-defined thresholds, the exposure is categorised as stage 2. If the exposure's rating subsequently improves so that it does not exceed the threshold, the exposure is assessed for reclassification to stage 1. The methodology has been calibrated so that a larger change in rating is required for higher quality credit rated exposures than for lower quality credit rated exposures to be classified as stage 2. The rating methodology is periodically reviewed and calibrated based on historical default experience.

For both retail and wholesale portfolios:

- The AASB 9 'low credit risk' exemption is not applied by the Consolidated Entity to material portfolios of any significant duration in assessing whether there has been a SICR.
- For material retail portfolios the credit risk for an exposure or portfolio is generally deemed to have increased significantly if the exposure is more than 30 days past due, unless there are product specific characteristics that indicate that this threshold should be rebutted.

#### Definition of default

The Consolidated Entity's definition of default determines the reference point for the calculation of the ECL components, and in particular the PD. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full, without recourse by the Consolidated Entity to the realisation of collateral; or the borrower is more than 90 days past due. The Consolidated Entity periodically reviews its exposures to identify other default-related events such as significant financial difficulty of the borrower which includes breaches of lending covenants; it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Retail and wholesale exposures that are identified as in default can be reclassified from stage 3 following a pre-defined period over which the exposure demonstrates that it has returned to a performing status and, in the case of wholesale exposures, based on an individual assessment of the exposure.

#### Forward looking information

The inclusion of FLI in calculating ECL allowances adjusts both the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The Consolidated Entity has identified a number of key indicators that are considered in modelling the ECL, the most significant of which are gross domestic product (GDP), unemployment rate and the level of house prices, interest rates, equity indices and commodity prices. The predicted relationships between these key indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the model build, calibration and validation process. These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial reporting period.

The Consolidated Entity's Risk Management Group, which consults with a range of internal specialists, is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, 4 possible economic scenarios have been developed, being one upside case, two downside cases (of varying severity given that impairment losses will not react linearly to economic downturn scenarios) as well as a base case scenario. In determining the ECL, each of the scenarios is probability weighted and then applied to the exposure's PDs and LGDs. 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 to form the initial baseline. Internal specialists within the Consolidated Entity are consulted to assist in refining and challenging the baseline. The upside and downside scenarios are created through a process that initially anchors them to a certain degree of deviation in GDP growth from the baseline. The scenarios are refined through consultation with internal specialists and benchmarking to externally available data, which includes forecasts published from a range of market economists and official data sources, including major central banks. Assigning probabilities to these scenarios requires professional judgement which draws on internal risk and economics specialist input and compared to general market outlooks and publicly-available market commentary. The scenarios and the associated probabilities are ultimately approved by senior risk and finance executives.

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### Expected credit losses continued

There has been no material changes in the scenarios or the probabilities assigned thereto from the date of transition to AASB 9 to 30 September 2018. The key elements for each of the key regions where Macquarie's ECL is derived have been set-out below:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 11

#### Expected credit losses continued

The table below presents the gross exposure and related ECL allowance for each class of asset and off-balance sheet item subject to impairment requirements of AASB 9<sup>(1),(2)</sup>.

	As at 30 Sep 18		As at 1 Apr 18	
	Gross exposure <sup>(2)</sup> \$m	ECL allowance \$m	Gross exposure <sup>(2)</sup> \$m	ECL allowance \$m
Receivables from financial institutions	21,189	–	22,476	–
Other assets <sup>(3)</sup>	21,396	110	20,864	128
Financial investments	4,931	61	5,310	52
Loan assets <sup>(4)</sup>	76,310	574	72,634	572
Interests in associates and joint ventures – loans	339	39	401	31
Undrawn credit commitments and financial guarantees <sup>(5)</sup>	6,317	23	6,525	33
<b>Total</b>	<b>130,482</b>	<b>807</b>	<b>128,210</b>	<b>816</b>

(1) The Consolidated Entity has not restated its comparative information on adoption of AASB 9. Accordingly, amounts prior to 1 April 2018 are not disclosed here.

(2) Gross exposure represents the carrying value of assets subject to AASB 9's impairment requirements. Financial assets measured at FVTPL are not subject to impairment and are therefore not included in the above table.

(3) Includes contract assets of \$806 million (1 April 2018: \$675 million) related to contracts with customers.

(4) Includes ECL allowance of \$511 million (1 April 2018: \$501 million) on loan assets carried at amortised cost and \$63 million (1 April 2018: \$71 million) on loan assets measured at FVOCI.

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

The tables below represent the reconciliation from the opening balance to the closing balance of the ECL allowance on loan assets to which the impairment requirements under AASB 9 are applied.

#### ECL on loan assets

	12 month ECL \$m	Lifetime ECL		Collective allowance for credit losses \$m	Individually assessed provisions \$m	Total \$m
		Not credit impaired \$m	Credit impaired \$m			
<b>Balance as at 31 March 2018</b>	–	–	–	293	177	470
Change on initial application of AASB 9	147	239	186	(293)	(177)	102
<b>Balance as at 1 April 2018</b>	<b>147</b>	<b>239</b>	<b>186</b>	<b>–</b>	<b>–</b>	<b>572</b>
Transfers during the period:						
To 12 month ECL	29	(27)	(2)	–	–	–
To lifetime ECL not credit impaired	(6)	22	(16)	–	–	–
To lifetime ECL credit impaired	–	(14)	14	–	–	–
Impairment (reversal)/charge (Note 2)	(26)	3	69	–	–	46
Amounts written off, previously provided for	–	–	(45)	–	–	(45)
Foreign exchange movement	1	–	–	–	–	1
<b>Balance at the end of the period</b>	<b>145</b>	<b>223</b>	<b>206</b>	<b>–</b>	<b>–</b>	<b>574</b>

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	As at 30 Sep 18 \$m	As at 31 Mar 18 \$m	As at 30 Sep 17 \$m
<b>NOTE 12</b>			
<b>Trading liabilities</b>			
Equity securities	6,181	7,663	6,790
Debt securities			
Foreign government securities	942	328	537
Corporate loans and securities	74	70	70
Commodities	–	–	54
<b>Total trading liabilities</b>	<b>7,197</b>	<b>8,061</b>	<b>7,451</b>
<b>NOTE 13</b>			
<b>Other liabilities</b>			
Segregated funds and margin money held	13,552	12,067	10,942
Security settlements	9,204	6,993	7,504
Commodity settlements	2,254	1,865	1,413
Others	427	520	419
Trading related liabilities	25,437	21,445	20,278
Accrued charges, income received in advance and other liabilities	2,808	3,488	2,762
Creditors	1,225	1,102	1,229
Aircraft and rail maintenance liabilities	958	846	770
Life investment linked contracts and other unitholder liabilities	617	640	674
Liabilities of disposal group classified as held for sale <sup>(1)</sup>	504	523	813
Income tax payable	268	262	161
<b>Total other liabilities</b>	<b>31,817</b>	<b>28,306</b>	<b>26,687</b>

(1) Subsequent to 30 September 2018, the Consolidated Entity disposed of assets and liabilities that had been classified as held for sale for a pre-tax gain of approximately \$330 million. The gain on disposal will be recognised by the Consolidated Entity in the half-year ending 31 March 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

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	As at 30 Sep 18 \$m	As at 31 Mar 18 \$m	As at 30 Sep 17 \$m
<b>NOTE 14</b>			
<b>Debt issued</b>			
Bonds, negotiable certificates of deposit and commercial paper <sup>(1)</sup>	49,633	53,717	52,283
Structured notes <sup>(2)</sup>	2,032	2,210	2,268
<b>Total debt issued<sup>(3),(4)</sup></b>	<b>51,665</b>	<b>55,927</b>	<b>54,551</b>

(1) Includes amounts payable to SPE note holders and debt holders of \$7,312 million (31 March 2018: \$8,979 million; 30 September 2017: \$11,148 million).

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

(3) The amount that would be contractually required to be paid at maturity to the holders of the Structured notes which are measured at FVTPL for the Consolidated Entity is \$3,155 million (31 March 2018: \$3,040 million; 30 September 2017: \$3,025 million). This amount is based on the final notional amount rather than the fair value.

(4) Includes cumulative fair value gain of \$9 million (31 March 2018: \$25 million; 30 September 2017: \$30 million loss) due to changes in own credit risk on liabilities designated to be measured at FVTPL.

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

### Reconciliation of debt issued by major currency:

(In Australian dollar equivalent)

United States dollar	31,113	32,608	31,956
Australian dollar	11,348	13,164	13,425
Euro	4,950	5,742	4,545
Swiss franc	1,544	1,487	1,453
Japanese yen	1,023	1,029	1,050
Great British pound	816	727	817
South African rand	276	371	522
Yuan renminbi	185	246	221
Norwegian krone	170	163	163
Hong Kong dollar	126	152	168
Korean won	114	112	102
Canadian dollar	-	126	129
<b>Total debt issued</b>	<b>51,665</b>	<b>55,927</b>	<b>54,551</b>

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

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	Number of shares	Total \$m
<b>NOTE 15</b>		
<b>Contributed equity</b>		
<b>(i) Ordinary share capital<sup>(1)</sup></b>		
Balance as at 1 April 2017	340,351,731	7,467
Issue of shares on retraction of exchangeable shares	6,172	–
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	–	250
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	–	28
Transfer from treasury shares for awards withdrawn/exercised	–	(253)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	–	(7)
<b>Balance as at 30 September 2017</b>	<b>340,357,903</b>	<b>7,485</b>
Issue of shares on retraction of exchangeable shares	6,917	1
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	–	43
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	–	12
Transfer from treasury shares for awards withdrawn/exercised	–	(43)
<b>Balance as at 31 March 2018</b>	<b>340,364,820</b>	<b>7,498</b>
Issue of shares on retraction of exchangeable shares	<b>17,918</b>	<b>2</b>
For employee MEREP awards:		
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	–	<b>331</b>
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards	–	<b>25</b>
Transfer from other liabilities on vesting of MEREP awards	–	<b>2</b>
Transfer from treasury shares for awards withdrawn/exercised	–	<b>(305)</b>
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	–	<b>(3)</b>
<b>Balance as at 30 September 2018<sup>(2)</sup></b>	<b>340,382,738</b>	<b>7,550</b>

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

(2) No shares have been purchased under the Board approved on-market buyback program and it has now ended.

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	Number of shares	Total \$m
<b>NOTE 15</b>		
<b>Contributed equity continued</b>		
<b>(ii) Treasury shares<sup>(1)</sup></b>		
Balance as at 1 April 2017	(19,300,529)	(1,187)
Purchase of shares for employee MEREP awards	(4,182,548)	(373)
Transfer to ordinary share capital for shares withdrawn/exercised	4,937,520	253
Purchase of shares for allocation under Dividend Reinvestment Plan (DRP) scheme	(832,807)	(74)
Allocation of shares under DRP scheme	832,807	74
<b>Balance as at 30 September 2017</b>	<b>(18,545,557)</b>	<b>(1,307)</b>
Transfer to ordinary share capital for shares withdrawn/exercised	705,442	43
Purchase of shares for allocation under DRP scheme	(668,617)	(66)
Allocation of shares under DRP scheme	668,617	66
Purchase of shares for allocation under Macquarie Group Employee Share Plan (ESP) scheme	(11,090)	(1)
Allocation of shares under ESP scheme	11,090	1
<b>Balance as at 31 March 2018</b>	<b>(17,840,115)</b>	<b>(1,264)</b>
Purchase of shares for employee MEREP awards	<b>(3,990,786)</b>	<b>(454)</b>
Transfer to ordinary share capital for shares withdrawn/exercised	<b>4,831,042</b>	<b>305</b>
Purchase of shares for allocation under DRP scheme	<b>(543,494)</b>	<b>(63)</b>
Allocation of shares under DRP scheme	<b>543,494</b>	<b>63</b>
<b>Balance as at 30 September 2018</b>	<b>(16,999,859)</b>	<b>(1,413)</b>

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



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	Number of shares	Total \$m
<b>NOTE 15</b>		
<b>Contributed equity continued</b>		
<b>(iii) Exchangeable shares<sup>(1)</sup></b>		
Balance as at 1 April 2017	138,835	10
Retraction of exchangeable shares	(6,539)	–
<b>Balance as at 30 September 2017</b>	<b>132,296</b>	<b>10</b>
Retraction of exchangeable shares	(7,328)	(1)
<b>Balance as at 31 March 2018</b>	<b>124,968</b>	<b>9</b>
Retraction of exchangeable shares	<b>(18,984)</b>	<b>(2)</b>
<b>Balance as at 30 September 2018</b>	<b>105,984</b>	<b>7</b>

(1) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. As per the terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in the Company (subject to staff trading restrictions) or cash at the Company's discretion and were to pay dividends equal to the Company's dividends during their legal life. However, subsequent to the approval of the consolidation of the Company's ordinary shares by the Company's shareholders on 12 December 2013, the terms of the agreement were modified to a 0.9438-for-one basis for shares in the Company.

	As at 30 Sep 18 \$m	As at 31 Mar 18 \$m	As at 30 Sep 17 \$m
<b>Contributed equity</b>			
Ordinary share capital	7,550	7,498	7,485
Treasury shares	(1,413)	(1,264)	(1,307)
Exchangable shares	7	9	10
<b>Total contributed equity</b>	<b>6,144</b>	<b>6,243</b>	<b>6,188</b>

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	As at 30 Sep 18 \$m	As at 31 Mar 18 \$m	As at 30 Sep 17 \$m
<b>NOTE 16</b>			
<b>Reserves, retained earnings and non-controlling interests</b>			
<b>(i) Reserves</b>			
<b>Foreign currency translation and net investment hedge reserve</b>			
Balance at the beginning of the period	375	189	248
Exchange differences on translation of foreign operations, net of hedge and tax	338	186	(59)
<b>Balance at the end of the period</b>	<b>713</b>	<b>375</b>	<b>189</b>
<b>FVOCI reserve<sup>(1)</sup></b>			
Balance at the beginning of the period	17	76	393
Change on initial application of AASB 9, net of tax (Note 1)	54	–	–
<b>Restated balance as at 1 April 2018</b>	<b>71</b>	<b>76</b>	<b>393</b>
Revaluation losses recognised in OCI, net of tax	(17)	(43)	(86)
Changes in allowance for ECL, net of tax	6	–	–
Transfer to income statement on:			
Impairment, net of tax	–	9	7
Sale or reclassification, net of tax <sup>(1)</sup>	–	(25)	(238)
<b>Balance at the end of the period</b>	<b>60</b>	<b>17</b>	<b>76</b>
<b>Share-based payments reserve</b>			
Balance at the beginning of the period	964	806	877
MEREP expense for the period	227	183	200
Additional deferred tax benefit on MEREP expense	21	30	7
Transfer to ordinary share capital on vesting of MEREP awards	(331)	(43)	(250)
Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards	(25)	(12)	(28)
<b>Balance at the end of the period</b>	<b>856</b>	<b>964</b>	<b>806</b>

(1) Represents the available for sale reserve for periods prior to adoption of AASB 9 on 1 April 2018.

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<b>NOTE 16</b>			
<b>Reserves, retained earnings and non-controlling interests continued</b>			
<b>Share-based payments capital reduction reserve</b>			
Balance at the beginning of the period	(12)	(12)	(19)
Transfer to ordinary share capital related to vested and forfeited awards	3	–	7
<b>Balance at the end of the period</b>	<b>(9)</b>	<b>(12)</b>	<b>(12)</b>
<b>Cash flow hedging reserve</b>			
Balance at the beginning of the period	(49)	(67)	(103)
Revaluation gains for the period, net of tax	11	18	36
<b>Balance at the end of the period</b>	<b>(38)</b>	<b>(49)</b>	<b>(67)</b>
<b>Share of reserves of interests in associates and joint ventures accounted for using the equity method</b>			
Balance at the beginning of the period	2	7	–
Share of other comprehensive (loss)/income of associates and joint ventures, net of tax	(17)	(5)	7
<b>Balance at the end of the period</b>	<b>(15)</b>	<b>2</b>	<b>7</b>
<b>Total reserves at the end of the period</b>	<b>1,567</b>	<b>1,297</b>	<b>999</b>
<b>(ii) Retained earnings</b>			
Balance at the beginning of the period	8,817	8,170	7,877
Change on initial application of AASB 9 (Note 1)	(166)	–	–
<b>Restated balance as at 1 April 2018</b>	<b>8,651</b>	<b>8,170</b>	<b>7,877</b>
Profit attributable to ordinary equity holders of MGL	1,310	1,309	1,248
Dividends paid on ordinary share capital (Note 5)	(1,089)	(697)	(952)
Loss on change in ownership interest	(11)	(5)	–
Fair value changes attributable to own credit risk on other debt issued and classified as DFVTPL, net of tax	(12)	40	(3)
<b>Balance at the end of the period</b>	<b>8,849</b>	<b>8,817</b>	<b>8,170</b>

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<b>NOTE 16</b>			
<b>Reserves, retained earnings and non-controlling interests continued</b>			
<b>(iii) Non-controlling interests</b>			
<b>Macquarie Income Securities<sup>(1)</sup></b>			
4,000,000 MIS of \$100 each	400	400	400
Less: transaction costs for original placement	(9)	(9)	(9)
<b>Total Macquarie Income Securities</b>	<b>391</b>	391	391
<b>Other non-controlling interests<sup>(2),(3)</sup></b>			
Share capital and partnership interests	190	1,352	1,351
Reserves	(3)	124	37
Retained earnings/(accumulated losses)	21	(44)	(37)
<b>Total other non-controlling interests</b>	<b>208</b>	1,432	1,351
<b>Total non-controlling interests</b>	<b>599</b>	1,823	1,742

(1) The MIS issued by MBL, a subsidiary, were listed for trading on the Australian Securities Exchange (ASX) on 19 October 1999. While 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 2018: 1.7% per annum; 30 September 2017: 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) Includes non-controlling interest of \$nil million (31 March 2018: \$1,254 million; 30 September 2017: \$1,219 million) representing amounts contributed by external investors to a consortium vehicle that formed part of the Consolidated Entity. During the period ended 30 September 2018, the investment was deconsolidated due to the loss of control.

### Distributions to Macquarie Income Securities<sup>(1)</sup>

#### Macquarie Income Securities

Distributions paid (net of distributions previously provided for)	4	4	4
Distributions provided for	3	3	3
<b>Total distributions paid or provided for</b>	<b>7</b>	7	7

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

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**NOTE 17****Notes to the consolidated statement of cash flows****(i) Reconciliation of cash and cash equivalents**

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

Receivables from financial institutions <sup>(1)</sup>	9,307	9,381	8,083
Trading assets <sup>(2)</sup>	763	612	309
Financial investments <sup>(3)</sup>	1,887	1,197	842
Other assets <sup>(4)</sup>	3,642	1,815	1,380
<b>Cash and cash equivalents at the end of the period<sup>(5)</sup></b>	<b>15,599</b>	<b>13,005</b>	<b>10,614</b>

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

(3) Includes short-term debt securities.

(4) Includes amounts due from clearing houses.

(5) Cash and cash equivalents include \$6,001 million (31 March 2018: \$4,479 million; 30 September 2017: \$3,806 million) in escrow accounts which are restricted for use or held by collateralised securitisation vehicles or segregated deposit funds.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

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	Half-year to 30 Sep 18 <sup>(1)</sup> \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>NOTE 17</b>			
<b>Notes to the consolidated statement of cash flows continued</b>			
<b>(ii) Reconciliation of profit after income tax to net cash flows generated from operating activities</b>			
Profit after income tax	1,331	1,325	1,256
Adjustments to profit after income tax:			
Depreciation and amortisation	727	661	511
Unrealised foreign exchange and fair value movement on financial assets and liabilities	713	404	(436)
Impairment charges	76	249	159
Investment income and gain on sale of operating lease assets and other non-financial assets	(479)	(788)	(334)
Share-based payments expense	227	183	200
Share of net (profits)/losses of associates and joint ventures	(7)	(138)	(103)
Changes in assets and liabilities:			
Change in carrying values of associates due to dividends received	109	125	50
Change in net interest payable and receivable	22	21	(39)
Change in fees and non-interest income receivable	(214)	(1)	(458)
Change in fees and commissions payable	128	(68)	21
Change in tax balances	(73)	259	142
Change in debtors, prepayments, accrued charges and creditors	(402)	646	(387)
Change in net trading assets and liabilities and net derivative financial instruments <sup>(2)</sup>	2,204	3,974	(1,270)
Changes in other assets and liabilities	(209)	128	(60)
Change in loan assets	(3,101)	(2,869)	(851)
Change in operating lease assets	(557)	(672)	(530)
Changes in deposits	4,218	(1,199)	1,864
Changes in payables to financial institutions	3,887	655	(524)
Changes in debt issued	(6,076)	846	1,498
<b>Net cash flows generated from operating activities</b>	<b>2,524</b>	<b>3,741</b>	<b>709</b>

(1) The September 2018 financial results reflect the adoption of AASB 9 and AASB 15 on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 1 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.

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

### (iii) Cash flows from liabilities arising from financing activities

During the period, 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.

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**NOTE 18****Contingent liabilities and commitments****Contingent liabilities exist in respect of:**

Letters of credit	893	838	999
Performance related contingents	245	237	237
Indemnities	209	152	158
Guarantees	182	312	283
<b>Total contingent liabilities<sup>(1),(2)</sup></b>	<b>1,529</b>	1,539	1,677

**Commitments exist in respect of:**

Undrawn credit facilities and securities commitments <sup>(3),(4)</sup>	9,677	9,076	8,707
Property, plant and equipment and other asset developments	3,587	1,371	–
<b>Total commitments</b>	<b>13,264</b>	10,447	8,707
<b>Total contingent liabilities and commitments</b>	<b>14,793</b>	11,986	10,384

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

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

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

(4) Includes \$826 million (31 March 2018: \$637 million; 30 September 2017: \$407 million) in undrawn facilities that will be assigned to a third party post drawdown.

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#### NOTE 19

##### Measurement categories of financial instruments

The following table contains information relating to the measurement categories of financial instruments under AASB 9 of the Consolidated Entity. The descriptions of measurement categories are included in Note 1(i)(a) – Significant accounting policies. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 20 – Fair value of financial assets and financial liabilities.

	Financial Instruments						Fair value of		
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m	Amortised cost \$m	Non-financial instruments \$m	Total \$m	Financial instruments at fair value \$m	Financial instruments at amortised cost \$m
<b>Assets</b>	As at 30 September 2018								
Receivables from financial institutions <sup>(1)</sup>	–	–	16,273	–	21,189	–	37,462	16,273	21,189
Trading assets	20,158	–	–	–	–	–	20,158	20,158	–
Derivative assets	18,115	–	–	–	–	–	18,115	18,115	–
Other assets <sup>(2)</sup>	–	128	2,794	203	20,277	4,702	28,104	3,125	20,277
Financial investments									
Equity	–	–	1,216	–	–	–	1,216	1,216	–
Debt	–	73	413	4,931	–	–	5,417	5,417	–
Loan assets	–	234	920	714	75,085	–	76,953	1,868	75,287
Property, plant and equipment	–	–	–	–	–	11,361	11,361	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	3,789	3,789	–	–
Loans to associates and joint ventures	–	–	18	199	137	–	354	217	138
Intangible assets	–	–	–	–	–	1,894	1,894	–	–
Deferred tax assets	–	–	–	–	–	775	775	–	–
<b>Total assets</b>	<b>38,273</b>	<b>435</b>	<b>21,634</b>	<b>6,047</b>	<b>116,688</b>	<b>22,521</b>	<b>205,598</b>	<b>66,389</b>	<b>116,891</b>
<b>Liabilities</b>									
Trading liabilities	7,197	–	–	–	–	–	7,197	7,197	–
Derivative liabilities	18,205	–	–	–	–	–	18,205	18,205	–
Deposits	–	–	–	–	52,620	–	52,620	–	52,647
Other liabilities <sup>(3)</sup>	–	711	–	–	26,303	4,803	31,817	711	26,303
Payables to financial institutions <sup>(4)</sup>	–	2,329	–	–	17,923	–	20,252	2,329	17,951
Debt issued	–	2,154	–	–	49,511	–	51,665	2,154	49,834
Deferred tax liabilities	–	–	–	–	–	800	800	–	–
Loan capital	–	–	–	–	5,883	–	5,883	–	6,062
<b>Total liabilities</b>	<b>25,402</b>	<b>5,194</b>	<b>–</b>	<b>–</b>	<b>152,240</b>	<b>5,603</b>	<b>188,439</b>	<b>30,596</b>	<b>152,797</b>

(1) Includes reverse repurchase agreements measured at FVTPL on adoption of AASB 9.

(2) Includes margin placed, commodity debtors and life investment linked contracts and other unitholder assets which are measured at FVTPL. Non-financial assets primarily represent assets of disposal groups, equity interests in associates held for sale and prepayments.

(3) Includes life investment linked contracts and other unitholder liabilities measured at DFVTPL. Non-financial liabilities primarily represent liabilities of disposal groups classified as held for sale, aircraft and rail maintenance liabilities.

(4) Includes repurchase agreements measured at DFVTPL on adoption of AASB 9.



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The following table summarises the categories of financial instruments under AASB 139 as at 31 March 2018:

	Financial Instruments						Total \$m	Fair value of	
	HFT \$m	DFVTPL \$m	FVTPL \$m	Available for sale \$m	Loans and receivables/ amortised cost \$m	Non-financial instruments \$m		Financial instruments at fair value \$m	Financial instruments at amortised cost \$m
<b>Assets</b>	<b>As at 31 March 2018</b>								
Receivables from financial institutions	–	–	–	–	38,559	–	38,559	–	38,559
Trading assets	15,341	–	–	–	–	–	15,341	15,341	–
Derivative assets	12,937	–	–	–	–	–	12,937	12,937	–
Other assets <sup>(1)</sup>	–	143	647	–	21,012	4,893	26,695	790	21,012
Financial investments									
Equity	–	762	–	518	–	–	1,280	1,280	–
Debt	–	232	–	5,648	–	–	5,880	5,880	–
Loan assets	–	297	244	–	72,968	–	73,509	541	73,256
Property, plant and equipment	–	–	–	–	–	11,426	11,426	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	3,641	3,641	–	–
Loans to associates and joint ventures	–	–	–	–	414	–	414	–	419
Intangible assets	–	–	–	–	–	993	993	–	–
Deferred tax assets	–	–	–	–	–	650	650	–	–
<b>Total assets</b>	<b>28,278</b>	<b>1,434</b>	<b>891</b>	<b>6,166</b>	<b>132,953</b>	<b>21,603</b>	<b>191,325</b>	<b>36,769</b>	<b>133,246</b>
<b>Liabilities</b>									
Trading liabilities	8,061	–	–	–	–	–	8,061	8,061	–
Derivative liabilities	11,925	–	–	–	–	–	11,925	11,925	–
Deposits	–	–	–	–	48,395	–	48,395	–	48,412
Other liabilities <sup>(2)</sup>	–	793	–	–	21,914	5,599	28,306	793	21,914
Payables to financial institutions	–	–	–	–	14,390	–	14,390	–	14,435
Debt issued	–	2,210	–	–	53,717	–	55,927	2,210	54,157
Deferred tax liabilities	–	–	–	–	–	749	749	–	–
Loan capital	–	–	–	–	5,392	–	5,392	–	5,593
<b>Total liabilities</b>	<b>19,986</b>	<b>3,003</b>	<b>–</b>	<b>–</b>	<b>143,808</b>	<b>6,348</b>	<b>173,145</b>	<b>22,989</b>	<b>144,511</b>

(1) Includes life investment linked contracts and other unitholder assets which are measured at FVTPL. Non-financial assets primarily represent assets of disposal groups, equity interests in associates held for sale and prepayments.

(2) Includes life investment linked contracts and other unitholder liabilities which are measured at DFVTPL. Non-financial liabilities primarily represent liabilities of disposal groups classified as held for sale, aircraft and rail maintenance liabilities.

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##### Measurement categories of financial instruments continued

The following table summarises the categories of financial instruments under AASB 139 as at 30 September 2017:

	Financial Instruments							Fair value of	
	HFT \$m	DFVTPL \$m	FVTPL \$m	Available for sale \$m	Loans and receivables/ amortised cost \$m	Non-financial instruments \$m	Total \$m	Financial instruments at fair value \$m	Financial instruments at amortised cost \$m
<b>Assets</b>	As at 30 September 2017								
Receivables from financial institutions	–	–	–	–	40,345	–	40,345	–	40,345
Trading assets	18,596	–	–	–	–	–	18,596	18,596	–
Derivative assets	12,360	–	–	–	–	–	12,360	12,360	–
Other assets <sup>(1)</sup>	–	140	677	–	19,022	6,210	26,049	817	19,022
Financial investments									
Equity	–	838	–	720	–	–	1,558	1,558	–
Debt	–	171	–	4,032	–	–	4,203	4,203	–
Loan assets	–	361	38	–	69,988	–	70,387	399	70,257
Property, plant and equipment	–	–	–	–	–	10,960	10,960	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	3,226	3,226	–	–
Loans to associates and joint ventures	–	–	–	–	396	–	396	–	396
Intangible assets	–	–	–	–	–	991	991	–	–
Deferred tax assets	–	–	–	–	–	689	689	–	–
<b>Total assets</b>	<b>30,956</b>	<b>1,510</b>	<b>715</b>	<b>4,752</b>	<b>129,751</b>	<b>22,076</b>	<b>189,760</b>	<b>37,933</b>	<b>130,020</b>
<b>Liabilities</b>									
Trading liabilities	7,451	–	–	–	–	–	7,451	7,451	–
Derivative liabilities	10,717	–	–	–	–	–	10,717	10,717	–
Deposits	–	–	–	–	49,330	–	49,330	–	49,348
Other liabilities <sup>(2)</sup>	–	674	–	–	21,137	4,876	26,687	674	21,137
Payables to financial institutions	–	–	–	–	17,799	–	17,799	–	17,846
Debt issued	–	2,268	–	–	52,283	–	54,551	2,268	53,027
Deferred tax liabilities	–	–	–	–	–	746	746	–	–
Loan capital	–	–	–	–	5,380	–	5,380	–	5,639
<b>Total liabilities</b>	<b>18,168</b>	<b>2,942</b>	<b>–</b>	<b>–</b>	<b>145,929</b>	<b>5,622</b>	<b>172,661</b>	<b>21,110</b>	<b>146,997</b>

(1) Includes life investment linked contracts and other unitholder assets which are measured at FVTPL. Non-financial assets primarily represent assets of disposal groups, equity interests in associates held for sale and prepayments.

(2) Includes life investment linked contracts and other unitholder liabilities which are measured at DFVTPL. Non-financial liabilities primarily represent liabilities of disposal groups classified as held for sale, aircraft and rail maintenance liabilities.

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## NOTE 20

### Fair values of financial assets and liabilities

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

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

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

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

<b>Level 1:</b>	quoted prices (unadjusted) in active markets for identical assets or liabilities
<b>Level 2:</b>	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)
<b>Level 3:</b>	inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

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

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

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity is approximate to their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and repurchase agreements over commodities approximate to their carrying amounts, the fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower
- the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and 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, financial investments at FVTPL, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- 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
- Financial investments at FVOCI are measured at fair value by reference to active quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans and issued debt classified as at FVTPL is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the 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 for Over-the-counter (OTC) derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

The fair values calculated for financial assets which are carried on the statement of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described earlier, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

#### NOTE 20

##### Fair values of financial assets and liabilities continued

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>As at 30 September 2018</b>				
<b>Assets</b>				
Receivables from financial institutions	9,584	11,605	–	21,189
Other financial assets	8,444	11,833	–	20,277
Loan assets	–	5,757	69,530	75,287
Interests in associates and joint ventures – loans	–	–	138	138
<b>Total assets</b>	<b>18,028</b>	<b>29,195</b>	<b>69,668</b>	<b>116,891</b>
<b>Liabilities</b>				
Deposits	42,660	9,987	–	52,647
Other financial liabilities	13,551	12,752	–	26,303
Payables to financial institutions	487	11,994	5,470	17,951
Debt issued	–	45,442	4,392	49,834
Loan capital	2,005	4,057	–	6,062
<b>Total liabilities</b>	<b>58,703</b>	<b>84,232</b>	<b>9,862</b>	<b>152,797</b>
<b>As at 31 March 2018</b>				
<b>Assets</b>				
Receivables from financial institutions	9,681	28,878	–	38,559
Other financial assets	8,182	12,830	–	21,012
Loan assets	–	8,330	64,926	73,256
Interests in associates and joint ventures – loans	–	–	419	419
<b>Total assets</b>	<b>17,863</b>	<b>50,038</b>	<b>65,345</b>	<b>133,246</b>
<b>Liabilities</b>				
Deposits	40,615	7,797	–	48,412
Other financial liabilities	12,067	9,847	–	21,914
Payables to financial institutions	1,056	11,109	2,270	14,435
Debt issued	–	49,218	4,939	54,157
Loan capital	1,595	3,998	–	5,593
<b>Total liabilities</b>	<b>55,333</b>	<b>81,969</b>	<b>7,209</b>	<b>144,511</b>
<b>As at 30 September 2017</b>				
<b>Assets</b>				
Receivables from financial institutions	8,393	31,952	–	40,345
Other financial assets	6,901	12,121	–	19,022
Loan assets	–	7,006	63,251	70,257
Interests in associates and joint ventures – loans	–	–	396	396
<b>Total assets</b>	<b>15,294</b>	<b>51,079</b>	<b>63,647</b>	<b>130,020</b>
<b>Liabilities</b>				
Deposits	42,413	6,935	–	49,348
Other financial liabilities	10,942	10,195	–	21,137
Payables to financial institutions	278	15,104	2,464	17,846
Debt issued	–	46,866	6,161	53,027
Loan capital	1,616	4,023	–	5,639
<b>Total liabilities</b>	<b>55,249</b>	<b>83,123</b>	<b>8,625</b>	<b>146,997</b>

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**NOTE 20****Fair values of financial assets and liabilities continued**

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>As at 30 September 2018</b>				
<b>Assets</b>				
Receivables from financial institutions	–	16,273	–	16,273
Trading assets	14,343	5,500	315	20,158
Derivative assets	876	16,624	615	18,115
Financial investments	3,275	1,892	1,466	6,633
Loan assets	–	1,167	701	1,868
Interests in associates and joint ventures – loans	–	–	217	217
Other financial assets	1,349	1,571	205	3,125
<b>Total assets</b>	<b>19,843</b>	<b>43,027</b>	<b>3,519</b>	<b>66,389</b>
<b>Liabilities</b>				
Trading liabilities	5,705	1,492	–	7,197
Derivative liabilities	1,125	16,699	381	18,205
Payables to financial institutions	–	2,329	–	2,329
Debt issued	–	2,148	6	2,154
Other financial liabilities	–	710	1	711
<b>Total liabilities</b>	<b>6,830</b>	<b>23,378</b>	<b>388</b>	<b>30,596</b>
<b>As at 31 March 2018</b>				
<b>Assets</b>				
Trading assets	10,079	5,049	213	15,341
Derivative assets	460	11,827	650	12,937
Financial investments	4,136	1,985	1,039	7,160
Loan assets	–	297	244	541
Other financial assets	30	759	1	790
<b>Total assets</b>	<b>14,705</b>	<b>19,917</b>	<b>2,147</b>	<b>36,769</b>
<b>Liabilities</b>				
Trading liabilities	6,409	1,652	–	8,061
Derivative liabilities	633	10,943	349	11,925
Debt issued	–	2,204	6	2,210
Other financial liabilities	–	792	1	793
<b>Total liabilities</b>	<b>7,042</b>	<b>15,591</b>	<b>356</b>	<b>22,989</b>
<b>As at 30 September 2017</b>				
<b>Assets</b>				
Trading assets	11,573	6,785	238	18,596
Derivative assets	794	10,984	582	12,360
Financial investments	2,590	1,854	1,317	5,761
Loan assets	–	356	43	399
Other financial assets	24	786	7	817
<b>Total assets</b>	<b>14,981</b>	<b>20,765</b>	<b>2,187</b>	<b>37,933</b>
<b>Liabilities</b>				
Trading liabilities	6,292	1,159	–	7,451
Derivative liabilities	463	9,963	291	10,717
Debt issued	–	2,216	52	2,268
Other financial liabilities	–	667	7	674
<b>Total liabilities</b>	<b>6,755</b>	<b>14,005</b>	<b>350</b>	<b>21,110</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 20

#### Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy.

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

	Trading assets \$m	Financial investments \$m	Loan assets \$m
Balance as at 1 April 2017	353	1,324	61
Purchase, originations, issuances and other additions	104	170	–
Sales/settlements	(239)	(59)	(16)
Transfers into Level 3 <sup>(3)</sup>	22	60	–
Transfers out of Level 3 <sup>(3)</sup>	(4)	(97)	–
Fair value movements recognised in the income statement <sup>(1)</sup>	2	28	(2)
Fair value movements recognised in OCI <sup>(1)</sup>	–	(109)	–
<b>Balance as at 30 September 2017</b>	<b>238</b>	<b>1,317</b>	<b>43</b>
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period <sup>(1)</sup>	1	(21)	(2)
Balance as at 1 October 2017	238	1,317	43
Purchase, originations, issuances and other additions	–	116	247
Sales/settlements	(84)	(321)	(43)
Transfers into Level 3 <sup>(3)</sup>	61	–	–
Transfers out of Level 3 <sup>(3)</sup>	–	(53)	–
Fair value movements recognised in the income statement <sup>(1)</sup>	(2)	19	(3)
Fair value movements recognised in OCI <sup>(1)</sup>	–	(39)	–
<b>Balance as at 31 March 2018</b>	<b>213</b>	<b>1,039</b>	<b>244</b>
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period <sup>(1)</sup>	1	4	(3)
Balance as at 1 April 2018	<b>213</b>	<b>1,039</b>	<b>244</b>
Change on initial application of AASB 9	–	–	<b>470</b>
Purchase, originations, issuances and other additions	<b>93</b>	<b>430</b>	<b>287</b>
Sales/settlements	<b>(53)</b>	<b>(233)</b>	<b>(306)</b>
Transfers into Level 3 <sup>(3)</sup>	<b>46</b>	<b>157</b>	–
Transfers out of Level 3 <sup>(3)</sup>	<b>(2)</b>	<b>(59)</b>	–
Fair value movements recognised in the income statement <sup>(1)</sup>	<b>18</b>	<b>131</b>	<b>9</b>
Fair value movements recognised in OCI <sup>(1)</sup>	–	<b>1</b>	<b>(3)</b>
<b>Balance as at 30 September 2018</b>	<b>315</b>	<b>1,466</b>	<b>701</b>
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period <sup>(1)</sup>	<b>17</b>	<b>13</b>	<b>9</b>

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

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$615 million (31 March 2018: \$650 million; 30 September 2017: \$582 million) and derivative liabilities are \$381 million (31 March 2018: \$349 million; 30 September 2017: \$291 million).

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

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Interests in associates and joint ventures (loans) \$m	Other financial assets \$m	Debt issued \$m	Other financial liabilities \$m	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
-	7	(57)	(7)	146	1,827
-	-	-	-	51	325
-	-	-	-	41	(273)
-	-	-	-	(3)	79
-	-	-	-	(4)	(105)
-	-	5	-	60	93
-	-	-	-	-	(109)
-	7	(52)	(7)	291	1,837
-	-	2	-	57	37
-	7	(52)	(7)	291	1,837
-	-	-	-	129	492
-	(6)	46	6	(111)	(513)
-	-	-	-	9	70
-	-	-	-	1	(52)
-	-	-	-	(18)	(4)
-	-	-	-	-	(39)
-	1	(6)	(1)	301	1,791
-	-	-	-	(18)	(16)
-	<b>1</b>	<b>(6)</b>	<b>(1)</b>	<b>301</b>	<b>1,791</b>
<b>204</b>	<b>172</b>	-	-	-	<b>846</b>
<b>41</b>	<b>29</b>	-	-	<b>54</b>	<b>934</b>
<b>(6)</b>	-	-	-	<b>(72)</b>	<b>(670)</b>
-	-	-	-	<b>2</b>	<b>205</b>
<b>(28)</b>	-	-	-	<b>12</b>	<b>(77)</b>
<b>18</b>	<b>3</b>	-	-	<b>(63)</b>	<b>116</b>
<b>(12)</b>	-	-	-	-	<b>(14)</b>
<b>217</b>	<b>205</b>	<b>(6)</b>	<b>(1)</b>	<b>234</b>	<b>3,131</b>
<b>18</b>	<b>3</b>	-	-	<b>(64)</b>	<b>(4)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

CONTINUED

#### NOTE 20

##### Fair values of financial assets and liabilities continued

##### Significant transfers between levels of the fair value hierarchy

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

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

##### Unrecognised gains

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

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

	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
Balance at the beginning of the period	178	173	185
Deferral on new transactions	19	24	23
Amounts recognised in the income statement during the period	(23)	(19)	(35)
<b>Balance at the end of the period</b>	<b>174</b>	<b>178</b>	<b>173</b>

##### Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss \$m	OCI \$m	Profit or loss \$m	OCI \$m
<b>Product type</b>	<b>As at 30 September 2018</b>			
Equity and equity linked products	59	–	(60)	–
Commodities	68	–	(56)	–
Interest rate and other products	54	59	(54)	(59)
<b>Total</b>	<b>181</b>	<b>59</b>	<b>(170)</b>	<b>(59)</b>
<b>Product type</b>	<b>As at 31 March 2018</b>			
Equity and equity linked products	13	58	(13)	(55)
Commodities	57	–	(61)	–
Interest rate and other products	31	5	(31)	(5)
<b>Total</b>	<b>101</b>	<b>63</b>	<b>(105)</b>	<b>(60)</b>
<b>Product type</b>	<b>As at 30 September 2017</b>			
Equity and equity linked products	11	63	(11)	(56)
Commodities	60	–	(63)	–
Interest rate and other products	13	15	(13)	(14)
<b>Total</b>	<b>84</b>	<b>78</b>	<b>(87)</b>	<b>(70)</b>



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## NOTE 20

### Fair values of financial assets and liabilities continued

#### Significant unobservable inputs

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

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	Range of inputs	
					Minimum value	Maximum value
<b>As at 30 September 2018</b>						
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 % <sup>(1)</sup>		
Commodities	645	370	Pricing model	Volatility	5.1%	126.7%
Interest rate and other products	2,210	12	Pricing model	Correlation	–	102.5%
				Earnings multiple	10.0x	10.0x
			Market comparability	Price in % <sup>(1)</sup>		
<b>Total</b>	<b>3,519</b>	<b>388</b>				
<b>As at 31 March 2018</b>						
Equity and equity linked products	651	32	Discounted cash flows	Discount rate	5.0%	11.0%
			Pricing model	Earnings multiple	2.0x	13.9x
			Market comparability	Price in % <sup>(1)</sup>		
Commodities	635	322	Pricing model	Volatility	5.0%	178.3%
Interest rate and other products	861	2	Discounted cash flows	Discount rate	4.0%	10.0%
			Pricing model	Correlation	0.0%	100.0%
			Market comparability	Price in % <sup>(1)</sup>		
<b>Total</b>	<b>2,147</b>	<b>356</b>				
<b>As at 30 September 2017</b>						
Equity and equity linked products	817	28	Discounted cash flows	Discount rate	5.0%	11.0%
			Pricing model	Earnings multiple	0.8x	18.0x
			Market comparability	Price in % <sup>(1)</sup>		
Commodities	580	271	Pricing model	Volatility	0.0%	106.0%
Interest rate and other products	790	51	Discounted cash flows	Discount rate	4.0%	10.0%
			Pricing model	Correlation	0.0%	100.0%
			Market comparability	Price in % <sup>(1)</sup>		
<b>Total</b>	<b>2,187</b>	<b>350</b>				

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 20

#### 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 the amount a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

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

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

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## NOTE 21

### Acquisitions and disposals of subsidiaries and businesses

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

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the period ended 30 September 2018.

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

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.

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

The purchase method of accounting for the business combinations are provisional at 30 September 2018.

During the half-year ended 31 March 2018, other entities or businesses acquired or consolidated due to acquisition of control were; PropertyIQ Pty. Ltd, PropertyIQ Strata Pty. Ltd. and ADL Software Pty Ltd.

During the half-year ended 30 September 2017, other entities or businesses acquired or consolidated due to acquisition of control were; UK Green Investment Bank Plc, Cargill, Inc.'s global oil trading business (Cargill Petroleum), Cargill, Inc.'s North American natural gas and electricity business (Cargill North American Power and Gas), Acacia Renewables K.K., Hirasawa Power West GK, M-Icheon Company Limited, M-Daon Company Limited, M-Haman Company Limited, Achim Solar Co Ltd. and Norte III Power S.A.P.I. de C.V.

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

	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>Fair value of net assets acquired</b>			
Receivables from financial institutions	80	–	101
Other financial assets	–	–	250
Other assets <sup>(1)</sup>	77	–	1,722
Interests in associates and joint ventures	–	–	24
Property, plant and equipment	11	–	36
Intangible assets	384	10	73
Payables, provisions, borrowings and other liabilities	(162)	(1)	(436)
Non-controlling interests	(45)	(1)	–
<b>Total fair value of net assets acquired</b>	<b>345</b>	<b>8</b>	<b>1,770</b>
<b>Consideration</b>			
Cash consideration (including transaction costs)	516	12	1,844
Deferred consideration	69	–	1
Fair value of equity interest held before the acquisition date	270	–	2
<b>Total consideration (including transaction costs)</b>	<b>855</b>	<b>12</b>	<b>1,847</b>
Goodwill recognised on acquisition <sup>(2)</sup>	510	4	77
<b>Net cash outflow</b>			
Cash consideration	(516)	(12)	(1,844)
Less cash and cash equivalents acquired	80	–	101
<b>Net cash outflow</b>	<b>(436)</b>	<b>(12)</b>	<b>(1,743)</b>

(1) Includes assets classified as held for sale and other non-financial assets.

(2) The goodwill recognised on acquisition is primarily attributable to future assets under management (AUM) which are expected to result in higher fees and synergies expected to be achieved from integrating the new businesses into the Consolidated Entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018 CONTINUED

### NOTE 21

#### Acquisitions and disposals of subsidiaries and businesses

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

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the period ended 30 September 2018.

##### Other entities or businesses disposed of or deconsolidated due to loss of control<sup>(1)</sup>:

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.

During the half-year ended 31 March 2018, other entities or business disposed of or deconsolidated due to loss of control were; Levantera Development Limited, New Zoom Inc, Reclean Holdings and its Subsidiaries, Chaptre Investments Limited, Chaptre GreenCo Limited, EIH PPP Limited, Eriugena Investments Limited, Eriugena Holdings Limited, Eriugena Designated Activity Company, Haiding One International Investment Co. Ltd., Haiding Two International Investment Co. Ltd., Haiding Three International Investment Co. Ltd., Hirasawa Power West Godo Kaisha, Norte III Power, S.A.P.I. de C.V and Advantage Funding Management and its subsidiaries (Advantage business).

During the half-year ended 30 September 2017, other entities or businesses disposed of or deconsolidated due to loss of control included Macquarie Financial Ltd.

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

	Half-year to 30 Sep 18 \$m	Half-year to 31 Mar 18 \$m	Half-year to 30 Sep 17 \$m
<b>Carrying value of net assets and liabilities disposed of or deconsolidated</b>			
Receivables from financial institutions	1	21	34
Other financial assets	–	601	402
Other assets <sup>(2)</sup>	1,742	693	14
Property, plant and equipment	–	81	–
Intangible assets	2	16	–
Payables, provisions, borrowings and other liabilities	(295)	(827)	(437)
Non-controlling interests	(1,170)	(2)	–
<b>Total carrying value of net assets and liabilities disposed of or deconsolidated</b>	<b>280</b>	<b>583</b>	<b>13</b>
<b>Consideration</b>			
Cash consideration (net of cost of disposal)	264	362	14
Consideration receivable	2	416	–
Fair value remeasurement of investment retained	43	218	–
<b>Total consideration</b>	<b>309</b>	<b>996</b>	<b>14</b>
<b>Direct costs relating to disposal</b>	<b>–</b>	<b>(5)</b>	<b>–</b>
<b>Net cash inflow/(outflow)</b>			
Cash consideration	264	362	14
Less: cash and cash equivalents disposed of or deconsolidated	(1)	(21)	(34)
<b>Net cash inflow/(outflow)</b>	<b>263</b>	<b>341</b>	<b>(20)</b>

(1) Subsequent to 30 September 2018, the Consolidated Entity disposed of assets and liabilities that had been classified as held for sale for a pre-tax gain of approximately \$330 million. The gain on disposal will be recognised by the Consolidated Entity in the half-year ending 31 March 2019.

(2) Includes assets classified as held for sale and other non-financial assets.

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## NOTE 22

### Events after the reporting date

With the exception of the group transaction, discussed below, and matters disclosed elsewhere in this report, there were no material events subsequent to 30 September 2018 that have not been reflected in the financial statements.

### Restructure of CAF's Principal Finance and Transportation Finance Businesses

On 24 October 2018, APRA approved the return of capital by Macquarie Bank Ltd (MBL) to the Consolidated Entity that would follow the transfer of CAF's Principal Finance and Transportation Finance businesses (the 'Businesses') from MBL to Macquarie Financial Holdings Pty Limited (MFHPL), both 100% held subsidiaries of MGL. On 2 November 2018, MBL, MGL, MFHPL and Macquarie B.H. Pty Ltd (MBHPL) (MBL's intermediate holding company), executed a Restructure Deed to transfer the Businesses with an effective date of 10 December 2018. The transfers are intended to simplify the Consolidated Entity's structure by better reflecting the latest activities of individual parts of the Businesses.

CAF Principal Finance provides flexible primary financing solutions and engages in secondary market investing across the capital structure and CAF Transportation Finance provides the financing of aircraft, rotorcraft and rail assets.

Given that the Businesses are ultimately controlled by MGL both before and after the transfer and that the transaction involves only entities that are 100% consolidated by MGL, the transfer of the Businesses will have no impact on the Consolidated Entity's statement of financial position, results of operations or cash flows.

## **DIRECTORS' DECLARATION**

### **MACQUARIE GROUP LIMITED**

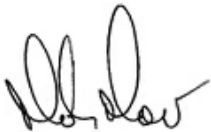
In the Directors' opinion:

- a) the financial statements and notes set out on pages 22 to 83 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 2018 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



**Nicholas Moore**  
Managing Director and Chief Executive Officer

Sydney  
2 November 2018

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## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE SHAREHOLDERS 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), which comprises the consolidated statement of financial position as at 30 September 2018, 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, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Consolidated Entity. The Consolidated Entity comprises the Company and the entities it controlled during that half-year.

#### Directors' responsibility for the half-year financial report

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

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* (Cth) including giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2018 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 2018 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

#### K.G. Smith Partner

Sydney  
 2 November 2018

Liability limited by a scheme approved under Professional Standards Legislation.

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## TEN YEAR HISTORY

The financial information for the full years ended 31 March 2010–2018 and half-year ended 30 September 2018 is based on the reported results using the Australian Accounting Standards that were effective and adopted by the Consolidated Entity at the reporting dates, which also comply with International Financial Reporting Standards as issued by the IASB. Reporting periods have been restated only to the extent as required by the accounting standards. The financial reporting periods may hence not be fully comparable with one another as a result of changes in accounting standards' requirements.

Financial years ended 31 March	First half 2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Income statement (\$ million)</b>										
Net operating income	5,830	10,920	10,364	10,158	9,262	8,132	6,657	6,963	7,665	6,638
Total expenses	(4,125)	(7,456)	(7,260)	(7,143)	(6,740)	(6,026)	(5,252)	(5,914)	(6,394)	(5,344)
Operating profit before income tax	1,705	3,464	3,104	3,015	2,522	2,106	1,405	1,049	1,271	1,294
Income tax expense	(374)	(883)	(868)	(927)	(899)	(827)	(533)	(287)	(282)	(201)
Profit for the year	1,331	2,581	2,236	2,088	1,623	1,279	872	762	989	1,093
Macquarie Income Securities distributions	(7)	(14)	(15)	(16)	(18)	(18)	(21)	(26)	(26)	(21)
Macquarie Income Preferred Securities distributions	–	–	–	(1)	(5)	(4)	(4)	(4)	(4)	(8)
Profit attributable to other non-controlling interests	(14)	(10)	(4)	(8)	4	8	4	(2)	(3)	(14)
Profit attributable to ordinary equity holders	1,310	2,557	2,217	2,063	1,604	1,265	851	730	956	1,050
<b>Statement of financial position (\$ million)</b>										
Total assets	205,598	191,325	182,877	196,755	187,976	153,904	144,748	153,626	157,568	145,940
Total liabilities	188,439	173,145	165,607	181,091	173,580	141,990	132,793	141,894	145,636	134,171
Net assets	17,159	18,180	17,270	15,664	14,396	11,914	11,955	11,732	11,932	11,769
Total loan assets	76,953	73,509	69,288	72,393	67,663	49,965	47,449	41,930	42,923	41,415
Impaired loan assets (net of provisions) <sup>(1)</sup>	326	351	547	418	594	365	368	357	340	551
<b>Share information</b>										
Dividends per share (cents per share)										
Interim	215	205	190	160	130	100	75	65	86	86
Final	n/a	320	280	240	200	160	125	75	100	100
Special <sup>(2)</sup>	–	–	–	–	–	116	–	–	–	–
Total	215	525	470	400	330	376	200	140	186	186
Basic EPS (cents per share)	388.3	758.2	657.6	619.2	502.3	383.6	251.2	210.1	282.5	320.2
Share price at reporting date (\$) <sup>(3)</sup>	126.04	102.90	90.20	66.09	76.67	57.93	37.15	29.08	36.60	47.25
Ordinary shares (million shares)	340.4	340.4	340.4	340.3	333.5	321.1	339.5	348.6	346.8	344.2
Market capitalisation at reporting date (fully paid ordinary shares) (\$ million) <sup>(3)</sup>	42,902	35,024	30,700	22,491	25,569	18,601	12,613	10,137	12,693	16,263
Net tangible assets per ordinary share (\$)	43.07	45.12	42.74	41.23	38.19	31.71	29.94	28.12	28.91	28.40
<b>Ratios (%)</b>										
Return on average ordinary shareholders' funds	16.3	16.8	15.2	14.7	14.0	11.1	7.8	6.8	8.8	10.1
Ordinary dividend payout ratio	55.9	69.8	72.0	65.7	67.6	66.8	79.0	66.4	67.3	60.4
Expense/income ratio	70.8	68.3	70.1	70.3	72.8	74.1	78.9	84.9	83.4	80.5
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.1	0.3	0.5	1.0	0.7	0.4	0.4	0.5	0.4	0.8
<b>Assets under management (\$ billion)</b>										
Staff numbers	14,869	14,469	13,597	14,372	14,085	13,913	13,663	14,202	15,556	14,657

(1) Represents net exposure in impaired loan assets disclosed as per Australian regulatory authority requirements.

(2) The special dividend for the year ended 31 March 2014 represented the special dividend component of the in specie distribution of Sydney Airport stapled securities in January 2014. The total distribution including return of capital was 373 cents per share.

(3) At 28 September for the first half 2018.

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## **CONTACT DETAILS**

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