MACQUARIE BANK

Interim Financial Report

Macquarie Bank

Half-year ended 30 September 2018

MACQUARIE BANK LIMITED ACN 008 583 542

MACQUARIE BANK
2019 INTERIM FINANCIAL REPORT

This Interim Financial Report has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth) and does not include all the notes of the type normally included in an annual financial report. Macquarie Bank Limited's (MBL) most recent annual financial report is available at **www.macquarie.com** as part of Macquarie Bank's 2018 Annual Report. MBL 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 MBL under such rules are available on ASX's internet site **www.asx.com.au** (MBL's ASX code is "MBL").

The material in this report has been prepared by MBL ABN 46 008 583 542 and is current at the date of this report. It is general background information about Macquarie Bank's (MBL and its subsidiaries, the Consolidated Entity) activities, is 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 MBL's Directors on 2 November 2018. The Board of Directors has the power to amend and reissue the Financial Report.

The Macquarie name and Holey Dollar device are registered trade marks of Macquarie Group Limited ACN 122 169 279.

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

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Directors
Operating and financial review
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1 DIRECTORS' REPORT

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DIRECTORS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

The Directors of MBL 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 Bank 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

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

N.W. Moore

S.R. Wikramanayake

Other than Mr Coffey and Ms Wikramanayake, the Directors listed above each held office as a Director of Macquarie Bank throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

On 26 July 2018, MBL announced that Nicholas Moore indicated his intention to retire as Managing Director and Chief Executive Officer of MGL and as an Executive Voting Director of MBL 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 the ordinary equity holders of Macquarie Bank, in accordance with Australian Accounting Standards, for the period was $A735 million (half-year to 31 March 2018: $A924 million; half-year to 30 September 2017: $A644 million).

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

Review of performance and financial position

Overview

Macquarie Bank's consolidated net profit attributable to ordinary equity holders of $A735 million for the half-year ended 30 September 2018 increased 14% from $A644 million in the prior corresponding period[1] and decreased 20% from $A924 million in the prior period[2].

	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	**3,242**	3,309	2,854	*(2)*	*14*
Total operating expenses	**(2,176)**	(2,011)	(1,999)	*8*	*9*
Income tax expense	**(320)**	(363)	(207)	*(12)*	*55*
(Profit)/Loss attributable to non-controlling interests	**(4)**	(4)	3	–	*
Distribution on Macquarie Income Securities	**(7)**	(7)	(7)	–	–
Profit attributable to ordinary equity holders	**735**	**924**	**644**	***(20)***	***14***

(1) Prior corresponding period (pcp) refers to the six months to 30 September 2017.
(2) Prior period refers to the six months to 31 March 2018.
* Indicates that the result was a gain in one period and a loss in another, or vice versa.

OPERATING GROUPS

Macquarie Bank's annuity-style businesses

Macquarie Bank's annuity-style businesses generated a combined net profit contribution for the half-year ended 30 September 2018 of $A759 million, down 22% on the prior corresponding period.

MACQUARIE ASSET MANAGEMENT

$A32m ↓ 54% on pcp

- Release of accruals relating to legacy business activities in the prior corresponding period
- Lower contribution from MSIS Retail
- Base fees broadly in line.

CORPORATE AND ASSET FINANCE

$A432m ↓ 30% 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

$A295m ↑ 4% 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.

Macquarie Bank's capital markets facing businesses

Macquarie Bank's capital markets facing businesses delivered a net profit contribution for the half-year ended 30 September 2018 of $A650 million, up 104% on the prior corresponding period.

COMMODITIES AND GLOBAL MARKETS

$A650m ↑ 104% 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.

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.

▶ Further information on Macquarie Bank's performance is detailed on pages 8 to 9.

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

Net operating income

Net operating income of $A3,242 million for the half-year ended 30 September 2018 increased 14% from $A2,854 million in the prior corresponding period, driven by higher Net interest and trading income as well as Fee and commission income. This was partially offset by lower Other operating income and charges.

Key drivers included:

Net interest and trading income

HALF-YEAR TO		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
2,227	2,062	1,837

↑21% on prior corresponding period

- 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
- Higher earnings on capital and lower costs of holding long-term liquidity in Corporate, as well as the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting in terms of AASB 9.

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		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
573	441	449

↑28% on prior corresponding period

- Following the adoption of AASB 15, the presentation of $A113 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
- Increase in brokerage commission in Futures and Cash equity markets from increased market turnover and client activity in Asia in CGM.

Partially offset by:

- Lower fee income from MSIS Retail business in MAM.

Net operating lease income

HALF-YEAR TO		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
460	468	469

↓2% on prior corresponding period

- 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		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
11	13	9

↑22% on prior corresponding period

- Increase reflecting performance of underlying investments.

Other operating income and charges

HALF-YEAR TO		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
(29)	325	90

↓ **significantly** on prior corresponding period

- Lower Investment income mainly due to a gain on reclassification of an investment in a toll road in the UK by CAF, recognised in the prior corresponding period
- Lower Other income driven by Treasury's funding management activities, which included a structural change in funding between the Bank and Non-Bank Groups in Corporate, and the non-recurrence of accrual releases relating to legacy business activities in MAM in the prior corresponding period. This was partially offset by asset sales in CAF in the current period
- Lower charges for Credit and Other impairments with the prior corresponding period recognising write-downs on underperforming financing facilities in CGM, partly offset by a partial reversal of collective provisions, driven by net loan repayments and the improved credit performance of underlying portfolios in CAF.

Operating expenses

Total operating expenses of $A2,176 million for the half-year ended 30 September 2018 increased 9% from $A1,999 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
766	722	765

– In line with prior corresponding period

- Higher average headcount across all Operating Groups
- Unfavourable foreign exchange movements.

Offset by:

- Lower performance-related profit share expense allocation from the Non-Bank Group to the Bank Group.

Brokerage, commission and trading-related expenses

HALF-YEAR TO		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
392	303	316

↑ 24% on prior corresponding period

- Following the adoption of AASB 15, the presentation of $A77 million of fee expenses relating to stock borrowing activities previously presented net of associated revenues have been reclassified to Brokerage, commission and trading-related expenses.

Partially offset by:

- Lower brokerage and commission expense from MSIS Retail.

Non-salary technology expenses

HALF-YEAR TO		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
83	68	65

↑ 28% on prior corresponding period

- Higher project activity in BFS.

Occupancy and Other operating expenses

HALF-YEAR TO		
30 Sep 18 $Am	31 Mar 18 $Am	30 Sep 17 $Am
935	918	853

↑ 10% on prior corresponding period

- Increased recoveries for support services received by the Bank Group due to higher business activity
- Following the adoption of AASB 15, the presentation of $A36 million of recoverable costs previously presented net of associated revenues have been reclassified to Other operating expenses.

Income tax expense

Income tax expense for the half-year ended 30 September 2018 was $A320 million, a 55% increase from $A207 million in the prior corresponding period. The increase was mainly due to the geographic composition and nature of earnings.

The effective tax rate for the half-year ended 30 September 2018 was 30.1%, up from 24.1% in the prior corresponding period and 28.1% 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
CONTINUED

FINANCIAL POSITION

Balance sheet

Macquarie Bank'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		
30 Sep 18 $Ab	31 Mar 18 $Ab	
184.9	173.2	↑ 7% on 31 Mar 18

Total assets of $A184.9 billion at 30 September 2018 increased 7% from $A173.2 billion at 31 March 2018 mainly due to an increase in Derivative assets, Trading assets, Loan assets and Other assets. These increases were partially offset by decreases in Receivables from financial institutions and Financial investments.

- Derivative assets of $A17.9 billion at 30 September 2018 increased 41% from $A12.7 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 $A19.5 billion at 30 September 2018 increased 31% from $A14.9 billion at 31 March 2018 mainly due to an increase in long equity positions
- Loan assets of $A75.4 billion at 30 September 2018 increased 4% from $A72.3 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. This was partially offset by a decrease of 5% in CAF's loan and finance lease portfolio to $A22.9 billion at 30 September 2018 from $A24.1 billion at 31 March 2018 primarily due to repayments in Principal Finance and Vehicles portfolios
- Other assets of $A18.5 billion at 30 September 2018 increased 6% from $A17.4 billion at 31 March 2018 mainly due to an increase in unsettled trade balances in CGM
- Receivables from financial institutions of $A34.9 billion at 30 September 2018 decreased 5% from $A36.6 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 $A5.2 billion at 30 September 2018 decreased 10% from $A5.7 billion at 31 March 2018 mainly due to the disposal of investments held as part of Treasury's liquidity management activities.

Total liabilities

AS AT		
30 Sep 18 $Ab	31 Mar 18 $Ab	
171.8	160.1	↑ 7% on 31 Mar 18

Total liabilities of $A171.8 billion at 30 September 2018 increased 7% from $A160.1 billion at 31 March 2018 mainly driven by an increase in Derivative liabilities, Deposits, Payables to financial institutions and Other liabilities. These increases were partially offset by a decrease in Debt issued and Trading liabilities.

- Derivative liabilities of $A18.0 billion at 30 September 2018 increased 53% from $A11.8 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 $A13.7 billion at 30 September 2018 increased 29% from $A10.6 billion at 31 March 2018 mainly due to debt restructuring for Macquarie Air Finance in CAF
- 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 $A23.7 billion at 30 September 2018 increased 13% from $A21.1 billion at 31 March 2018 mainly due to an increase in unsettled trade balances and call margin money in CGM
- Debt issued of $A36.7 billion at 30 September 2018 decreased 12% from $A41.5 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 $A7.0 billion at 30 September 2018 decreased 12% from $A7.9 billion at 31 March 2018 mainly due to a decrease in short listed equity positions.

Total equity

AS AT		
30 Sep 18 $Ab	31 Mar 18 $Ab	
13.0	13.1	Broadly in line with 31 Mar 18

Total equity of $A13.0 billion at 30 September 2018 decreased from $A13.1 billion at 31 March 2018 due to the payment of the FY2018 final dividend and the impact on opening retained earnings on the adoption of AASB 9. This was partially offset by retained earnings generated for the half-year ended 30 September 2018.

Funding

Macquarie Bank'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.

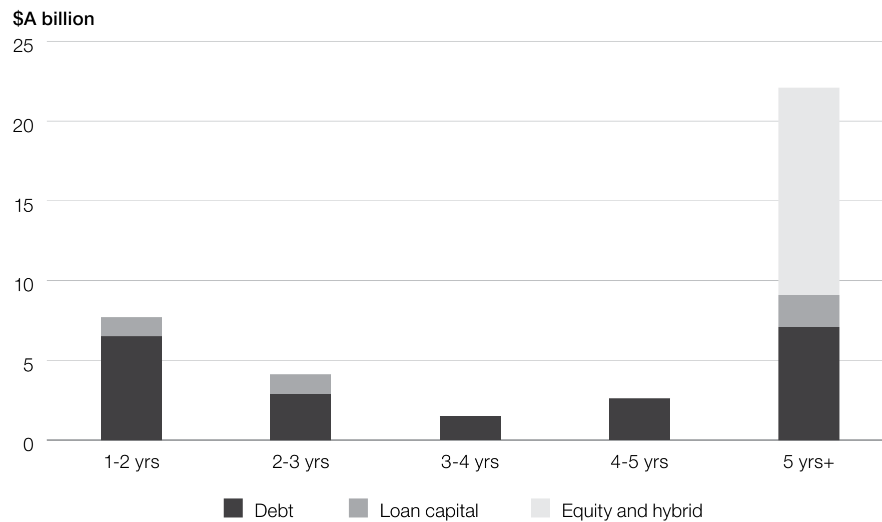
Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding, and securitisations) was 4.1 years at 30 September 2018.

4.1 years

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

Term funding profile

Detail of drawn term funding maturing beyond one year



Macquarie Bank 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 Bank 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:

		Total $Ab
Issued paper	Senior and subordinated	0.5
Total		**0.5**

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

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

Capital

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, with at least 7.0% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110[1]. 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[2].

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 30 September 2018:

Bank Group Basell III ratios as at 30 September 2018	Harmonised Basel III[3]	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 Bank, refer to section 6.0 Capital of the Management Discussion and Analysis available at **macq.co/1H19MDA**

(1) Based on materiality, the countercyclical capital buffer (CCyB) of ~6bps has not been included.
(2) 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.
(3) 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.

Business strategy

Consistent with our *What We Stand For* principles, Macquarie Bank adopts a business strategy focused on the medium-term. It is consistent with the Macquarie Group business strategy and approach. Key aspects include:

Risk Management Approach

Adopting a conservative approach to risk management. Macquarie Bank's robust risk management framework is embedded across all Bank Group entities.

This equips the business for unanticipated disruptions and ensures that both the relevant business and Macquarie Bank can survive a worst-case outcome from any new or existing activity.

Strong Balance Sheet

Maintaining a strong and conservative balance sheet.

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

We continue to pursue its 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 Bank has dynamically developed its annuity-style businesses, providing steady returns to the business and our shareholders, and stability to clients.

Diversification

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

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

Proven Expertise

Utilising proven deep expertise has allowed Macquarie Bank 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 our 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.

What We Stand For

Opportunity

Accountability

Integrity

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

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

EVENTS AFTER THE REPORTING DATE

There were no material events subsequent to 30 September 2018 that have not been reflected in the financial statements.

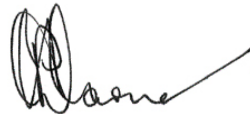
INTERIM DIVIDEND

The Directors have resolved that no dividend will be paid for the half-year ended 30 September 2018.

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

Mary Reemst
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 Bank 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 Bank Limited and the entities it controlled during the period.

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
2 November 2018

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

PricewaterhouseCoopers, ABN 52 780 433 757

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2 FINANCIAL REPORT

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

	Notes	**Half-year to 30 Sep 18[1] $m**	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
Interest and similar income	2	**2,512**	2,302	2,317
Interest and similar expense	2	**(1,428)**	(1,316)	(1,285)
Net interest income		**1,084**	986	1,032
Fee and commission income	2	**573**	441	449
Net trading income	2	**1,143**	1,076	805
Net operating lease income	2	**460**	468	469
Share of net profits of associates and joint ventures	2	**11**	13	9
Other operating income and charges	2	**(29)**	325	90
Net operating income		**3,242**	3,309	2,854
Employment expenses	2	**(766)**	(722)	(765)
Brokerage, commission and trading-related expenses	2	**(392)**	(303)	(316)
Occupancy expenses	2	**(58)**	(69)	(55)
Non-salary technology expenses	2	**(83)**	(68)	(65)
Other operating expenses	2	**(877)**	(849)	(798)
Total operating expenses		**(2,176)**	(2,011)	(1,999)
Operating profit before income tax		**1,066**	1,298	855
Income tax expense	4	**(320)**	(363)	(207)
Profit after income tax		**746**	935	648
(Profit)/loss attributable to non-controlling interests		**(4)**	(4)	3
Profit attributable to equity holders of Macquarie Bank Limited		**742**	931	651
Distributions paid or provided for on:				
Macquarie Income Securities	5	**(7)**	(7)	(7)
Profit attributable to the ordinary equity holder of Macquarie Bank Limited		**735**	924	644

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.

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

	Notes	Half-year to 30 Sep 18[1] $m	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
Profit after income tax		**746**	935	648
Other comprehensive income/(loss)[2]:				
Movements in items that may be subsequently reclassified to the income statement:				
Fair value through other comprehensive income (FVOCI) reserve[3]:				
Revaluation losses recognised in other comprehensive income	15	**(5)**	(31)	(2)
Changes in allowance for expected credit losses	15	**1**	–	–
Transferred to income statement on:				
Impairment	15	**–**	8	4
Sale or reclassification	15	**–**	(14)	(66)
Cash flow hedges, net movement recognised in OCI	15	**29**	43	34
Share of other comprehensive loss of associates and joint ventures	15	**(1)**	(1)	–
Exchange differences on translation and hedge of foreign operations		**256**	163	(31)
Movements in items that will not be subsequently reclassified to income statement:				
Fair value (loss)/gain attributable to own credit risk on debt that is subsequently measured at fair value through profit or loss	15	**(12)**	40	(3)
Total other comprehensive income/(loss)		**268**	208	(64)
Total comprehensive income		**1,014**	1,143	584
Total comprehensive (income)/loss attributable to non-controlling interests		**(5)**	(7)	3
Total comprehensive income attributable to Macquarie Income Securities		**(7)**	(7)	(7)
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited		**1,002**	1,129	580

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.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018

	Notes	As at 30 Sep 18[1] $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
Assets				
Receivables from financial institutions		**34,941**	36,629	38,360
Trading assets	6	**19,514**	14,894	18,179
Derivative assets		**17,901**	12,695	12,161
Other assets	7	**18,486**	17,437	16,228
Financial investments	8	**5,160**	5,733	4,323
Loan assets	9	**75,365**	72,289	69,218
Due from related body corporate entities		**1,414**	1,383	1,075
Property, plant and equipment		**10,917**	11,074	10,673
Interests in associates and joint ventures		**752**	727	579
Intangible assets		**198**	214	242
Deferred tax assets		**231**	143	179
Total assets		**184,879**	173,218	171,217
Liabilities				
Trading liabilities	11	**7,019**	7,938	7,209
Derivative liabilities		**18,046**	11,788	10,663
Deposits		**52,576**	48,371	49,316
Other liabilities	12	**23,699**	21,056	20,148
Payables to financial institutions		**13,688**	10,603	14,075
Due to related body corporate entities		**15,243**	13,993	5,101
Debt issued	13	**36,703**	41,524	47,437
Deferred tax liabilities		**492**	586	461
Total liabilities excluding loan capital		**167,466**	155,859	154,410
Loan capital		**4,366**	4,256	4,246
Total liabilities		**171,832**	160,115	158,656
Net assets		**13,047**	13,103	12,561
Equity				
Contributed equity	14	**9,937**	9,928	9,915
Reserves	15	**757**	477	312
Retained earnings	15	**2,345**	2,686	2,329
Total capital and reserves attributable to the equity holders of Macquarie Bank Limited		**13,039**	**13,091**	**12,556**
Non-controlling interests	15	**8**	12	5
Total equity		**13,047**	13,103	12,561

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.

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		9,911	373	2,296	12,580	8	12,588
Profit/(loss) after income tax		–	–	651	651	(3)	648
Other comprehensive (loss), net of tax		–	(61)	(3)	(64)	–	(64)
Total comprehensive (loss)/income		–	(61)	648	587	(3)	584
Transactions with equity holders:							
Dividends and distributions paid or provided for	5,15	–	–	(614)	(614)	–	(614)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(1)	(1)	(1)	(2)
Dividends and distributions paid or provided for		–	–	–	–	1	1
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	14	4	–	–	4	–	4
		4	–	(615)	(611)	–	(611)
Balance as at 30 September 2017		9,915	312	2,329	12,556	5	12,561
Profit after income tax		–	–	931	931	4	935
Other comprehensive income, net of tax		–	165	40	205	3	208
Total comprehensive income		–	165	971	1,136	7	1,143
Transactions with equity holders:							
Dividends and distributions paid or provided for	5,15	–	–	(610)	(610)	–	(610)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(4)	(4)	1	(3)
Dividends and distributions paid or provided for		–	–	–	–	(1)	(1)
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	14	13	–	–	13	–	13
		13	–	(614)	(601)	–	(601)
Balance as at 31 March 2018		9,928	477	2,686	13,091	12	13,103
Change on initial application of AASB 9		–	1	(141)	(140)	–	(140)
Restated balance as at 1 April 2018		**9,928**	**478**	**2,545**	**12,951**	**12**	**12,963**
Profit after income tax		**–**	**–**	**742**	**742**	**4**	**746**
Other comprehensive income/(loss), net of tax		**–**	**279**	**(12)**	**267**	**1**	**268**
Total comprehensive income		**–**	**279**	**730**	**1,008**	**5**	**1,014**
Transactions with equity holders:							
Dividends and distributions paid or provided for	5,15	**–**	**–**	**(931)**	**(931)**	**–**	**(931)**
Non-controlling interests:							
Changes in non-controlling ownership interests		**–**	**–**	**1**	**1**	**(1)**	**–**
Dividends and distributions paid or provided for		**–**	**–**	**–**	**–**	**(8)**	**(8)**
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	14	**9**	**–**	**–**	**9**	**–**	**9**
		9	**–**	**(930)**	**(921)**	**(9)**	**(930)**
Balance as at 30 September 2018		**9,937**	**757**	**2,345**	**13,039**	**8**	**13,047**

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[(1)] $m**	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
Cash flows generated from/(utilised in) operating activities				
Interest and similar income received		**2,516**	2,301	2,327
Interest and similar expense paid		**(1,422)**	(1,296)	(1,316)
Fees and other non-interest income received		**560**	537	489
Fees and commissions paid		**(328)**	(402)	(294)
Operating lease income received		**1,109**	985	870
Dividends and distributions received		**1**	17	9
Employment expenses paid		**(874)**	(498)	(820)
Operating expenses paid		**(1,020)**	(988)	(812)
Income tax paid		**(118)**	(34)	(65)
Changes in operating assets and liabilities:				
Net change in trading related assets and liabilities		**4,172**	5,417	(1,018)
Net loan assets granted		**(2,264)**	5,413	(2,710)
Net payments for assets under operating lease		**(557)**	(675)	(531)
Net increase/(decrease) in deposits		**4,200**	(1,210)	1,874
Net increase/(decrease) in payables to financial institutions		**1,557**	700	(1,650)
Net (decrease)/increase in debt issued		**(5,897)**	(6,256)	2,342
Net change in other assets and liabilities		**(106)**	20	(65)
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	16	**1,528**	4,028	(1,362)
Cash flows generated from/(utilised in) investing activities				
Net proceeds from/(payments for) financial investments		**1,103**	(1,164)	1,361
Proceeds from the disposal of or capital return from associates, subsidiaries and businesses, net of cash deconsolidated		**495**	202	22
Payments for the acquisition of associates, or capital contribution, subsidiaries and businesses, net of cash acquired		**(17)**	(78)	(195)
Proceeds from the disposal of property, plant and equipment, and intangible assets		**–**	35	–
Payments for the acquisition of property, plant and equipment and intangible assets		**(108)**	(64)	(45)
Net cash flows generated from/(utilised in) investing activities		**1,473**	(1,069)	1,143
Cash flows utilised in financing activities				
Payments for non-controlling interests		**(8)**	–	–
Payments on redemption of loan capital		**–**	–	(330)
Dividends and distributions paid		**(931)**	(610)	(614)
Net cash flows utilised in financing activities		**(939)**	(610)	(944)
Net increase/(decrease) in cash and cash equivalents		**2,062**	2,349	(1,163)
Cash and cash equivalents at the beginning of the period		**11,350**	9,001	10,164
Cash and cash equivalents at the end of the period	16	**13,412**	11,350	9,001

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 Bank Limited (MBL or the Company) and the entities it controlled at the end of, or during, the period (the Consolidated Entity).

This interim set of financial statements does not include all the 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 ($A) 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 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 which 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) assets 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 assets. 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 asset. 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 asset. A schedule of current operating lease commitments is disclosed in Note 33 of the annual financial report for the year ended 31 March 2018.

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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 International Accounting Standards Board (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 develop its 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 Financial instruments

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 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.

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NOTE 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

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 both in 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.

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 a reserve account 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 financial assets 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 are evaluated and reported to the Consolidated Entity's key management personnel;

(ii) the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; 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 it is instead recognised as retained earnings. If a mismatch is created or enlarged, the change in fair value (due to the Consolidated Entity's credit risk) is 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, and 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 there has been an increase in credit risk but for which the credit risk is considered to be low, ECL is determined based on the probability of default (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.

NOTE 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

(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.

(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 which 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 exposures 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, a newly recognised financial asset is assessed to determine whether it is 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 hedging 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 achieve 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 material relates to AASB 9's ECL requirements has reduced the Consolidated Entity's shareholders' equity by $142 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.

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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 is considered only to aligns the presentation of similar financial instruments and therefore provides more information about 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 transition disclosures 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’s 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.

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	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
Assets					
Receivables from financial institutions[(A)]	Amortised cost	**36,629**	–	**36,629**	(16,083)
		–	–	**–**	16,083
Trading assets	FVTPL	**14,894**	–	**14,894**	–
Derivative assets	FVTPL	**12,695**	–	**12,695**	–
Financial investments[(1),(2),(B)]	Available for sale	**–**	5,322	**5,322**	(191)
	FVTPL (designated)	**–**	411	**411**	(339)
		–	–	**–**	530
Investment securities available for sale[(1)]	Available for sale	**5,322**	(5,322)	**–**	–
Other assets[(2),(3),(C)]	Amortised cost	**6,839**	8,007	**14,846**	(254)
	FVTPL	**648**	–	**648**	254
	FVTPL (designated)	**–**	143	**143**	–
	Non financial asset	**1,800**	–	**1,800**	–
Loan assets[(2),(3),(D),(E)]	Amortised cost	**80,143**	(8,007)	**72,136**	(793)
	FVTPL (designated)	**–**	153	**153**	–
		–	–	**–**	672
		–	–	**–**	121
Other financial assets at fair value through profit or loss[(2)]	FVTPL (designated)	**707**	(707)	**–**	–
Due from related body corporate entities	Amortised cost	**1,383**	–	**1,383**	–
Property, plant and equipment	Non financial asset	**11,074**	–	**11,074**	–
Interests in associates and joint ventures – equity	Non financial asset	**713**	–	**713**	–
Interests in associates and joint ventures – loans[(F)]	Amortised cost	**14**	–	**14**	(4)
		–	–	**–**	4
Intangible assets	Non financial asset	**214**	–	**214**	–
Investments in subsidiaries	Non financial asset	**–**	–	**–**	–
Deferred tax assets	Non financial asset	**143**	–	**143**	–
Total assets		**173,218**	**–**	**173,218**	**–**
Liabilities					
Trading liabilities	FVTPL	**7,938**	–	**7,938**	–
Derivative liabilities	FVTPL	**11,788**	–	**11,788**	–
Deposits[(3)]	Amortised cost	**59,379**	(11,008)	**48,371**	–
Other liabilities[(3),(4)]	Amortised cost	**5,326**	12,058	**17,384**	–
	FVTPL (designated)	**640**	153	**793**	–
	Non financial liability	**2,879**	–	**2,879**	–
Payables to financial institutions[(3),(A)]	Amortised cost	**11,653**	(1,050)	**10,603**	(2,522)
		–	–	**–**	2,522
Due to related body corporate entities	Amortised cost	**13,993**	–	**13,993**	–
Debt issued[(4)]	Amortised cost	**39,685**	–	**39,685**	–
	FVTPL (designated)	**–**	1,839	**1,839**	–
Other debt issued at fair value through profit or loss[(4)]	FVTPL (designated)	**1,992**	(1,992)	**–**	–
Deferred tax liabilities	Non financial liability	**586**	–	**586**	–
Total liabilities excluding loan capital		**155,859**	**–**	**155,859**	**–**
Loan capital	Amortised cost	**4,256**	–	**4,256**	–
Total liabilities		**160,115**	**–**	**160,115**	**–**
Net assets		**13,103**	–	**13,103**	–
Equity					
Contributed equity		**9,928**	–	**9,928**	–
Reserves		**477**	–	**477**	–
Retained earnings		**2,686**	–	**2,686**	–
Total capital and reserves attributable to ordinary equity holders of Macquarie Bank Limited		**13,091**	**–**	**13,091**	**–**
Non-controlling interests		**12**	–	**12**	–
Total equity		**13,103**	**–**	**13,103**	**–**

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
–	–	–	**–**	**20,546**	20,546	–	–	–	–
–	–	–	**–**	**16,083**	–	–	16,083	–	–
–	–	–	**–**	**14,894**	–	14,894	–	–	–
–	–	–	**–**	**12,695**	–	12,695	–	–	–
–	–	–	**–**	**5,131**	–	–	–	–	5,131
–	–	–	**–**	**72**	–	–	–	72	–
–	–	–	**–**	**530**	–	–	530	–	–
–	–	–	**–**	**–**	–	–	–	–	–
–	(16)	–	**(16)**	**14,576**	14,576	–	–	–	–
–	–	–	**–**	**902**	–	–	902	–	–
–	–	–	**–**	**143**	–	–	–	143	–
–	–	–	**–**	**1,800**	–	–	–	–	–
–	(170)	–	**(170)**	**71,173**	71,173	–	–	–	–
–	–	–	**–**	**153**	–	–	–	153	–
–	–	–	**–**	**672**	–	–	672	–	–
–	–	–	**–**	**121**	–	–	–	–	121
–	–	–	**–**	**–**	–	–	–	–	–
–	(1)	–	**(1)**	**1,382**	1,382	–	–	–	–
–	–	–	**–**	**11,074**	–	–	–	–	–
–	–	–	**–**	**713**	–	–	–	–	–
–	–	–	**–**	**10**	10	–	–	–	–
–	–	–	**–**	**4**	–	–	4	–	–
–	–	–	**–**	**214**	–	–	–	–	–
–	–	–	**–**	**–**	–	–	–	–	–
–	–	59	**59**	**202**	–	–	–	–	–
–	**(187)**	**59**	**(128)**	**173,090**	**107,687**	**27,589**	**18,191**	**368**	**5,252**
–	–	–	**–**	**7,938**	–	7,938	–	–	–
–	–	–	**–**	**11,788**	–	11,788	–	–	–
–	–	–	**–**	**48,371**	48,371	–	–	–	–
–	12	–	**12**	**17,396**	17,396	–	–	–	–
–	–	–	**–**	**793**	–	–	–	793	–
–	–	–	**–**	**2,879**	–	–	–	–	–
–	–	–	**–**	**8,081**	8,081	–	–	–	–
–	–	–	**–**	**2,522**	–	–	–	2,522	–
–	–	–	**–**	**13,993**	13,993	–	–	–	–
–	–	–	**–**	**39,685**	39,685	–	–	–	–
–	–	–	**–**	**1,839**	–	–	–	1,839	–
–	–	–	**–**	**–**	–	–	–	–	–
–	–	–	**–**	**586**	–	–	–	–	–
–	**12**	**–**	**12**	**155,871**	**127,526**	**19,726**	**–**	**5,154**	**–**
–	–	–	**–**	**4,256**	4,256	–	–	–	–
–	**12**	**–**	**12**	**160,127**	**131,782**	**19,726**	**–**	**5,154**	**–**
–	(199)	59	**(140)**	**12,963**					
–	–	–	**–**	**9,928**					
(4)	4	1	**1**	**478**					
4	(203)	58	**(141)**	**2,545**					
–	**(199)**	**59**	**(140)**	**12,951**					
–	–	–	**–**	**12**					
–	**(199)**	**59**	**(140)**	**12,963**					

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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 financial assets and liabilities in order to better reflect the nature of the underlying assets and liabilities:

(1) Available for sale debt and equity securities of (March 2018: $5,322 million; September 2017: $3,909 million) were re-presented to be included within 'Financial investments'.

(2) Debt and equity securities (March 2018: $707 million; September 2017: $692 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: $411 million; September 2017: $414 million), 'Loan assets' (March 2018: $153 million; September 2017: $138 million) and 'Other assets' (March 2018: $143 million; September 2017: $140 million).

(3) Margin placed (March 2018: $8,007 million; September 2017: $6,753 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: $11,008 million; September 2017: $9,671 million) and margin received that was previously 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'.

(4) 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: $1,839 million; September 2017: $1,789 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 costs 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 $191 million and as FVTPL (designated) of $339 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 of $672 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.

(E) Loans of $121 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.

(F) Loans to associates and joint ventures of $4 million were reclassified to FVTPL on adoption of AASB 9 as such assets are managed on a fair value basis.

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[1] $m	Adjusted in fair value at transition date[2] $m	ECL allowance under AASB 9 $m
Other assets	Amortised cost	Amortised cost	22	–	16	–	**38**
Loan assets	Amortised cost	Amortised cost	367	(37)	170	–	500
		FVTPL	–	37	–	(37)	–
		FVOCI	–	–	4	–	4
							504
Due from related body corporate entities	Amortised cost	Amortised cost	–	–	1	–	1
Interests in associates and joint ventures – loans	Amortised cost	Amortised cost	2	(1)	–	–	1
		FVTPL	–	1	–	(1)	–
							1
Undrawn commitments and financial guarantees			–	–	12	–	12
Total expected credit loss allowance			**391**	**–**	**203**	**(38)**	**556**

(1) The ECL movement on loan assets of $174 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.

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NOTE 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

(b) AASB 15 – *Revenue from Contracts with Customers*

AASB 15 replace 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 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 loses, 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; 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.

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.

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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NOTE 2

Operating profit before income tax

	Half-year to 30 Sep 18 $m	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
Net interest income			
Interest and similar income[1]	2,512	2,302	2,317
Interest and similar expense[2]	(1,428)	(1,316)	(1,285)
Net interest income	1,084	986	1,032
Fee and commission income			
Brokerage and commissions	206	185	184
Portfolio administration fee	142	140	134
Lending and securitisation fees	70	68	69
Other fee and commission income	155	48	62
Total fee and commission income[3]	573	441	449
Net trading income[4]			
Equities	171	204	269
Commodities[5]	794	767	378
Credit, interest rate and foreign exchange products	178	105	158
Net trading income	1,143	1,076	805
Net operating lease income			
Rental income[6]	1,100	1,013	909
Depreciation on operating lease assets	(640)	(545)	(440)
Net operating lease income	460	468	469
Share of net profits of associates and joint ventures	11	13	9

(1) Includes interest income calculated using the EIR method of $2,097 million (half-year to 31 March 2018: $2,012 million; half-year to 30 September 2017: $2,058 million) on financial assets that are measured at amortised cost and $114 million (half-year to 31 March 2018: $72 million; half-year to 30 September 2017: $60 million) on financial assets measured at FVOCI.

(2) Includes interest expense of $1,342 million (half-year to 31 March 2018: $1,259 million; half-year to 30 September 2017: $1,244 million) on financial liabilities that are measured at amortised cost.

(3) Upon adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of $77 million and certain recoverable costs of $36 million previously recognised net of associated revenue have been reclassified to fee and commission expenses and other expenses respectively. Prior period comparatives were not reclassified.

(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk where hedge accounting requirements are not met.

(5) Includes $177 million (half-year to 31 March 2018: $250 million; half-year to 30 September 2017: $114 million) of transportation and storage costs.

(6) 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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	Half-year to 30 Sep 18 $m	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
NOTE 2			
Operating profit before income tax continued			
Other operating income and charges			
Investment income			
Net gain on equity investments[1]	**25**	22	13
Net gain on debt investments[2]	**1**	46	2
Net gain on sale of interests in associates and joint ventures	**–**	26	1
Net gain on change of control, joint control or/and significant influence and reclassifications to/from held for sale	**3**	101	67
Total investment income	**29**	195	83
Credit impairment (charges)/reversal[3]			
Loan assets[4]	**(55)**	(20)	(65)
Other assets	**(1)**	(7)	(1)
Undrawn commitments and financial guarantees	**2**	–	–
Recovery of exposures previously written off	**10**	48	26
Total credit impairment (charges)/reversal	**(44)**	21	(40)
Other impairments charges			
Equity investment securities available for sale	**–**	(10)	(6)
Interests in associates and joint ventures	**–**	(3)	(5)
Intangible assets and other non-financial assets	**(2)**	(10)	(16)
Total other impairment charges	**(2)**	(23)	(27)
(Charges)/other income	**(12)**	132	74
Total other operating income and charges	**(29)**	325	90
Net operating income	**3,242**	3,309	2,854

(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 gains and losses on sale of and dividend income from available for sale investments (half-year to 31 March 2018: $22 million; half-year to 30 September 2017: $13 million).
(2) Half-year to 31 March 2018 primarily includes gain on sale of debt investments DFVTPL.
(3) 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.
(4) Prior comparative period impairment charges includes loan assets written off (half-year to 31 March 2018: $67 million; half-year to 30 September 2017: $67 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
NOTE 2			
Operating profit before income tax continued			
Employment expenses			
Salary and related costs including commissions, superannuation and performance-related profit share	**(673)**	(654)	(677)
Share-based payments	**(90)**	(68)	(84)
Provision for long service leave and annual leave	**(3)**	–	(4)
Total employment expenses	**(766)**	(722)	(765)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(261)**	(248)	(262)
Other fee and commission expenses[1]	**(131)**	(55)	(54)
Total brokerage, commission and trading-related expenses	**(392)**	(303)	(316)
Occupancy expenses			
Operating lease rentals	**(5)**	(5)	(4)
Depreciation: buildings, furniture, fittings and leasehold improvements	**(2)**	(2)	(1)
Other occupancy expenses	**(51)**	(62)	(50)
Total occupancy expenses	**(58)**	(69)	(55)
Non-salary technology expenses			
Information services	**(40)**	(35)	(38)
Depreciation: equipment	**(2)**	(1)	(2)
Service provider and other non-salary technology expenses	**(41)**	(32)	(25)
Total non-salary technology expenses	**(83)**	(68)	(65)
Other operating expenses			
Professional fees	**(74)**	(100)	(89)
Travel and entertainment expenses	**(28)**	(28)	(26)
Advertising and promotional expenses	**(11)**	(7)	(12)
Amortisation of intangible assets	**(10)**	(11)	(10)
Auditor's remuneration	**(12)**	(11)	(11)
Communication expenses	**(6)**	(7)	(8)
Depreciation: infrastructure assets	**(6)**	(7)	(7)
Other expenses[1],[2]	**(730)**	(678)	(635)
Total other operating expenses	**(877)**	(849)	(798)
Total operating expenses	**(2,176)**	(2,011)	(1,999)
Operating profit before income tax	**1,066**	1,298	855

(1) Upon adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of $77 million and certain recoverable costs of $36 million previously recognised net of associated revenue have been reclassified to fee and commission expenses and other expenses respectively. Prior period comparatives were not reclassified.

(2) Other expenses include service cost recoveries from Consolidated Entity's related body corporate entity, Macquarie Group Services Australia Pty Limited (MGSA)

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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 four 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** offers a range of investment solutions for its fiduciary clients within the infrastructure debt sector. In addition, MAM 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
- **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.

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

In certain cases, Operating Groups may source funding directly from external sources – typically where the funding is secured 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 appropriate.

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 Group's Chief Executive Officer or Chief Financial Officer (CFO). There is a requirement for accounting symmetry in such transactions.

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

Accounting for derivatives that economically hedge interest rate risk

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

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Segment reporting continued

Central service groups

Central service groups recover their costs from Operating Groups on either a time and effort allocation basis or a fee for service basis. Central service groups include 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 or charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on aggregation.

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NOTE 3

Operating segments continued

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment.

	Macquarie Asset Management $m	Corporate and Asset Finance $m	Banking and financial services $m	**Annuity-style businesses $m**
Net interest and trading income	59	192	634	**885**
Fee and commission income/(expense)	19	22	235	**276**
Net operating lease income	1	458	–	**459**
Share of net profits/(losses) of associates and joint ventures	–	2	(1)	**1**
Other operating income and charges				
Credit and other impairment charges	(1)	(13)	(9)	**(23)**
Other operating income and charges	5	87	1	**93**
Internal management revenue/(charge)	–	4	2	**6**
Net operating income	83	752	862	**1,697**
Total operating expenses	(51)	(317)	(567)	**(935)**
Operating profit/(loss) before income tax	32	435	295	**762**
Income tax expense	–	–	–	**–**
Profit/(loss) after income tax	32	435	295	**762**
Profit attributable to non-controlling interests	–	(3)	–	**(3)**
Profit/(loss) attributable to equity holders	32	432	295	**759**
Distributions paid or provided for on MIS	–	–	–	**–**
Net profit/(loss) attributable to ordinary equity holders	**32**	**432**	**295**	**759**
Reportable segment assets	**3,107**	**35,330**	**46,008**	**84,445**
Net interest and trading income	48	239	598	**885**
Fee and commission income/(expense)	22	20	230	**272**
Net operating lease income	2	464	–	**466**
Share of net (losses)/profits of associates and joint ventures	–	(3)	3	**–**
Other operating income and charges				
Credit and other impairment (charges)/reversal	(1)	(16)	(18)	**(35)**
Other operating income and charges	58	246	7	**311**
Internal management revenue/(charge)	8	3	–	**11**
Net operating income	137	953	820	**1,910**
Total operating expenses	(64)	(366)	(547)	**(977)**
Operating profit/(loss) before income tax	73	587	273	**933**
Income tax expense	–	–	–	**–**
Profit/(loss) after income tax	73	587	273	**933**
Profit attributable to non-controlling interests	–	(4)	–	**(4)**
Profit/(loss) attributable to equity holders	73	583	273	**929**
Distributions paid or provided for on MIS	–	–	–	**–**
Net profit/(loss) attributable to ordinary equity holders	**73**	**583**	**273**	**929**
Reportable segment assets	**3,279**	**36,690**	**42,318**	**82,287**
Net interest and trading income	60	330	584	**974**
Fee and commission income/(expense)	43	23	233	**299**
Net operating lease income	1	465	–	**466**
Share of net profits of associates and joint ventures	–	–	–	**–**
Other operating income and charges				
Credit and other impairment reversal/(charges)	1	1	(8)	**(6)**
Other operating income and charges	48	105	6	**159**
Internal management revenue/(charge)	–	1	3	**4**
Net operating income/(charge)	153	925	818	**1,896**
Total operating expenses	(83)	(310)	(534)	**(927)**
Operating profit/(loss) before income tax	70	615	284	**969**
Income tax expense	–	–	–	**–**
Profit/(loss) after income tax	70	615	284	**969**
Loss attributable to non-controlling interests	–	–	–	**–**
Profit/(loss) attributable to equity holders	70	615	284	**969**
Distributions paid or provided for on MIS	–	–	–	**–**
Net profit/(loss) attributable to ordinary equity holders	**70**	**615**	**284**	**969**
Reportable segment assets	**2,857**	**37,247**	**39,277**	**79,381**

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Commodities and Global Markets $m	**Capital markets facing businesses $m**	Corporate $m	**Total $m**
			Half-year to 30 September 2018
1,174	**1,174**	168	**2,227**
305	**305**	(8)	**573**
–	**–**	1	**460**
10	**10**	–	**11**
(19)	**(19)**	(4)	**(46)**
1	**1**	(77)	**17**
2	**2**	(8)	**–**
1,473	**1,473**	72	**3,242**
(823)	**(823)**	(418)	**(2,176)**
650	**650**	(346)	**1,066**
–	**–**	(320)	**(320)**
650	**650**	(666)	**746**
–	**–**	(1)	**(4)**
650	**650**	(667)	**742**
–	**–**	(7)	**(7)**
650	**650**	**(674)**	**735**
92,407	**92,407**	**8,027**	**184,879**
			Half-year to 31 March 2018
1,052	**1,052**	125	**2,062**
208	**208**	(39)	**441**
–	**–**	2	**468**
14	**14**	(1)	**13**
(34)	**(34)**	67	**(2)**
30	**30**	(14)	**327**
(1)	**(1)**	(10)	**–**
1,269	**1,269**	130	**3,309**
(722)	**(722)**	(312)	**(2,011)**
547	**547**	(182)	**1,298**
–	**–**	(363)	**(363)**
547	**547**	(545)	**935**
–	**–**	–	**(4)**
547	**547**	(545)	**931**
–	**–**	(7)	**(7)**
547	**547**	**(552)**	**924**
84,047	**84,047**	**6,884**	**173,218**
			Half-year to 30 September 2017
822	**822**	41	**1,837**
182	**182**	(32)	**449**
–	**–**	3	**469**
8	**8**	1	**9**
(56)	**(56)**	(5)	**(67)**
15	**15**	(17)	**157**
5	**5**	(9)	**–**
976	**976**	(18)	**2,854**
(657)	**(657)**	(415)	**(1,999)**
319	**319**	(433)	**855**
–	**–**	(207)	**(207)**
319	**319**	(640)	**648**
–	**–**	3	**3**
319	**319**	(637)	**651**
–	**–**	(7)	**(7)**
319	**319**	**(644)**	**644**
84,019	**84,019**	**7,817**	**171,217**

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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	**Capital markets facing businesses $m**	Corporate $m	**Total $m**
Fee and commission income								Half-year to 30 September 2018
Brokerage and commissions	–	–	38	**38**	168	**168**	–	**206**
Portfolio administration fee	19	–	122	**141**	1	**1**	–	**142**
Lending and securitisation fees	–	2	66	**68**	2	**2**	–	**70**
Other fee and commission income	–	20	9	**29**	134	**134**	(8)	**155**
Total fee and commission income	**19**	**22**	**235**	**276**	**305**	**305**	**(8)**	**573**
Fee and commission income								Half-year to 31 March 2018
Brokerage and commissions	–	–	40	**40**	145	**145**	–	**185**
Portfolio administration fee	19	–	120	**139**	1	**1**	–	**140**
Lending and securitisation fees	–	2	62	**64**	4	**4**	–	**68**
Other fee and commission income	3	18	8	**29**	58	**58**	(39)	**48**
Total fee and commission income	**22**	**20**	**230**	**272**	**208**	**208**	**(39)**	**441**
Fee and commission income								Half-year to 30 September 2017
Brokerage and commissions	–	–	42	**42**	142	**142**	–	**184**
Portfolio administration fee	20	–	113	**133**	1	**1**	–	**134**
Lending and securitisation fees	–	2	63	**65**	4	**4**	–	**69**
Other fee and commission income	23	21	15	**59**	35	**35**	(32)	**62**
Total fee and commission income	**43**	**23**	**233**	**299**	**182**	**182**	**(32)**	**449**

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:** manufacture and distribution of fund management products
- **Capital Markets:** underwriting, facilitation and broking.

	Half-year to 30 Sep 18 $m	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
Revenues from external customers			
Lending	3,083	3,163	2,906
Financial Markets	2,183	1,953	1,522
Asset and Wealth Management	202	224	286
Capital Markets	68	49	53
Total revenue from external customers[1]	5,536	5,389	4,767

(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 on where the transactions have been booked. 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
Revenues from external customers			
Australia	2,665	2,332	2,281
Europe, Middle East and Africa[1]	1,494	1,488	1,421
Americas[2]	1,012	1,221	688
Asia Pacific	365	348	377
Total	5,536	5,389	4,767

(1) Includes external revenue generated in the United Kingdom of $1,139 million (half-year to 31 March 2018: $1,101 million; half-year to 30 September 2017: $1,071 million).
(2) Includes external revenue generated in the United States of America of $942 million (half-year to 31 March 2018: $1,127 million; half-year to 30 September 2017: $688 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
NOTE 4			
Income tax expense			
(i) Numerical reconciliation of income tax expense to *prima facie* tax payable			
Prima facie income tax expense on operating profit[1]	**(320)**	(389)	(257)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**14**	25	52
Other items	**(14)**	1	(2)
Total income tax expense	**(320)**	(363)	(207)
(ii) Tax benefit/(expense) relating to items of other comprehensive income			
Available for sale reserves	**–**	16	16
FVOCI reserve	**–**	–	–
Own credit risk	**5**	(17)	14
Cash flow hedges	**(2)**	(11)	(8)
Foreign currency translation reserves	**–**	(2)	1
Total tax benefit/(expense) relating to items of other comprehensive income	**3**	(14)	23

(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

NOTE 5

Dividends and distributions paid or provided for

(i) Dividends paid

Ordinary share capital			
Final dividend paid	**924**	–	607
Interim dividend paid	**–**	603	–
Total dividends paid (Note 15)	**924**	603	607

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

Since the end of the period, the Directors have resolved that no dividend will be paid for the half-year ended 30 September 2018.

(iii) Distributions paid or provided for

Macquarie Income Securities[1]	Half-year to 30 Sep 18 $m	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
Distributions paid (net of distributions previously provided for)	**4**	4	4
Distributions provided for	**3**	3	3
Total distributions paid or provided for (Note 15)	**7**	7	7
Total dividends and distributions paid or provided for	**931**	610	614

(1) Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Company. Refer to Note 14 – Contributed equity for further details on these instruments.

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	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
NOTE 6			
Trading assets			
Equities			
Listed	**9,062**	4,429	7,142
Unlisted	**28**	17	13
Debt securities			
Commonwealth and foreign government securities	**5,700**	5,846	5,997
Corporate loans and securities	**1,043**	798	910
Treasury notes	**762**	611	298
Other debt securities	**89**	697	213
Commodities	**2,830**	2,496	3,606
Total trading assets	**19,514**	14,894	18,179

NOTE 7

Other assets			
Margin placed	**8,217**	8,007	6,753
Security settlements	**4,159**	3,108	4,233
Commodity settlements	**2,690**	2,597	2,170
Other	**672**	972	581
Trading related assets	**15,738**	14,684	13,737
Debtors and prepayments[1]	**1,138**	1,340	1,061
Life investment linked contracts and other unitholder assets	**623**	648	679
Assets of disposal groups and interests in associates held for sale[2]	**605**	345	112
Income tax receivable	**199**	234	235
Other	**183**	186	404
Total other assets	**18,486**	17,437	16,228

(1) Includes $131 million (31 March 2018: $142 million, 30 September 2017: $132 million) of fee and commission receivables.
(2) 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.

NOTE 8

Financial investments			
Equities			
Listed	**35**	49	76
Unlisted	**231**	368	483
Debt investments[1]	**4,894**	5,316	3,764
Total financial investments[2]	**5,160**	5,733	4,323

(1) Represents fair value of the debt investments. ECL on debt investments measured at FVOCI 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 change in the classification of instruments previously included as the part of 'Investment securities available for sale' and 'other financial assets at fair value through profit or loss' to 'Financial investments'.

NOTE 9

Loan assets

	As at 30 Sep 18			As at 31 Mar 18			As at 30 Sep 17		
	Gross $m	ECL allowance[1] $m	Net $m	Gross $m	Individually assessed provisions for impairment[1] $m	Net $m	Gross $m	Individually assessed provisions for impairment[1] $m	Net $m
Mortgage[2]	**40,461**	**(52)**	**40,409**	36,937	(3)	36,934	33,996	(3)	33,993
Asset financing[2]	**18,620**	**(231)**	**18,389**	19,125	(41)	19,084	19,543	(60)	19,483
Corporate, commercial and other lending[3]	**14,952**	**(225)**	**14,727**	14,460	(76)	14,384	14,475	(289)	14,186
Investment lending[4]	**1,841**	**(1)**	**1,840**	2,134	–	2,134	1,902	(1)	1,901
Total loan assets before collective allowance for credit losses	**75,874**	**(509)**	**75,365**	72,656	(120)	72,536	69,916	(353)	69,563
Less: collective allowance for credit losses[1]			**–**			(247)			(345)
Total loan assets[3]			**75,365**			72,289			69,218

(1) The current period results reflect the adoption of AASB 9. The ECL relating to loan assets under AASB 9 are recorded under the 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 $372 million of loans measured at FVTPL and $175 millions of loans measured at DFVTPL which are not subject to ECL allowance under AASB 9. This also includes $94 million of loans measured at FVOCI on which an ECL allowance of $5 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 10 – 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
Individually assessed provisions for impairment		
Balance at the beginning of the period	353	357
Provided for during the period	41	50
Loan assets written off or sold, previously provided for	(264)	(47)
Recovery of loans previously provided for	(21)	(2)
Net transfer from collective provisions	5	–
Foreign exchange movements	6	(5)
Balance at the end of the period	120	353
Individually assessed provisions as a percentage of total gross loan assets	0.17%	0.50%
Collective allowance for credit losses		
Balance at the beginning of the period	345	396
Reversed during the period	(88)	(52)
Disposal during the period	(7)	–
Net transfer to individually assessed provisions	(5)	–
Foreign exchange movements	2	1
Balance at the end of the period	247	345

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NOTE 10

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 $202 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, the Consolidated Entity's 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.

NOTE 10

Expected credit losses continued

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).

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.

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NOTE 10

Expected credit losses continued

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, four 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	**Global:** The baseline scenario assumes current global economic performance is maintained throughout most of the forecast period. **Australia:** 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. **United States:** 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. **Europe:** Moderate growth forecasted for the forecast period, 10-year government bond yields increasing from 2020 and peaking in 2022 and levels of unemployment falling.
Upside	Possible	**Global:** Marginally higher growth in GDP over the baseline scenario during the forecast period. **Australia:** Marginally higher GDP over the baseline scenario during the forecast period. Following the RBA increasing the cash rate in 2019, house prices decline but recover during 2020 and end higher than current peak price levels. **United States:** 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. **Europe:** Marginally higher GDP over the baseline during the forecast period. 10-year government bond yields peak higher than the baseline in 2022 and the unemployment rate falling further than that forecasted in the baseline scenario.
Downside	Possible	**Globally:** Marginally lower growth in GDP over the baseline through to 2022. **Australia:** 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. **United States:** 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. **Europe:** Low levels of GDP growth through to 2022, 10-year government bond yields remaining close to current levels and rising unemployment rates.
More Severe Downside	Unlikely	**Globally:** A recession from 2019-2020 following a marked retraction in GDP growth before recovering in 2021. **Australia:** 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. **United States:** 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. **Europe:** 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.

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NOTE 10

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[1],[2].

	As at 30 Sep 18		As at 1 Apr 18	
	Gross exposure[2] $m	ECL allowance $m	Gross exposure[2] $m	ECL allowance $m
Receivables from financial institutions	18,669	–	20,546	–
Other assets[3]	13,628	37	14,302	38
Financial investments	4,736	–	5,131	–
Loan assets[4]	75,327	514	71,794	504
Due from related body corporate entities	1,414	–	1383	1
Interests in associates and joint ventures – loans	7	1	11	1
Undrawn credit commitments and financial guarantees[5]	6,886	7	4,721	12
Total	**120,667**	**559**	**117,888**	**556**

(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 $3 million (1 April 2018: $12 million) related to contracts with customers.
(4) Includes ECL allowance of $509 million (1 April 2018: $500 million) on loan assets carried at amortised cost and $5 million (1 April 2018: $4 million) on loan assets measured at FVOCI.
(5) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

NOTE 10

Expected credit losses continued

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

ECL on loan assets

		Lifetime ECL				
	12 month ECL $m	Not credit impaired $m	Credit impaired $m	Collective allowance for credit losses $m	Individually assessed provisions $m	Total ECL Allowance $m
Balance as at 31 March 2018	–	–	–	**247**	**120**	**367**
Change on initial application of AASB 9	144	202	158	(247)	(120)	137
Balance as at 1 April 2018	**144**	**202**	**158**	**–**	**–**	**504**
Transfers during the period:						
To 12 month ECL	29	(26)	(3)	–	–	–
To lifetime ECL not credit impaired	(6)	22	(16)	–	–	–
To lifetime ECL credit impaired	–	(14)	14	–	–	–
Impairment (reversal)/charge (Note 2)	(27)	9	73	–	–	55
Amounts written off, previously provided for	–	–	(43)	–	–	(43)
Foreign exchange movement	–	(2)	–	–	–	(2)
Balance at the end of the period	**140**	**191**	**183**	**–**	**–**	**514**

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	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
NOTE 11			
Trading liabilities			
Equity securities	**6,003**	7,540	6,610
Debt securities			
Foreign government securities	**942**	328	476
Corporate loans and securities	**74**	70	70
Commodities	**–**	–	53
Total trading liabilities	**7,019**	7,938	7,209

NOTE 12

Other liabilities

	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
Segregated funds and margin money held	**13,549**	12,058	10,937
Security settlements	**4,214**	2,977	4,298
Commodity settlements	**1,860**	1,580	1,232
Others	**411**	507	411
Trading related liabilities	**20,034**	17,122	16,878
Aircraft and rail maintenance liabilities	**958**	846	770
Accrued charges, income received in advance and other liabilities	**757**	1,270	1,073
Creditors	**715**	820	596
Life investment linked contracts and other unitholder liabilities	**618**	640	674
Liabilities of disposal group classified as held for sale[(1)]	**369**	219	–
Income tax payable	**248**	139	157
Total other liabilities	**23,699**	21,056	20,148

(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.

	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
NOTE 13			
Debt issued			
Bonds, negotiable certificates of deposit and commercial paper(1)	**34,682**	39,685	45,648
Structured notes(2)	**2,021**	1,839	1,789
Total debt issued(3),(4)	**36,703**	41,524	47,437

(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 debt instruments which are measured at FVTPL for the Consolidated Entity is $2,880 million (31 March 2018: $2,669 million; 30 September 2017: $2,546 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 periods reported.

Reconciliation of debt issued by major currency

(In Australian dollar equivalent)

	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
United States dollar	**18,696**	20,834	25,808
Australian dollar	**10,338**	12,153	13,417
Euro	**4,142**	4,945	4,545
Swiss franc	**1,544**	1,487	1,453
Great British pound	**816**	727	817
Japanese yen	**572**	579	572
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
South African rand	**–**	–	42
Total debt issued	**36,703**	41,524	47,437

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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	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
NOTE 14			
Contributed equity			
Ordinary share capital[(1)]			
Opening balance of 589,276,303 (1 October 2017: 589,276,303; 1 April 2017: 589,276,303) fully paid ordinary shares	**9,328**	9,328	9,328
Closing balance of 589,276,303 (31 March 2018: 589,276,303; 30 September 2017: 589,276,303) fully paid ordinary shares	**9,328**	9,328	9,328

(1) Ordinary shares have no par value.

Equity contribution from ultimate parent entity			
Balance at the beginning of the period	**209**	196	192
Additional paid in capital	**9**	13	4
Balance at the end of the period	**218**	209	196

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

	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 2017 $m
Macquarie Income Securities			
4,000,000 Macquarie Income Securities of $100 each	**400**	400	400
Less transaction costs for original placement	**(9)**	(9)	(9)
Total Macquarie Income Securities	**391**	391	391

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

Contributed equity			
Ordinary share capital	**9,328**	9,328	9,328
Equity contribution from ultimate parent entity	**218**	209	196
Macquarie Income Securities	**391**	391	391
Total contributed equity	**9,937**	9,928	9,915

	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
NOTE 15			
Reserves, retained earnings and non-controlling interests			
(i) Reserves			
Foreign currency translation and net investment hedge reserve			
Balance at the beginning of the period	492	332	363
Exchange differences on translation of foreign operations, net of hedge and tax	255	160	(31)
Balance at the end of the period	747	492	332
FVOCI reserve(1)			
Balance at the beginning of the period	15	52	116
Change on initial application of AASB 9, net of tax (Note 1)	1	–	–
Restated balance as at 1 April 2018	16	52	116
Revaluation losses recognised in OCI, net of tax	(5)	(31)	(2)
Changes in allowance for ECL, net of tax	1	–	–
Transferred to income statement on:			
Impairment, net of tax	–	8	4
Sale or reclassification, net of tax	–	(14)	(66)
Balance at the end of the period	12	15	52
Cash flow hedging reserve			
Balance at the beginning of the period	(29)	(72)	(106)
Revaluation gain for the period, net of tax	29	43	34
Balance at the end of the period	–	(29)	(72)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	(1)	–	–
Share of other comprehensive loss of associates and joint ventures, net of tax	(1)	(1)	–
Balance at the end of the period	(2)	(1)	–
Total reserves at the end of the period	757	477	312

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

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	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
NOTE 15			
Reserves, retained earnings and non-controlling interests continued			
(ii) Retained earnings			
Balance at the beginning of the period	2,686	2,329	2,296
Change on initial application of AASB 9, net of tax (Note 1)	(141)	–	–
Restated balance as at 1 April 2018	2,545	2,329	2,296
Profit attributable to equity holders of MBL	742	931	651
Distributions paid or provided for on Macquarie Income Securities (Note 5)	(7)	(7)	(7)
Dividends paid on ordinary share capital (Note 5)	(924)	(603)	(607)
Gain/(loss) on change in non-controlling ownership interest	1	(4)	(1)
Fair value changes attributable to own credit risk on financial liabilities designated at FVTPL, net of tax	(12)	40	(3)
Balance at the end of the period	2,345	2,686	2,329
(iii) Non-controlling interests			
Share capital and partnership interests	55	56	55
Reserves	4	3	–
Accumulated losses	(51)	(47)	(50)
Total non-controlling interests[(1)]	8	12	5

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

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Notes to the consolidated statement of cash flows

(i) Reconciliation of cash and cash equivalents

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

	As at 30 Sep 18 $m	As at 31 Mar 18 $m	As at 30 Sep 17 $m
Receivables from financial institutions[1]	**7,327**	7,793	6,489
Trading assets[2]	**762**	611	298
Debt investments[3]	**1,725**	1,141	842
Other assets[4]	**3,598**	1,805	1,372
Cash and cash equivalents at the end of the period[5]	**13,412**	11,350	9,001

(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 $5,763 million (31 March 2018: $4,330 million; 30 September 2017: $3,641 million) in escrow accounts which are restricted for use or held by collateralised securitisation vehicles on segregated deposit funds.

	Half-year to 30 Sep 18 $m[1]	Half-year to 31 Mar 18 $m	Half-year to 30 Sep 17 $m
(ii) Reconciliation of profit after income tax to net cash flows generated from/(utilised in) operating activities			
Profit after income tax	**746**	935	648
Adjustments to profit after income tax:			
Depreciation and amortisation	**668**	603	460
Unrealised foreign exchange and fair value movement on financial assets and liabilities	**453**	262	14
Impairment charges	**46**	26	84
Investment income and gain on sale of operating lease assets and other non-financial assets	**5**	(199)	(93)
Share of net profit of associates and joint ventures	**(11)**	(14)	(8)
Changes in assets and liabilities:			
Change in values of associates due to dividends received	**–**	11	8
Change in net interest receivable and payable	**10**	17	(17)
Change in fees and non-interest income receivable	**(31)**	60	(19)
Change in fees and commissions payable	**64**	(99)	21
Change in tax balances	**202**	330	141
Change in debtors, prepayments, accrued charges and creditors	**(119)**	171	(8)
Change in net trading assets and liabilities and net derivative financial instruments[2]	**2,562**	3,933	(1,853)
Changes in other assets and liabilities	**(106)**	20	(65)
Change in loan assets	**(2,264)**	5,413	(2,710)
Change in operating lease assets	**(557)**	(675)	(531)
Changes in deposits	**4,200**	(1,210)	1,874
Changes in payables to financial institutions	**1,557**	700	(1,650)
Changes in debt issued	**(5,897)**	(6,256)	2,342
Net cash flows generated from/(utilised in) operating activities	**1,528**	4,028	(1,362)

(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.

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NOTE 17			
Contingent liabilities and commitments			
Contingent liabilities exist in respect of:			
Performance related contingents[1]	**1,077**	237	237
Letters of credit	**907**	874	902
Guarantees	**118**	107	143
Indemnities	**107**	44	120
Total contingent liabilities[2],[3]	**2,209**	1,262	1,402
Commitments exist in respect of:			
Undrawn credit facilities and securities commitments[4],[5]	**6,684**	4,712	4,617
Property, plant and equipment and other asset developments	**1,093**	7	–
Total commitments	**7,777**	4,719	4,617
Total contingent liabilities and commitments	**9,986**	5,981	6,019

(1) Includes $831 million in favour of a related party for which collateral of a similar amount has been received.

(2) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a 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.

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

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

(5) Includes a $2,352 million credit facility granted to a related body corporate party.

NOTE 18

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 19 – 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
Assets								As at 30 September 2018	
Receivables from financial institutions[1]	–	–	16,272	–	18,669	–	34,941	16,272	18,669
Trading assets	19,514	–	–	–	–	–	19,514	19,514	–
Derivative assets	17,901	–	–	–	–	–	17,901	17,901	–
Other assets[2]	–	128	2,795	–	13,588	1,975	18,486	2,923	13,588
Financial investments									
Equity	–	–	266	–	–	–	266	266	–
Debt	–	73	85	4,736	–	–	4,894	4,894	–
Loan assets	–	175	372	94	74,724	–	75,365	641	75,362
Due from related body corporate entities	–	–	–	–	1,414	–	1,414	–	1,414
Property, plant and equipment	–	–	–	–	–	10,917	10,917	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	743	743	–	–
Loans to associates and joint ventures	–	–	3	–	6	–	9	3	6
Intangible assets	–	–	–	–	–	198	198	–	–
Deferred tax assets	–	–	–	–	–	231	231	–	–
Total assets	37,415	376	19,793	4,830	108,401	14,064	184,879	62,414	109,039
Liabilities									
Trading liabilities	7,019	–	–	–	–	–	7,019	7,019	–
Derivative liabilities	18,046	–	–	–	–	–	18,046	18,046	–
Deposits	–	–	–	–	52,576	–	52,576	–	52,603
Other liabilities[3]	–	711	–	–	20,458	2,530	23,699	711	20,458
Payables to financial institutions[4]	–	2,330	–	–	11,358	–	13,688	2,330	11,371
Due to related body corporate entities	–	–	–	–	15,243	–	15,243	–	15,243
Debt issued		1,877	–	–	34,826	–	36,703	1,877	34,993
Deferred tax liabilities	–	–	–	–	–	492	492	–	–
Loan capital	–	–	–	–	4,366	–	4,366	–	4,486
Total liabilities	25,065	4,918	–	–	138,827	3,022	171,832	29,983	139,154

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

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NOTE 18

Measurement categories of financial instruments continued

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

	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
Assets								As at 31 March 2018	
Receivables from financial institutions	–	–	–	–	36,629	–	36,629	–	36,629
Trading assets	14,894	–	–	–	–	–	14,894	14,894	–
Derivative assets	12,695	–	–	–	–	–	12,695	12,695	–
Other assets[1]	–	143	648	–	14,846	1,800	17,437	791	14,846
Financial investments									
Equity	–	339	–	78	–	–	417	417	–
Debt	–	72	–	5,244	–	–	5,316	5,316	–
Loan assets	–	153	–	–	72,136	–	72,289	153	72,407
Due from related body corporate entities	–	–	–	–	1,383	–	1,383	–	1,383
Property, plant and equipment	–	–	–	–	–	11,074	11,074	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	713	713	–	–
Loans to associates and joint ventures	–	–	–	–	14	–	14	–	14
Intangible assets	–	–	–	–	–	214	214	–	–
Deferred tax assets	–	–	–	–	–	143	143	–	–
Total assets	27,589	707	648	5,322	125,008	13,944	173,218	34,266	125,279
Liabilities									
Trading liabilities	7,938	–	–	–	–	–	7,938	7,938	–
Derivative liabilities	11,788	–	–	–	–	–	11,788	11,788	–
Deposits	–	–	–	–	48,371	–	48,371	–	48,387
Other liabilities[2]	–	793	–	–	17,384	2,879	21,056	793	17,384
Payables to financial institutions	–	–	–	–	10,603	–	10,603	–	10,637
Due to related body corporate entities	–	–	–	–	13,993	–	13,993	–	13,993
Debt issued	–	1,839	–	–	39,685	–	41,524	1,839	39,918
Deferred tax liabilities	–	–	–	–	–	586	586	–	–
Loan capital	–	–	–	–	4,256	–	4,256	–	4,422
Total liabilities	19,726	2,632	–	–	134,292	3,465	160,115	22,358	134,741

(1) Includes Life investment linked contracts and other unitholder assets 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 measured at DFVTPL. Non-financial liabilities primarily represent liabilities of disposal groups classified as held for sale.

NOTE 18

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
Assets								As at 30 September 2017	
Receivables from financial institutions	–	–	–	–	38,360	–	38,360	–	38,360
Trading assets	18,179	–	–	–	–	–	18,179	18,179	–
Derivative assets	12,161	–	–	–	–	–	12,161	12,161	–
Other assets[1]	–	140	679	–	13,777	1,632	16,228	819	13,777
Financial investments									
Equity	–	347	–	212	–	–	559	559	–
Debt	–	67	–	3,697	–	–	3,764	3,764	–
Loan assets	–	138	–	–	69,080	–	69,218	138	69,339
Due from related body corporate entities	–	–	–	–	1,075	–	1,075	–	1,075
Property, plant and equipment	–	–	–	–	–	10,673	10,673	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	555	555	–	–
Loans to associates and joint ventures	–	–	–	–	24	–	24	–	24
Intangible assets	–	–	–	–	–	242	242	–	–
Deferred tax assets	–	–	–	–	–	179	179	–	–
Total assets	30,340	692	679	3,909	122,316	13,281	171,217	35,620	122,575
Liabilities									
Trading liabilities	7,209	–	–	–	–	–	7,209	7,209	–
Derivative liabilities	10,663	–	–	–	–	–	10,663	10,663	–
Deposits	–	–	–	–	49,316	–	49,316	–	49,334
Other liabilities[2]	–	674	–	–	17,185	2,289	20,148	674	17,185
Payables to financial institutions	–	–	–	–	14,075	–	14,075	–	14,104
Due to related body corporate entities	–	–	–	–	5,101	–	5,101	–	5,101
Debt issued	–	1,789	–	–	45,648	–	47,437	1,789	45,564
Deferred tax liabilities	–	–	–	–	–	461	461	–	–
Loan capital	–	–	–	–	4,246	–	4,246	–	4,449
Total liabilities	17,872	2,463	–	–	135,571	2,750	158,656	20,335	136,037

(1) Includes Life investment linked contracts and other unitholder assets 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 measured at DFVTPL. Non-financial liabilities primarily represent liabilities of disposal groups classified as held for sale.

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NOTE 19

Fair values of financial assets and liabilities

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

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

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

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

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

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

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

The following methods and significant assumptions have been applied in determining the fair values of financial instruments 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 reverse repurchase/repurchase agreements included within receivables from financial institutions and payables to financial institutions, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximate to 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 creditworthiness of the borrower
- the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread
- 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 measured at fair value:

- Trading assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- 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 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 gain and loss, excluding impairment write-downs on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected, reclassified or otherwise disposed of
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations at counterparty level, and
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

NOTE 19

Fair values of financial assets and liabilities continued

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

To the extent possible, models use only observable market data (for example for 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 below, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

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NOTE 19

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
Assets				As at 30 September 2018
Receivables from financial institutions	**7,341**	**11,328**	**–**	**18,669**
Other financial assets	**8,217**	**5,371**	**–**	**13,588**
Loan assets	**–**	**4,314**	**71,048**	**75,362**
Due from related body corporate entities	**–**	**1,414**	**–**	**1,414**
Interests in associates and joint ventures – loans			**6**	**6**
Total assets	**15,558**	**22,427**	**71,054**	**109,039**
Liabilities				
Deposits	**42,660**	**9,943**	**–**	**52,603**
Other financial liabilities	**13,549**	**6,909**	**–**	**20,458**
Payables to financial institutions	**362**	**5,703**	**5,306**	**11,371**
Due to related body corporate entities		**15,243**		**15,243**
Debt issued	**–**	**30,628**	**4,365**	**34,993**
Loan capital	**429**	**4,057**	**–**	**4,486**
Total liabilities	**57,000**	**72,483**	**9,671**	**139,154**
Assets				As at 31 March 2018
Receivables from financial institutions	7,830	28,799	–	36,629
Other financial assets	8,007	6,839	–	14,846
Loan assets	–	8,238	64,169	72,407
Due from related body corporate entities	–	1,383	–	1,383
Interests in associates and joint ventures – loans			14	14
Total assets	15,837	45,259	64,183	125,279
Liabilities				
Deposits	40,616	7,771	–	48,387
Other financial liabilities	12,059	5,325	–	17,384
Payables to financial institutions	974	7,547	2,116	10,637
Due to related body corporate entities		13,993		13,993
Debt issued	–	35,001	4,917	39,918
Loan capital	423	3,999	–	4,422
Total liabilities	54,072	73,636	7,033	134,741
Assets				As at 30 September 2017
Receivables from financial institutions	6,533	31,827	–	38,360
Other financial assets	6,753	7,024	–	13,777
Loan assets	–	6,926	62,413	69,339
Due from related body corporate entities	–	1,075	–	1,075
Interests in associates and joint ventures – loans	–	–	24	24
Total assets	13,286	46,852	62,437	122,575
Liabilities				
Deposits	42,400	6,934	–	49,334
Other financial liabilities	10,937	6,248	–	17,185
Payables to financial institutions	246	11,547	2,311	14,104
Due to related body corporate entities	–	5,101		5,101
Debt issued	–	39,703	6,161	45,864
Loan capital	426	4,023	–	4,449
Total liabilities	54,009	73,556	8,472	136,037

NOTE 19

Fair values of financial assets and liabilities continued

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				As at 30 September 2018
Receivables from financial institutions	**–**	**16,272**	**–**	**16,272**
Trading assets	**14,045**	**5,265**	**204**	**19,514**
Derivative assets	**870**	**16,428**	**603**	**17,901**
Financial Investments	**3,130**	**1,555**	**475**	**5,160**
Loan assets	**–**	**569**	**72**	**641**
Interests in associates and joint ventures – loans	**–**	**–**	**3**	**3**
Other financial assets	**1,349**	**1,572**	**2**	**2,923**
Total assets	**19,394**	**41,661**	**1,359**	**62,414**
Liabilities				
Trading liabilities	**5,527**	**1,492**	**–**	**7,019**
Derivative liabilities	**1,122**	**16,548**	**376**	**18,046**
Payables to financial institutions	**–**	**2,330**	**–**	**2,330**
Debt issued	**–**	**1,871**	**6**	**1,877**
Other financial liabilities	**–**	**710**	**1**	**711**
Total liabilities	**6,649**	**22,951**	**383**	**29,983**
Assets				As at 31 March 2018
Trading assets	10,015	4,709	170	14,894
Derivative assets	451	11,628	616	12,695
Financial Investments	3,925	1,670	138	5,733
Loan assets	–	153	–	153
Other financial assets	31	759	1	791
Total assets	14,422	18,919	925	34,266
Liabilities				
Trading liabilities	6,377	1,561	–	7,938
Derivative liabilities	632	10,810	346	11,788
Debt issued	–	1,833	6	1,839
Other financial liabilities	–	792	1	793
Total liabilities	7,009	14,996	353	22,358
Assets				As at 30 September 2017
Trading assets	11,440	6,524	215	18,179
Derivative assets	754	10,848	559	12,161
Financial Investments	2,404	1,531	388	4,323
Loan assets	–	138	–	138
Other financial assets	26	786	7	819
Total assets	14,624	19,827	1,169	35,620
Liabilities				
Trading liabilities	6,050	1,159	–	7,209
Derivative liabilities	436	9,942	285	10,663
Debt issued	–	1,737	52	1,789
Other financial liabilities	–	667	7	674
Total liabilities	6,486	13,505	344	20,335

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NOTE 19

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	328	391	–
Purchases, originations, issuances and other additions	96	2	–
Sales/settlements	(228)	(41)	–
Transfers into Level 3[3]	21	24	–
Transfers out of Level 3[3]	(4)	(1)	–
Fair value movements recognised in the income statement[1]	2	(1)	–
Fair value movements recognised in OCI[1]	–	14	–
Balance as at 30 September 2017	215	388	–
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[1]	3	–	–
Balance as at 1 October 2017	215	388	–
Purchases, originations, issuances and other additions	–	22	–
Sales/settlements	(93)	(227)	–
Transfers into Level 3[3]	49	7	–
Transfers out of Level 3[3]	–	(14)	–
Fair value movements recognised in the income statement[1]	(1)	–	–
Fair value movements recognised in OCI[1]	–	(38)	–
Balance as at 31 March 2018	170	138	–
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[1]	(2)	10	–
Balance as at 1 April 2018	**170**	**138**	**–**
Change on initial application of AASB 9	**–**	**1**	**72**
Purchases, originations, issuances and other additions	**7**	**258**	**–**
Sales/settlements	**(24)**	**(12)**	**–**
Transfers into Level 3[3]	**35**	**97**	**–**
Transfers out of Level 3[3]	**(2)**	**(1)**	**–**
Fair value movements recognised in the income statement [1]	**18**	**(8)**	**–**
Fair value movements recognised in OCI[1]	**–**	**2**	**–**
Balance as at 30 September 2018	**204**	**475**	**72**
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[1]	**17**	**4**	**–**

(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 $603 million (31 March 2018: $616 million; 30 September 2017: $559 million) and derivative liabilities are $376 million (31 March 2018: $346 million; 30 September 2017: $285 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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NOTE 19

Fair values of financial assets and liabilities continued

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

Interest in associates and joint ventures (loans) $m	Other financial assets $m	Debt issued $m	Other financial liabilities $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
–	7	(57)	(7)	147	809
–	–	2	–	47	147
–	–	–	–	41	(228)
–	–	–	–	(7)	38
–	–	–	–	(5)	(10)
–	–	3	–	51	55
–	–	–	–	–	14
–	7	(52)	(7)	274	825
–	–	2	–	49	54
–	7	(52)	(7)	274	825
–	–	49	–	128	199
–	(6)		6	(113)	(433)
–	–	–	–	11	67
–	–	–	–	–	(14)
–	–	(3)	–	(30)	(34)
–	–	–	–	–	(38)
–	1	(6)	(1)	270	572
–	–	–	(2)	(28)	(22)
–	**1**	**(6)**	**(1)**	**270**	**572**
3	**1**	**–**	**–**	**–**	**77**
–	**–**	**–**	**–**	**54**	**319**
–	**–**	**–**	**–**	**(46)**	**(82)**
–	**–**	**–**	**–**	**1**	**133**
–	**–**	**–**	**–**	**13**	**10**
–	**–**	**–**	**–**	**(65)**	**(55)**
–	**–**	**–**	**–**	**–**	**2**
3	**2**	**(6)**	**(1)**	**227**	**976**
–	**–**	**–**	**–**	**(64)**	**(43)**

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NOTE 19

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)
Balance at the end of the period	174	178	173

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
Product type				As at 30 September 2018
Equity and equity linked products	4	–	(8)	–
Commodities	60	–	(48)	–
Interest rate and other products	22	–	(22)	–
Total	86	–	(78)	–
Product type				As at 31 March 2018
Equity and equity linked products	1	7	(1)	(4)
Commodities	47	–	(51)	–
Interest rate and other products	17	–	(17)	–
Total	65	7	(69)	(4)
Product type				As at 30 September 2017
Equity and equity linked products	–	7	–	(1)
Commodities	57	–	(60)	–
Interest rate and other products	10	–	(10)	–
Total	67	7	(70)	(1)

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NOTE 19

Fair values of financial assets and liabilities continued

Significant unobservable inputs

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

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Maximum value
						As at 30 September 2018
Equity and equity linked products	**88**	**6**	Market comparability	Price in %[1]		
Commodities	**645**	**370**	Pricing model	Volatility	**5.1%**	**126.7%**
Interest rate and other products	**626**	**7**	Pricing model	Correlation	**0.0%**	**102.0%**
			Market comparability	Price in %[1]		
Total	**1,359**	**383**				
						As at 31 March 2018
Equity and equity linked products	101	29	Market comparability	Price in %[1]		
Commodities	635	322	Pricing model	Volatility	5.0%	106.0%
Interest rate and other products	189	2	Pricing model	Correlation	0.0%	95.0%
			Market comparability	Price in %[1]		
Total	925	353				
						As at 30 September 2017
Equity and equity linked products	42	9	Market comparability	Price in %[1]		
Commodities	580	271	Pricing model	Volatility	0.0%	106.0%
Interest rate and other products	547	64	Pricing model	Correlation	0.0%	100.0%
			Market comparability	Price in %[1]		
Total	1,169	344				

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

Correlation

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

Volatility

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

Inputs for unlisted equity securities (discount 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.

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

NOTE 20

Disposal of Businesses

CAF's Principal Finance and Transportation Finance Businesses

On 2 November 2018, MGL, MBL, Macquarie Financial Holdings Pty Limited (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 (Effective Date). 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. CAF Transportation Finance involves the financing of aircraft, rotorcraft and rail assets. These Businesses are both reported as part of the CAF operating segment. The post-tax profit of the Businesses included in the Consolidated Entity's results for the half-year period ended 30 September 2018 was approximately $150 million[1]. On the Effective Date under the Restructure Deed, MBL will transfer the economic risk, benefit and control attaching to these Businesses to MFHPL for a fair value consideration of approximately $7.4 billion[1] and as a result MBL will deconsolidate the net assets of the Businesses resulting in an increase in equity attributable to the ordinary shareholder of approximately $0.3 billion[1].

The fair value consideration is expected to be applied predominately by MBL against the payment of dividends of approximately $0.3 billion[1], returning capital of up to $2.04 billion to MBHPL and the settlement of certain deposit balances that it has with MFHPL. The return of capital has been approved by APRA but is subject to shareholder approval.

(1) Values are subject to change based on the business position and exchange rates at the Effective Date.

NOTE 21

Events after the reporting date

There were no material events subsequent to 30 September 2018 that have not been reflected in the financial statements.

Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of changes in equity
Consolidated statement of cash flows
Notes to the consolidated financial statements
Directors' declaration
Independent auditor's review report

DIRECTOR'S DECLARATION
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

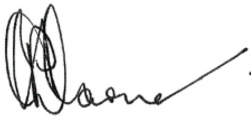
In the Directors' opinion:

a) the financial statements and notes set out on pages 19 to 72 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 Bank Limited will be able to pay its debts as and when they become due and payable.

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



Peter Warne
Independent Director and Chairman

Mary Reemst
Managing Director and Chief Executive Officer

Sydney
2 November 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

REPORT ON THE HALF-YEAR FINANCIAL REPORT

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

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

Independence

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

Conclusion

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

a) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 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

PricewaterhouseCoopers

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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