MACQUARIE

MACQUARIE GROUP INTERIM FINANCIAL REPORT

Half year ended 30 September 2020

MACQUARIE GROUP LIMITED ACN 122 169 279

Macquarie is a global financial services group operating in 31 markets in asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, investment banking and principal investment.

Macquarie Group 2021 Interim Financial Report

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

The material in this report has been prepared by MGL ABN 94 122 169 279 and is current at the date of this report. It is general background information about Macquarie's activities, is provided in summary form in terms of the requirements of AASB 134 *Interim Financial Reporting* and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

The Interim Financial Report was authorised for issue by MGL's Directors on 6 November 2020. The Board of Directors has the power to amend and reissue the Financial Report.

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Directors' Report

Directors

For the half year ended 30 September 2020

The Directors of MGL submit their report with the financial report of the Consolidated Entity for the half year ended 30 September 2020.

Directors

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

Independent Directors

P.H. Warne, Chairman

J.R. Broadbent AC

G.M. Cairns

P.M. Coffey

M.J. Coleman

D.J. Grady AO

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Director

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

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

M.J. Hawker AM retired as an Independent Director effective 30 September 2020.

G.R. Banks AO retired as an Independent Director effective 30 July 2020.

Result

The financial report for the half year ended 30 September 2020 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

The consolidated profit attributable to the ordinary equity holders of Macquarie Group Limited, in accordance with Australian Accounting Standards, for the period was $A985 million (half year to 31 March 2020: $A1,274 million; half year to 30 September 2019: $A1,457 million).

Outlook

Market conditions are likely to remain challenging, especially given the significant and unprecedented uncertainty caused by the worldwide impact of COVID-19 and the uncertain speed of the global economic recovery.

The range of factors that will influence our short-term outlook include:

- the duration and severity of the COVID-19 pandemic
- the uncertain speed of the global economic recovery
- global levels of government support for economies
- the completion rate of transactions and period-end reviews
- geographic composition of income
- the impact of foreign exchange
- potential regulatory changes and tax uncertainties
- market conditions and the impact of geopolitical events.

We continue to maintain a cautious stance, with a conservative approach to capital, funding and liquidity that positions us well to respond to the current environment.

Events after the reporting date

There were no material events between 30 September 2020 and the date of this report that have not been disclosed elsewhere in the financial statements.

Interim dividend

The Directors have resolved to pay an interim dividend for the half year ended 30 September 2020 of $A1.35 per fully paid ordinary MGL share on issue at 17 November 2020.

The dividend will be 40% franked and paid on 22 December 2020.

Rounding of amounts

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

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

Peter Warne
Independent Director and Chairman

Shemara Wikramanayake
Managing Director and Chief Executive Officer

Sydney
6 November 2020

Auditor’s independence declaration

For the half year ended 30 September 2020

As lead auditor for the review of Macquarie Group Limited for the half year ended 30 September 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

K. Stubbins

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
6 November 2020

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Financial Report

Contents

For the half year ended 30 September 2020

The Financial Report was authorised for issue by the Board of Directors on 6 November 2020.
The Board of Directors has the power to amend and reissue the Financial Report.

Consolidated income statement

For the half year ended 30 September 2020

	Notes	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Interest and similar income				
Effective interest rate method	2	**1,834**	2,240	2,171
Other	2	**188**	368	377
Interest and similar expense	2	**(989)**	(1,539)	(1,758)
Net interest income		**1,033**	1,069	790
Fee and commission income	2	**2,613**	2,963	2,874
Net trading income	2	**1,487**	1,234	1,627
Net operating lease income	2	**245**	284	461
Share of net (losses)/profits of associates and joint ventures	2	**(54)**	144	(49)
Net credit impairment charges	2	**(407)**	(661)	(144)
Other impairment (charges)/reversal	2	**(40)**	(240)	5
Other operating income and charges	2	**642**	1,212	756
Net operating income		**5,519**	6,005	6,320
Employment expenses	2	**(2,615)**	(2,547)	(2,776)
Brokerage, commission and trading-related fee expenses	2	**(471)**	(482)	(482)
Occupancy expenses	2	**(196)**	(199)	(201)
Non-salary technology expenses	2	**(395)**	(382)	(367)
Other operating expenses	2	**(589)**	(781)	(654)
Total operating expenses		**(4,266)**	(4,391)	(4,480)
Operating profit before income tax		**1,253**	1,614	1,840
Income tax expense	4	**(275)**	(352)	(376)
Profit after income tax		**978**	1,262	1,464
Loss/(profit) attributable to non-controlling interests:				
Macquarie Income Securities	20	**–**	(6)	(6)
Other non-controlling interests		**7**	18	(1)
Total loss/(profit) attributable to non-controlling interests		**7**	12	(7)
Profit attributable to the ordinary equity holders of Macquarie Group Limited		**985**	1,274	1,457
		Cents per share	Cents per share	Cents per share
Basic earnings per share	6	**276.7**	362.1	430.1
Diluted earnings per share	6	**272.9**	350.7	419.5

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

Consolidated statement of comprehensive income

For the half year ended 30 September 2020

	Notes	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Profit after income tax		**978**	1,262	1,464
Other comprehensive (loss)/income[(1)]:				
Movements in items that may be subsequently reclassified to the income statement:				
Fair value through other comprehensive income (FVOCI) reserve:				
Revaluation movement	20	**174**	(192)	84
Change in allowance for expected credit losses	20	**(60)**	85	(58)
Cash flow hedges:				
Revaluation movement	20	**(64)**	28	(57)
Transferred to income statement	20	**8**	14	28
Transferred to share of reserves in associates and joint ventures	20	**–**	–	(6)
Share of other comprehensive losses of associates and joint ventures	20	**(64)**	(63)	(38)
Exchange differences on translation and hedge accounting of foreign operations		**(1,319)**	892	338
Movements in item that will not be subsequently reclassified to the income statement:				
Fair value (loss)/gain attributable to own credit risk on debt that is designated as fair value through profit or loss (DFVTPL)	20	**(91)**	81	(20)
Total other comprehensive (loss)/income		**(1,416)**	845	271
Total comprehensive (loss)/income		**(438)**	2,107	1,735
Total comprehensive loss/(income) attributable to non-controlling interests:				
Macquarie Income Securities	20	**–**	(6)	(6)
Other non-controlling interests		**50**	(10)	(11)
Total comprehensive loss/(income) attributable to non-controlling interests		**50**	(16)	(17)
Total comprehensive (loss)/income attributable to the ordinary equity holders of Macquarie Group Limited		**(388)**	2,091	1,718

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

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

Consolidated statement of financial position

As at 30 September 2020

	Notes	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19[1] $m
Assets				
Cash and bank balances		**8,681**	9,717	8,357
Cash collateral on securities borrowed and reverse repurchase agreements		**42,933**	37,710	30,201
Trading assets	7	**19,252**	16,855	23,900
Margin money and settlement assets	8	**12,338**	16,393	15,221
Derivative assets		**22,055**	45,607	18,221
Financial investments	9	**8,977**	8,930	8,267
Held for sale assets	10	**2,176**	1,634	608
Other assets	10	**6,331**	6,868	7,568
Loan assets	11	**93,414**	94,117	83,212
Interests in associates and joint ventures	13	**6,012**	8,319	8,500
Property, plant and equipment and right-of-use assets	14	**4,519**	5,044	5,471
Intangible assets	14	**2,816**	3,268	2,666
Deferred tax assets		**1,231**	1,340	1,079
Total assets		**230,735**	255,802	213,271
Liabilities				
Cash collateral on securities lent and repurchase agreements		**4,961**	2,334	5,803
Trading liabilities	15	**6,136**	5,544	6,982
Margin money and settlement liabilities	16	**20,093**	22,815	20,370
Derivative liabilities		**16,467**	38,399	14,514
Deposits		**77,258**	67,342	59,042
Held for sale liabilities	17	**1,267**	260	94
Other liabilities	17	**6,561**	8,027	6,751
Borrowings		**12,288**	17,093	14,626
Debt issued	18	**56,339**	64,556	57,234
Deferred tax liabilities		**165**	234	297
Total liabilities excluding loan capital		**201,535**	226,604	185,713
Loan capital		**8,411**	7,414	7,246
Total liabilities		**209,946**	234,018	192,959
Net assets		**20,789**	21,784	20,312
Equity				
Contributed equity	19	**8,434**	7,851	7,721
Reserves	20	**1,378**	2,773	1,927
Retained earnings	20	**10,696**	10,439	9,969
Total capital and reserves attributable to the ordinary equity holders of Macquarie Group Limited		**20,508**	21,063	19,617
Non-controlling interests	20	**281**	721	695
Total equity		**20,789**	21,784	20,312

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

(1) Refer to Note 1(ii) *Comparatives* for an explanation of the re-presentation of certain comparative financial information.

Consolidated statement of changes in equity

For the half year ended 30 September 2020

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 1 Apr 2019		6,181	1,773	9,758	17,712	603	18,315
Profit after income tax		–	–	1,457	1,457	7	1,464
Other comprehensive income/(loss), net of tax		–	281	(20)	261	10	271
Total comprehensive income		–	281	1,437	1,718	17	1,735
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	19	1,670	–	–	1,670	–	1,670
Dividends	5,20	–	–	(1,224)	(1,224)	–	(1,224)
Purchase of shares by Macquarie Group Employee Retained Equity Plan (MEREP) Trust	19	(607)	–	–	(607)	–	(607)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(2)	(2)	81	79
Dividends and distributions paid or provided for		–	–	–	–	(6)	(6)
Other equity movements:							
MEREP share-based payment arrangements	20	–	336	–	336	–	336
Deferred tax expense on MEREP share-based payment arrangements	20	–	14	–	14	–	14
Transfer of MEREP from share-based payments reserve on vesting of MEREP awards	19,20	448	(448)	–	–	–	–
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	19,20	31	(31)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	19,20	(2)	2	–	–	–	–
		1,540	(127)	(1,226)	187	75	262
Balance as at 30 Sep 2019		7,721	1,927	9,969	19,617	695	20,312

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 30 Sep 2019		7,721	1,927	9,969	19,617	695	20,312
Profit/(loss) after income tax		–	–	1,274	1,274	(12)	1,262
Other comprehensive income, net of tax		–	736	81	817	28	845
Total comprehensive income		–	736	1,355	2,091	16	2,107
Transactions with equity holders in their capacity as ordinary equity holders:							
Dividends	5,20	–	–	(884)	(884)	–	(884)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(1)	(1)	17	16
Dividends and distributions paid or provided for		–	–	–	–	(7)	(7)
Other equity movements:							
MEREP share-based payment arrangements	20	–	250	–	250	–	250
Deferred tax expense on MEREP share-based payment arrangements	20	–	(10)	–	(10)	–	(10)
Transfer of MEREP from share-based payments reserve on vesting of MEREP awards	19,20	109	(109)	–	–	–	–
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	19,20	21	(21)	–	–	–	–
		130	110	(885)	(645)	10	(635)
Balance as at 31 Mar 2020		**7,851**	**2,773**	**10,439**	**21,063**	**721**	**21,784**
Profit/(loss) after income tax		**–**	**–**	**985**	**985**	**(7)**	**978**
Other comprehensive loss, net of tax		**–**	**(1,282)**	**(91)**	**(1,373)**	**(43)**	**(1,416)**
Total comprehensive (loss)/income		**–**	**(1,282)**	**894**	**(388)**	**(50)**	**(438)**
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	19	**216**	**–**	**–**	**216**	**–**	**216**
Dividends	5,20	**–**	**–**	**(637)**	**(637)**	**–**	**(637)**
Non-controlling interests:							
Change in non-controlling ownership interests		**–**	**–**	**–**	**–**	**1**	**1**
Redemption of Macquarie Income Securities	19,20	**(9)**	**–**	**–**	**(9)**	**(391)**	**(400)**
Other equity movements:							
MEREP share-based payment arrangements	20	**–**	**253**	**–**	**253**	**–**	**253**
Deferred tax benefit on MEREP share-based payment arrangements	20	**–**	**10**	**–**	**10**	**–**	**10**
Transfer of MEREP from share-based payments reserve on vesting of MEREP awards	19,20	**374**	**(374)**	**–**	**–**	**–**	**–**
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	19,20	**2**	**(2)**	**–**	**–**	**–**	**–**
		583	**(113)**	**(637)**	**(167)**	**(390)**	**(557)**
Balance as at 30 Sep 2020		**8,434**	**1,378**	**10,696**	**20,508**	**281**	**20,789**

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

Consolidated statement of cash flows

For the half year ended 30 September 2020

	Notes	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19[1] $m
Cash flows (utilised in)/generated from operating activities				
Interest income and expenses:				
Received		**2,051**	2,576	2,538
Paid		**(1,062)**	(1,581)	(1,794)
Fee, commissions and other income and charges:				
Received		**2,928**	4,836	2,773
Paid		**(1,026)**	(1,091)	(701)
Operating lease income received		**628**	755	973
Dividends and distributions received		**63**	240	143
Operating expenses paid:				
Employment expenses		**(3,040)**	(1,764)	(3,077)
Other operating expenses		**(999)**	(1,873)	(1,085)
Income tax paid		**(396)**	(430)	(613)
Changes in operating assets:				
Trading assets, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities) and trading income		**(6,956)**	8,525	(5,293)
Loan assets		**(2,291)**	(9,149)	(6,338)
Other assets		**(442)**	(435)	(231)
Assets under operating lease		**(72)**	(159)	(328)
Changes in operating liabilities:				
Deposits		**10,153**	8,118	2,802
Borrowings		**(1,694)**	1,049	4,924
Debt issued		**(2,735)**	3,658	4,078
Other liabilities		**(113)**	70	(1)
Life business:				
Life investment linked contract premiums received, disposal of investment assets and unitholder contributions		**62**	252	174
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		**(60)**	(249)	(173)
Net cash flows (utilised in)/generated from operating activities	21	**(5,001)**	13,348	(1,229)
Cash flows generated from/(utilised in) investing activities				
Net payments for financial investments		**(11)**	(529)	(627)
Associates, Joint Ventures, subsidiaries and businesses:				
Proceeds from the disposal of or capital return, net of cash deconsolidated		**1,832**	3,477	679
Payments for the acquisition of or additional capital contribution, net of cash acquired		**(478)**	(1,243)	(3,418)
Property, plant and equipment and intangible assets:				
Proceeds from disposals		**50**	69	12
Payments for acquisitions		**(243)**	(581)	(584)
Net cash flows generated from/(utilised in) investing activities		**1,150**	1,193	(3,938)
Cash flows generated from/(utilised in) financing activities				
Proceeds from the issue of ordinary shares	19	**–**	–	1,670
Loan capital:				
Issuance	21	**2,474**	–	–
Redemption	21	**(740)**	(429)	–
Dividends and distributions paid		**(421)**	(891)	(1,231)
Payments for the acquisition of treasury shares	19	**–**	–	(607)
Non-Controlling interests				
Redemption of Macquarie Income Securities		**(400)**	–	–
(Payments to)/receipts from non-controlling interests		**(8)**	197	216
Net cash flows generated from/(utilised in) financing activities		**905**	(1,123)	48
Net (decrease)/increase in cash and cash equivalents		**(2,946)**	13,418	(5,119)
Cash and cash equivalents at the beginning of the period		**28,960**	14,202	18,867
Effect of exchange rate movements on cash and cash equivalents		**(2,382)**	1,340	454
Cash and cash equivalents at the end of the period	21	**23,632**	28,960	14,202

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

(1) Refer to Note 21 *Notes to the consolidated statement of cash flows* for an explanation of the re-presentation of certain comparative financial information.

Notes to the consolidated financial statements

For the half year ended 30 September 2020

Note 1
Summary of significant accounting policies

(i) Basis of preparation

This general purpose interim set of financial statements for the half year ended 30 September 2020 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* (AASB 134). Compliance with AASB 134 ensures compliance with International Accounting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

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

This interim set of financial statements does not include all the disclosures of the type that are 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 2020 and any public announcements made by the Consolidated Entity during the half year ended 30 September 2020 in accordance with the continuous disclosure requirements.

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

The accounting policies adopted in the preparation of the interim set of financial statements are consistent with those adopted and disclosed in the Consolidated Entity's annual financial report for the year ended 31 March 2020.

Critical accounting estimates and significant judgements

The preparation of this interim set of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies.

Areas of estimation uncertainty and the basis of key judgements applied by management in preparing the interim set of financial statements are consistent with those that were applied and disclosed in the annual financial report for the year ended 31 March 2020.

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.

Coronavirus (COVID-19) impact

Background

The Novel Coronavirus (COVID-19) continues to have an impact on global economies and financial markets. It has also led to material structural shifts in the behaviour of the economy and unprecedented actions by financial markets, governments, and regulators.

The Consolidated Entity's understanding of the impact of COVID-19 continues to evolve and has been incorporated into the determination of its results of operations and measurement of its assets and liabilities at the reporting date. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Impact of COVID-19 on the macroeconomic outlook

The Consolidated Entity's outlook towards macroeconomic scenarios at the end of the reporting period remained broadly consistent with the scenarios applied as at 31 March 2020. Individual macroeconomic factors within those scenarios have however been adjusted for published data and reputable guidance, where applicable.

Forward-looking information (FLI), including a detailed explanation of the scenarios and related probabilities considered in determining the Consolidated Entity's forward-looking assumptions for the purposes of its expected credit loss (ECL), has been provided in Note 12 *Expected credit losses*.

Processes applied

Consistent with the approach applied in the preparation of the annual financial statements for the year ended 31 March 2020, management:

– re-evaluated whether there were any additional areas of judgement or estimation uncertainty
– reviewed external market communications to identify COVID-19 related impacts
– reviewed public forecasts and experience from previous downturns
– updated its economic outlook, principally for the purposes of inputs into its ECL models through the application of FLI and as an input into the impairment analysis of non-financial assets
– assessed the impact of market inputs and variables impacted by COVID-19 on the carrying values of its assets and liabilities
– ran stress testing scenarios, which are an integral component of Consolidated Entity's risk management framework and a key input to the capital adequacy assessment process, to assess the potential impacts of COVID-19 on its portfolios to assist in its prudent risk management
– considered the impact of COVID-19 on the Consolidated Entity's financial statements' disclosures.

Note 1
Summary of significant accounting policies continued

(i) Basis of preparation continued

Consideration of the impact on the financial statements and related disclosures

Key areas that have been impacted by COVID-19, and that were consistent with those presented in Note 1(i) *Basis of preparation* in the annual financial statements for the year ended 31 March 2020, were as follows:

Trading assets and liabilities

Refer to Note 7, Note 15 and Note 24.

The impact of changes in valuation inputs has been considered in terms of the classification of exposures in the fair value hierarchy, transfers within the fair value hierarchy and the Level 3 sensitivity analysis.

Financial investments

Refer to Note 9.

The determination of the investments' carrying value for unlisted equity investments included a consideration of the impact of COVID-19.

Derivative assets and liabilities

Refer to Note 24.

The Consolidated Entity reviewed the appropriateness of the adjustments used in determining the fair value and the classification within the fair value hierarchy.

Held for sale assets and liabilities

Refer to Note 10 and Note 17.

The appropriateness of the held for sale classification at the reporting date was reassessed and affirmed.

Loan and other assets

Refer to Note 10, Note 11 and Note 12.

Consistent with the approach at 31 March 2020, the Consolidated Entity monitored its Stage II and III exposures through its CreditWatch forum which included a consideration of the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of support measures.

The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remained consistent with prior periods. The model inputs, including FLI, scenarios and associated weightings, together with the determination of the staging of exposures were adjusted as appropriate based on latest available information. The continued uncertainty in the economic outlook has resulted in an increased use of post model adjustments (overlays). These overlays to the modelled ECL results reflect the application of judgement.

In March 2020, the Consolidated Entity announced a comprehensive package of support measures to help Macquarie business and personal banking clients affected by COVID-19. In terms of accounting standards, the support measures were modifications of the original terms of the contract and typically accounted for as non-substantial modifications.

Interest in associates and joint ventures

Refer to Note 13.

The Consolidated Entity's interests in associates and joint ventures is diversified, acquired over time and covers various sectors (including infrastructure and green energy) and geographic locations. Where it has been assessed that there is an indicator of impairment, the Consolidated Entity tests the carrying amount of each of its investments for impairment, by comparing the investment's recoverable amount with its carrying value.

The Consolidated Entity equity-accounted its share of impairments on aircraft in Macquarie AirFinance as a result of COVID-19.

Consistent with 31 March 2020 assessment, management reviewed the carrying value of its investment in Macquarie Infrastructure Corporation (MIC). The assessment indicated that no impairment loss was required to be recognised.

Property, plant and equipment and right-of-use (ROU) and intangible assets

Refer to Note 14.

The Consolidated Entity's property, plant and equipment and ROU assets as at 30 September 2020 includes a portfolio of rotorcraft assets. Following an assessment of the portfolios' carrying value based on independent appraisal values, it was determined that no impairment was required. The Consolidated Entity also incorporated a consideration of COVID-19 into its testing of certain goodwill and finite and indefinite life intangible assets for impairment. The impairment assessment concluded that no impairment was required.

Debt issued, loan capital, borrowings and repurchase arrangements

Refer to Note 18 and Note 21(iv).

During the current reporting period, the Consolidated Entity issued new debt arrangements and there were no modifications to existing debt facilities. An assessment of the Consolidated Entity's debt-related covenants concluded that there were no breaches.

During the current reporting period, the Consolidated Entity drew down $1.7 billion from the Reserve Bank of Australia (RBA) under the Term Funding Facility (TFF). The objective of the TFF is to reduce funding costs of Australian Deposit-taking Institutions (ADIs) and thus assist in reducing interest rates for borrowers, as well as encourage ADIs to support businesses during this period by expanding their lending. The draw down is in the nature of repurchase agreements, is collateralised with issued loan notes in the Consolidated Entity's home loans' structured entity and has a term of three years. For drawdowns under the initial allowance, which closed on 30 September 2020, the TFF attracts an interest rate of 0.25% per annum and for new drawdowns, effective 4 November 2020, is 0.1% per annum.

Note 1
Summary of significant accounting policies continued

(i) Basis of preparation continued

Hedge accounting

Based on available facts at the reporting date, including announcements from governments and regulators, as well as discussions with our clients, the future cash flows were determined to remain highly probable and hence hedge accounting remains appropriate in accordance with relevant accounting standards.

Performance fees

Accounting standards specify that to recognise variable consideration as revenue (notably performance fees), it should be highly probable that a significant reversal will not occur when the uncertainty is resolved. The Consolidated Entity considered the impact of COVID-19 in meeting the performance fee hurdles and the realisation of underlying assets within its managed funds for the purposes of determining the performance fees to be recognised.

Deferred tax assets

Deferred tax assets are recognised to the extent it is probable that taxable profit will be available against which deductible temporary differences can be utilised. A review of deferred tax asset balances has been performed at 30 September 2020 to determine the recoverability of the balances, which included consideration of the COVID-19 environment, asset impairments and timeframe in which those temporary differences can be recovered.

Off balance sheet exposures

Refer to Note 22

The Consolidated Entity incorporated an assessment of COVID-19 in determining the completeness of its contingent liabilities and commitments.

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

Revised AASB *Conceptual Framework* for Financial Reporting

The revised Australian Accounting Standards Board (AASB) *Conceptual Framework* (AASB Framework) was effective for the Consolidated Entity's annual financial reporting period beginning on 1 April 2020.

The AASB Framework provides the AASB with a base of consistent concepts upon which future accounting standards will be developed. The AASB Framework will also assist financial report preparers to develop consistent accounting policies when there is no specific or similar standard that addresses an issue.

The AASB Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts. The application of the AASB Framework did not have a material impact on the Consolidated Entity's financial statements.

Other amendments made to existing standards

Other amendments made to existing standards that were mandatorily effective for the annual reporting period beginning on 1 April 2020 did not result in a material impact on the Consolidated Entity's financial statements.

(b) New Australian Accounting Standards and amendments to Australian Accounting Standards that are not yet effective for the current period

(i) AASB 17 *Insurance Contracts*

AASB 17 *Insurance Contracts,* amends the accounting for insurance contracts and will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The standard is mandatorily effective for the Consolidated Entity's annual reporting period beginning on 1 April 2023. The Consolidated Entity is assessing the impact of the revised standard.

(ii) AASB 2019-3 *Interest Rate Benchmark Reform*

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

IBOR are interest rate benchmarks that are used in a wide variety of financial instruments such as derivatives and lending arrangements. Examples of IBOR include 'LIBOR' (the London Inter-bank Offered Rate), 'EURIBOR' (the Euro Inter-bank Offered Rate) and 'BBSW' (the Australian Bank Bill Swap Rate). Historically, each IBOR has been calculated and published daily based on submissions by a panel of banks. Over time, changes in inter-bank funding markets have meant that IBOR panel bank submissions have become based less on observable transactions and more on expert judgement. Financial markets' authorities reviewed what these changes meant for financial stability, culminating in recommendations to reform major interest rate benchmarks. As a result of these recommendations, many IBOR around the world are undergoing reforms.

Some jurisdictions will adopt a multiple rate approach and develop new ARRs alongside IBORs reformed to reference observable transactions. Australia is such an example where the existing IBOR benchmark BBSW has undergone reform and will continue for the foreseeable future with the nominated ARR for AUD which is AONIA. In the case of LIBOR, a multiple rate approach is not possible due to the lack of observable transactions to support robust LIBOR reference rates. A transition away from LIBOR by the end of 2021 is therefore necessary.

Industry working groups are currently working with authorities and consulting with market participants to develop market practices that may be used to transition existing LIBOR-linked contracts for derivatives, loans, bonds and other financial instruments that mature beyond the end of 2021 to ARRs. Amongst the issues to be considered are key differences between LIBOR and ARRs. LIBOR are term rates which are quoted for forward-looking periods (for example, one-, three-, six-or twelve-month periods) at the beginning of that period and includes a credit spread for bank credit risk. ARRs on the other hand are overnight rates with little or no credit risk. To facilitate the transition of contracts from LIBOR to ARRs on an economically equivalent basis, adjustments for term and credit differences will need to be applied.

Note 1
Summary of significant accounting policies continued

(i) Basis of preparation continued

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

The Consolidated Entity's IBOR project

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

In addition to the project's scoping and assessments outlined in the Consolidated Entity's annual financial report for the year ended 31 March 2020, the project has progressed from the planning phase to implementing plans across businesses in readiness for new ARR products and to manage the transition of existing contracts that reference LIBOR and mature beyond the end of 2021. Industry working groups and authorities have also outlined a range of recommendations and milestones that the industry and the Consolidated Entity are working towards. Whilst the COVID-19 pandemic has led to some delays across the industry and the project, the target completion date of end-2021 remains unchanged.

During the current half year, further measures have been implemented to ensure the key risks of IBOR transition are being appropriately managed. These measures include changes to transaction approval processes, staff training, client communications, system upgrades and the implementation of an IBOR conduct risk management framework.

Impacts on financial reporting

AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, issued in October 2019, amended AASB 7 *Financial Instruments: Disclosures* (AASB 7) and AASB 9 *Financial Instruments* (AASB 9), to provide certain relief from applying specific accounting requirements to hedge accounting relationships directly affected by IBOR reform. The relief enables the continuation of hedge accounting for impacted hedge relationships during the period of uncertainty prior to IBOR transition. The Consolidated Entity early adopted these amendments for the year ended 31 March 2020.

In August 2020, AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform Phase 2*, amended standards including AASB 7, AASB 9 and AASB 16 *Leases* (AASB 16) to address accounting issues arising following the transition to ARR. The amendments provide certain relief from applying specific requirements related to hedge accounting and the modification of financial assets and financial liabilities if certain criteria are met.

Where modifications to a contract, or changes in the basis for determining the contractual cash flows under a contract, are necessitated as a result of IBOR reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis, the relief allows an entity to reset the yield applied to such an exposure on a prospective basis. Thus, at the time of modification, where the relief applies, there is no impact to the income statement. The relief requires continuation of hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the IBOR reform.

The amendments, which are mandatorily effective for annual reporting periods beginning on or after 1 January 2021, also require additional quantitative and qualitative disclosures. The Consolidated Entity is considering whether it will early adopt the amendments for its annual financial statements for the year ending 31 March 2021.

Other amendments made to existing standards

Other amendments made to existing standards that are not mandatorily effective for the annual reporting period beginning on 1 April 2020 and have not been early adopted, are not likely to result in a material impact on the Consolidated Entity's financial statements in the period of initial application.

(ii) Comparatives

As explained in the Note 1(i) *Basis of preparation* for the Consolidated Entity's annual financial report for the year ended 31 March 2020, the Consolidated Entity revised its accounting policy as it relates to client monies and cash and cash equivalents. As a result of the retrospective application of the revised accounting policy, the Consolidated Entity's statement of financial position at 30 September 2019 has been re-presented to remove client-related margin money deposited with clearing houses as well as excess cash received from certain clients. These amendments had no impact on reserves. As at 30 September 2019, this resulted in a reduction to:

- margin money and settlement assets of $5,091 million
- cash and bank balances of $1,222 million
- margin money and settlement liabilities of $6,313 million.

The amendment to these balances impacted the Consolidated Entity's presentation of cash and cash equivalents for the purposes of the statement of cash flows. In addition to re-presenting for this change, and in order to more closely align with the Consolidated Entity's cash and liquid assets portfolio, the Consolidated Entity extended its review of the balances included in the determination of cash and cash equivalents. The impact on the Consolidated Entity's cash and cash equivalents and statement of cash flows for the period ended 30 September 2019 is explained in Note 21 *Notes to the consolidated statement of cash flows*.

Separately, the Consolidated Entity reclassified several other balances within the statement of financial position's 30 September 2019 comparative financial information in order to better reflect the nature of the underlying asset or liability.

Where necessary, certain other comparative information has been re-presented to conform to changes in presentation in the current period.

Note 2
Operating profit before income tax

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Net interest income			
Interest and similar income			
Effective interest rate method(1)	**1,834**	2,240	2,171
Other	**188**	368	377
Interest and similar expense(2)	**(989)**	(1,539)	(1,758)
Net interest income	**1,033**	1,069	790
Fee and commission income			
Base and other asset management fees(3)	**1,130**	1,243	1,113
Performance fees(4)	**413**	275	546
Mergers and acquisitions, advisory and underwriting fees	**413**	578	482
Brokerage and other trading-related fee income	**401**	458	412
Other fee and commission income	**256**	409	321
Total fee and commission income	**2,613**	2,963	2,874
Net trading income(5)			
Commodities(6),(7)	**1,154**	711	1,082
Equities	**195**	293	354
Credit, interest rate, foreign exchange and other products	**138**	230	191
Net trading income	**1,487**	1,234	1,627
Net operating lease income			
Rental income	**539**	682	1,066
Depreciation and other operating lease-related charges	**(294)**	(398)	(605)
Net operating lease income	**245**	284	461
Share of net (losses)/profits of associates and joint ventures(8)	**(54)**	144	(49)

(1) Includes interest income calculated using the effective interest rate method of $1,750 million (half year to 31 March 2020: $2,133 million; half year to 30 September 2019: $2,095 million) on financial assets that are measured at amortised cost and $84 million (half year to 31 March 2020: $107 million; half year to 30 September 2019: $76 million) on financial assets measured at FVOCI.
(2) Includes interest expense calculated using the effective interest rate method of $959 million (half year to 31 March 2020: $1,509 million; half year to 30 September 2019: $1,687 million) on financial liabilities measured at amortised cost.
(3) Includes $985 million (half year to 31 March 2020: $1,086 million; half year to 30 September 2019: $967 million) of base fee income.
(4) Includes $407 million (half year to 31 March 2020: $238 million; half year to 30 September 2019: $361 million) from transactions with the Consolidated Entity's associates.
(5) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate and foreign currency risk.
(6) Includes $367 million (half year to 31 March 2020: $411 million; half year to 30 September 2019: $290 million) of transportation, storage and certain other trading-related costs.
(7) Includes $22 million (half year to 31 March 2020: $21 million; half year to 30 September 2019: $20 million) depreciation on ROU for trading-related business.
(8) Includes the Consolidated Entity's share of impairments on aircraft in Macquarie AirFinance as a result of COVID-19. Refer to Note 13 *Interests in associates and joint ventures.*

Note 2

Operating profit before income tax continued

Credit and other impairment (charges)/reversal

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Credit impairment (charges)/reversal			
Loan assets	**(368)**	(492)	(126)
Margin money and settlement assets	**(36)**	(71)	–
Other assets	**(20)**	(65)	(16)
Financial investments	**(4)**	(10)	(2)
Loans to associates and joint ventures	**2**	(7)	(6)
Undrawn credit commitments and financial guarantees	**17**	(16)	(8)
Gross credit impairment charges	**(409)**	(661)	(158)
Recovery of loans previously written off	**2**	–	14
Net credit impairment charges	**(407)**	(661)	(144)
Other impairment (charges)/reversal			
Interests in associates and joint ventures	**(28)**	(126)	7
Intangible and other non-financial assets	**(12)**	(114)	(2)
Total other impairment (charges)/reversal	**(40)**	(240)	5
Total credit and other impairment charges	**(447)**	(901)	(139)
Other operating income and charges			
Investment income			
Net gain/(loss) on:			
Interests in associates and joint ventures	**109**	987	248
Equity investments	**33**	(15)	91
Debt investments	**4**	(45)	7
Net gain on disposal of businesses and subsidiaries held for sale[(1)]	**407**	80	211
Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale	**11**	–	113
Total investment income	**564**	1,007	670
Other income			
Income	**634**	797	302
Related expenses	**(556)**	(592)	(216)
Net other income	**78**	205	86
Total other operating income and charges	**642**	1,212	756
Net operating income	**5,519**	6,005	6,320

(1) Half year to 30 September 2020 includes a gain on sale of the Macquarie European Rail leasing portfolio which was classified as held for sale as at 31 March 2020 and was subsequently disposed of in April 2020.

Note 2
Operating profit before income tax continued

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Employment expenses			
Salary and related costs including commissions, superannuation and performance-related profit share	**(2,077)**	(2,157)	(2,238)
Share-based payments[1]	**(279)**	(237)	(349)
Provision for long service and annual leave	**(75)**	(5)	(15)
Total compensation expenses	**(2,431)**	(2,399)	(2,602)
Other employment expenses including on-costs, staff procurement and staff training	**(184)**	(148)	(174)
Total employment expenses	**(2,615)**	(2,547)	(2,776)
Brokerage, commission and trading-related fee expenses			
Brokerage and other trading-related fee expenses	**(348)**	(357)	(365)
Other fee and commission expenses	**(123)**	(125)	(117)
Total brokerage, commission and trading-related fee expenses	**(471)**	(482)	(482)
Occupancy expenses			
Lease expenses[2]	**(91)**	(101)	(99)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements	**(31)**	(33)	(39)
Other occupancy expenses	**(74)**	(65)	(63)
Total occupancy expenses	**(196)**	(199)	(201)
Non-salary technology expenses			
Information services	**(110)**	(109)	(109)
Depreciation on own use assets: equipment	**(13)**	(14)	(12)
Service provider and other non-salary technology expenses	**(272)**	(259)	(246)
Total non-salary technology expenses	**(395)**	(382)	(367)
Other operating expenses			
Professional fees	**(216)**	(243)	(262)
Indirect and other taxes	**(79)**	(102)	(36)
Advertising and promotional expenses	**(46)**	(58)	(52)
Amortisation of intangible assets	**(33)**	(39)	(31)
Auditor's remuneration	**(23)**	(21)	(19)
Communication expenses	**(18)**	(14)	(15)
Travel and entertainment expenses	**(8)**	(86)	(97)
Depreciation on own use assets: infrastructure assets	**(4)**	(9)	(18)
Other expenses	**(162)**	(209)	(124)
Total other operating expenses	**(589)**	(781)	(654)
Total operating expenses	**(4,266)**	(4,391)	(4,480)
Operating profit before income tax	**1,253**	1,614	1,840

(1) Includes share-based payments related expense of $24 million (half year to 31 March 2020: $14 million gain; half year to 30 September 2019: $11 million expense) for cash-settled awards.
(2) Includes $83 million (half year to 31 March 2020: $86 million, half year to 30 September 2019: $81 million) of depreciation on ROU assets relating to property leases following the adoption of AASB 16.

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 (Reportable segments).

During the current period, Cash Equities was transferred from CGM to Macquarie Capital. Comparatives have been reclassified to reflect this reorganisation between the Operating Groups.

The financial information disclosed relates to the Consolidated Entity's ordinary activities.

These segments have been set up based on the different core products and services offered. The Operating Groups comprise:

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income and multi-asset solutions
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance[1] products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms, as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a range of tailored specialised asset finance solutions across a variety of industries and asset classes
- **Macquarie Capital** has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, and providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors. It also has global capability in the development and construction of infrastructure and energy projects, and in relation to renewable energy projects, the supply of green energy solutions to corporate clients.

The Corporate segment, which is not considered an Operating Group, comprises head office and central service groups, including Group Treasury. As applicable, the Corporate segment holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups.

Items of income and expense within the Corporate segment include the net result of managing Macquarie's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied, as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable. Central overlays for ECL and impairments representing adjustments to modelled results which are not allocated to specific Operating Groups are presented as part of the Corporate segment.

Other items of income and expenses include earnings from investments, unallocated head office costs and costs of central service groups, the Consolidated Entity's performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to certain non-controlling interests.

Below is a selection of key policies applied in determining the 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 may be charged to Operating Groups for the early repayment of term funding.

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

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

Transactions between Operating Segments

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

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

(1) Includes general plant and equipment.

Note 3
Segment reporting continued

(i) Operating Segments continued

Accounting for derivatives that hedge interest rate risk

With respect to businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are measured at fair value through profit or loss (FVTPL). Changes in fair value are presented in net trading income and gives rise to income statement volatility unless designated in a hedge accounting relationship, in which case the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk to reduce volatility in the income statement. If designated in a cash flow hedge accounting relationship, the effective portion of the derivative's fair value gains or losses is deferred in the cash flow hedge reserve as part of Other comprehensive income (OCI), and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk. For segment reporting, derivatives are accounted for on an accrual basis in the results of the Operating Groups to the extent that the Corporate segment manages the derivative volatility, either through the application of hedge accounting or where the derivative volatility may offset the volatility of other positions managed within the Corporate segment.

Central service groups

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

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

Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the MEREP are recognised in the Corporate segment and are not allocated to Operating Groups.

Income tax

Income tax expense and benefits are recognised in the Corporate segment and are not allocated to the Operating Groups. However, to recognise an Operating Group's contribution to permanent income tax differences, the internal management revenue/charge category is used.

This internal management revenue/charge category, which is primarily used for permanent income tax differences generated by the Operating Groups, are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on consolidation.

Reportable segment assets

Segment assets are the external operating assets that are employed by a segment in its operating activities.

Note 3
Segment reporting continued

(i) Operating Segments continued

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

	Macquarie Asset Management $m	Banking and Financial Services $m
Net interest and trading (expense)/income	**(123)**	**844**
Fee and commission income/(expense)	**1,505**	**203**
Net operating lease income	**46**	**–**
Share of net (losses)/profits of associates and joint ventures	**(55)**	**(1)**
Credit and other impairment charges	**(11)**	**(78)**
Other operating income and charges	**425**	**16**
Internal management revenue/(charge)	**2**	**1**
Net operating income	**1,789**	**985**
Total operating expenses	**(721)**	**(668)**
Operating profit/(loss) before income tax	**1,068**	**317**
Income tax expense	**–**	**–**
(Profit)/loss attributable to non-controlling interests	**(6)**	**–**
Net profit/(loss) attributable to ordinary equity holders	**1,062**	**317**
Reportable segment assets	**6,882**	**80,041**
Net interest and trading (expense)/income	(144)	890
Fee and commission income/(expense)	1,559	219
Net operating lease income	77	–
Share of net profits/(losses) of associates and joint ventures	141	5
Credit and other impairment charges	(226)	(106)
Other operating income and charges	357	8
Internal management revenue/(charge)	89	–
Net operating income	1,853	1,016
Total operating expenses	(799)	(631)
Operating profit/(loss) before income tax	1,054	385
Income tax expense	–	–
Loss/(profit) attributable to non-controlling interests	1	–
Net profit/(loss) attributable to ordinary equity holders	1,055	385
Reportable segment assets	8,434	76,776
Net interest and trading (expense)/income	(258)	838
Fee and commission income/(expense)	1,648	226
Net operating lease income	303	–
Share of net profits/(losses) of associates and joint ventures	83	(3)
Credit and other impairment (charges)/reversal	(5)	(42)
Other operating income and charges	108	–
Internal management revenue/(charge)	–	2
Net operating income	1,879	1,021
Total operating expenses	(755)	(636)
Operating profit/(loss) before income tax	1,124	385
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(2)	–
Net profit/(loss) attributable to ordinary equity holders	1,122	385
Reportable segment assets	10,368	68,880

Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
			HALF YEAR TO 30 SEP 2020
1,737	**6**	**56**	**2,520**
257	**665**	**(17)**	**2,613**
198	**–**	**1**	**245**
13	**(17)**	**6**	**(54)**
(166)	**(119)**	**(73)**	**(447)**
90	**79**	**32**	**642**
1	**–**	**(4)**	**–**
2,130	**614**	**1**	**5,519**
(1,048)	**(816)**	**(1,013)**	**(4,266)**
1,082	**(202)**	**(1,012)**	**1,253**
–	**–**	**(275)**	**(275)**
–	**13**	**–**	**7**
1,082	**(189)**	**(1,287)**	**985**
102,925	**19,743**	**21,144**	**230,735**
			HALF YEAR TO 31 MAR 2020
1,267	(39)	329	2,303
347	854	(16)	2,963
203	–	4	284
15	(61)	44	144
(211)	(220)	(138)	(901)
48	821	(22)	1,212
13	23	(125)	–
1,682	1,378	76	6,005
(1,084)	(852)	(1,025)	(4,391)
598	526	(949)	1,614
–	–	(352)	(352)
–	16	(5)	12
598	542	(1,306)	1,274
126,612	23,778	20,202	255,802
			HALF YEAR TO 30 SEP 2019
1,690	(20)	167	2,417
283	738	(21)	2,874
157	–	1	461
9	(137)	(1)	(49)
(32)	(62)	2	(139)
49	576	23	756
2	38	(42)	–
2,158	1,133	129	6,320
(1,018)	(913)	(1,158)	(4,480)
1,140	220	(1,029)	1,840
–	–	(376)	(376)
–	1	(6)	(7)
1,140	221	(1,411)	1,457
100,498	21,349	12,176	213,271

Note 3
Segment reporting continued

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

The following is an analysis of the Consolidated Entity's fee and commission income/(expense) by reportable segment:

	Macquarie Asset Management $m	Banking and Financial Services $m	Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
Fee and commission income/(expense)						**HALF YEAR TO 30 SEP 2020**
Base and other asset management fees	**1,024**	**104**	**2**	**–**	**–**	**1,130**
Performance fees	**413**	**–**	**–**	**–**	**–**	**413**
Mergers and acquisitions, advisory and underwriting fees	**10**	**–**	**7**	**398**	**(2)**	**413**
Brokerage and other trading-related fee income	**9**	**24**	**112**	**256**	**–**	**401**
Other fee and commission income/(expense)	**49**	**75**	**136**	**11**	**(15)**	**256**
Total	**1,505**	**203**	**257**	**665**	**(17)**	**2,613**
Fee and commission income/(expense)						HALF YEAR TO 31 MAR 2020
Base and other asset management fees	1,133	109	1	–	–	1,243
Performance fees	275	–	–	–	–	275
Mergers and acquisitions, advisory and underwriting fees	30	–	–	549	(1)	578
Brokerage and other trading-related fee income	6	25	139	288	–	458
Other fee and commission income/(expense)	115	85	207	17	(15)	409
Total	1,559	219	347	854	(16)	2,963
Fee and commission income/(expense)						HALF YEAR TO 30 SEP 2019
Base and other asset management fees	999	110	4	–	–	1,113
Performance fees	546	–	–	–	–	546
Mergers and acquisitions, advisory and underwriting fees	23	–	18	451	(10)	482
Brokerage and other trading-related fee income	4	25	112	271	–	412
Other fee and commission income/(expense)	76	91	149	16	(11)	321
Total	1,648	226	283	738	(21)	2,874

Note 3

Segment reporting continued

(iii) Products and services

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

- **Financial markets**: trading in fixed income, equities, foreign exchange and commodities and broking services
- **Lending**: corporate and structured finance, banking activities, home loans, asset financing and leasing
- **Asset and wealth management**: distribution and management of funds and wealth management products
- **Capital markets**: advisory and capital raising services, underwriting, facilitation, principal lending and investments.

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Revenue from external customers			
Financial markets	**2,858**	2,845	3,194
Lending	**2,360**	2,608	2,864
Asset and wealth management	**1,627**	1,787	1,798
Capital markets	**1,349**	2,631	1,485
Total revenue from external customers[(1)]	**8,194**	9,871	9,341

(iv) Geographical areas

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

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Revenues from external customers			
Americas[(2)]	**2,955**	2,603	2,854
Australia	**2,570**	3,895	3,154
Europe, Middle East and Africa[(3)]	**1,834**	2,743	2,665
Asia Pacific	**835**	630	668
Total	**8,194**	9,871	9,341

(v) Major customers

The Consolidated Entity does not rely on any major customer.

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, investment income and other income.
(2) Includes external revenue generated in the United States of America of $2,762 million (half year to 31 March 2020: $2,399 million; half year to 30 September 2019: $2,654 million).
(3) Includes external revenue generated in the United Kingdom of $1,187 million (half year to 31 March 2020: $2,175 million; half year to 30 September 2019: $2,091 million).

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Note 4			
Income tax expense			
(i) Reconciliation of income tax expense to *prima facie* tax expense			
Prima facie income tax expense on operating profit[1]	**(376)**	(484)	(552)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**120**	171	204
Other items	**(19)**	(39)	(28)
Total income tax expense	**(275)**	(352)	(376)
(ii) Tax benefit/(expense) relating to OCI items			
FVOCI reserve	**(30)**	24	(2)
Own credit risk	**39**	(34)	8
Cash flow hedges and cost of hedging	**13**	(24)	2
Share of other comprehensive expense/(income) of associates and joint ventures	**20**	12	(6)
Total tax benefit/(expense) relating to OCI items	**42**	(22)	2

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 external advice where appropriate, and considers that it holds appropriate provisions.

(1) *Prima facie* income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (half year to 31 March 2020: 30%; half year to 30 September 2019: 30%)

Note 5
Dividends

(i) Dividends paid

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Ordinary share capital and exchangeable shares			
Final dividend paid (2020: $1.80 (2019: $3.60) per share)	**637**	–	1,224
Interim dividend paid (2020: $2.50 per share)	**–**	884	–
Total dividends paid (Note 20)[(1)]	**637**	884	1,224

The 2020 final dividend paid during the period was franked at 40% based on tax paid at 30% (2020 interim dividend franked at 40% based on tax paid at 30%; 2019 final dividend franked at 45% based on tax paid at 30%). The dividends paid to the holders of the exchangeable shares were not franked (refer to Note 19 *Contributed equity* for information on exchangeable shares).

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Equity Shares issued by the Consolidated Entity in the current period (equity shares purchased from the market in earlier periods) were allocated as fully paid ordinary shares pursuant to the DRP, details of which are included in Note 19 *Contributed equity* and Note 21 *Notes to the consolidated statement of cash flows.*

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

Since the end of the period, the Directors have resolved to pay an interim dividend for the half year ended 30 September 2020 of $1.35 per fully paid ordinary share, 40% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 22 December 2020 from retained profits, but not recognised as a liability at the end of the period is $488 million. This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 30 September 2020.

	Half year to 30 Sep 20 $ per share	Half year to 31 Mar 20 $ per share	Half year to 30 Sep 19 $ per share
Cash dividend per ordinary share (distribution of current period profits)	**1.35**	1.80	2.50

(1) Includes $4 million (half year to 31 March 2020: $7 million; half year to 30 September 2019: $8 million) of dividend equivalent amount paid to Deferred Share Units (DSU) holders.

Note 6
Earnings per share

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

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

	Half year to 30 Sep 20	Half year to 31 Mar 20	Half year to 30 Sep 19
			CENTS PER SHARE
Basic earnings per share	**276.7**	362.1	430.1
Diluted earnings per share	**272.9**	350.7	419.5
	$m	$m	$m
Reconciliation of earnings used in the calculation of basic and diluted earnings per share			
Profit after income tax	**978**	1,262	1,464
Loss/(profit) attributable to non-controlling interests:			
Macquarie Income Securities[1]	**–**	(6)	(6)
Other non-controlling interests	**7**	18	(1)
Total profit attributable to the ordinary equity holders of MGL	**985**	1,274	1,457
Less: profit attributable to participating unvested MEREP awards	**(32)**	(42)	(53)
Total earnings used in the calculation of basic earnings per share	**953**	1,232	1,404
Add back:			
Profit attributable to dilutive participating unvested MEREP awards	**17**	27	34
Interest expense on loan capital, net of tax (where applicable)			
Macquarie Bank Capital Notes (BCN)[2]	**–**	8	10
Macquarie Bank Capital Notes (BCN2)[3]	**9**	–	–
Macquarie Group Capital Notes 2 (MCN2)[4]	**–**	15	16
Macquarie Group Capital Notes 3 (MCN3)	**19**	22	24
Macquarie Group Capital Notes 4 (MCN4)	**18**	20	22
Total earnings used in the calculation of diluted earnings per share	**1,016**	1,324	1,510

(1) Redeemed on 16 April 2020.
(2) Redeemed on 24 March 2020.
(3) Issued on 2 June 2020.
(4) Anti-dilutive for half year to 30 September 2020.

Note 6
Earnings per share continued

	Half year to 30 Sep 20	Half year to 31 Mar 20	Half year to 30 Sep 19
			NUMBER OF SHARES
Total weighted average number of equity shares (net of treasury shares) used in the calculation of basic earnings per share[1]	**344,424,850**	340,275,553	326,439,395
Weighted average number of equity shares used in the calculation of diluted earnings per share:			
Weighted average number of equity shares used in the calculation of basic earnings per share	**344,424,850**	340,275,553	326,439,395
Potential dilutive equity shares[2]:			
Weighted average unvested MEREP awards	**8,824,318**	10,146,584	10,959,592
Weighted average BCN	**–**	3,528,347	3,375,733
Weighted average BCN2	**3,466,356**	–	–
Weighted average MCN2	**–**	5,138,983	4,174,298
Weighted average MCN3	**8,178,293**	9,678,078	7,861,320
Weighted average MCN4	**7,405,371**	8,763,412	7,118,354
Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share	**372,299,188**	377,530,957	359,928,692

(1) Includes weighted average number of equity shares issued during the half year to 30 September 2020 under MEREP and DRP participation (half year to 30 September 2019 included weighted average number of equity shares issued under the Institutional Private Placement and Share Purchase Plan).
(2) For details of loan capital included in potential dilutive equity shares, refer to Note 24 *Loan Capital* of the Consolidated Entity's 2020 financial report.

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Note 7			
Trading assets			
Equities			
Listed	**5,426**	4,437	9,801
Unlisted	**1**	2	1
Debt securities			
Commonwealth and foreign government securities	**4,995**	6,763	7,580
Corporate loans and securities	**558**	605	902
Treasury notes	**21**	318	100
Other debt securities	**2**	2	2
Commodity contracts	**1,745**	943	2,645
Commodities	**6,504**	3,785	2,869
Total trading assets	**19,252**	16,855	23,900

Note 8
Margin money and settlement assets

Security settlements	**6,198**	6,698	8,234
Margin money	**4,454**	7,238	3,661
Commodity settlements	**1,686**	2,457	3,326
Total margin money and settlement assets	**12,338**	16,393	15,221

Note 9
Financial investments

Equities			
Listed	**171**	255	241
Unlisted	**990**	1,046	1,072
Debt securities			
Bonds and Negotiable Certificate of Deposits (NCDs)	**7,253**	7,232	6,081
Money market securities	**228**	162	558
Corporate loans and securities	**157**	135	173
Other debt securities	**178**	100	142
Total financial investments	**8,977**	8,930	8,267

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m

Note 10
Held for sale and other assets

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Held for sale assets			
Assets of disposal groups and interests in associates and joint ventures classified as held for sale	**2,176**	1,634	608
Other assets			
Debtors and prepayments[1]	**2,895**	3,405	4,093
Commodity-related receivables	**2,132**	1,525	2,061
Income tax receivable	**649**	807	487
Property and other inventory[2]	**614**	785	509
Life investment linked contracts and other unitholder assets[3]	**10**	307	374
Other	**31**	39	44
Total other assets	**6,331**	6,868	7,568

Note 11
Loan assets

	AS AT 30 SEP 20			AS AT 31 MAR 20			AS AT 30 SEP 19		
	Gross $m	ECL allowance[4] $m	Net $m	Gross $m	ECL allowance[4] $m	Net $m	Gross $m	ECL allowance[4] $m	Net $m
Home loans[5]	**62,168**	**(75)**	**62,093**	56,653	(62)	56,591	48,393	(55)	48,338
Corporate, commercial and other lending	**15,886**	**(745)**	**15,141**	18,960	(557)	18,403	15,007	(264)	14,743
Asset financing[5]	**14,551**	**(334)**	**14,217**	16,866	(302)	16,564	17,853	(244)	17,609
Investment lending	**1,964**	**(1)**	**1,963**	2,562	(3)	2,559	2,524	(2)	2,522
Total loan assets	**94,569**	**(1,155)**	**93,414**	95,041	(924)	94,117	83,777	(565)	83,212

Loan assets continue to represent the Consolidated Entity's most significant component of credit exposures on which ECL allowances are carried. The credit quality of the Consolidated Entity's loan assets, which are monitored through its credit policies, at the reporting date, remains broadly consistent with that as disclosed in the Consolidated Entity's annual financial report for the year ended 31 March 2020.

The table above reflects continued growth in the home loans' segment driven by strong demand with a comparatively low ECL due to the underlying collateral, lower loan-to-value ratio and credit enhancements. The carrying value of the exposure in the corporate, commercial and other lending segments reduced over the period as a result of repayments and the impact of the stronger Australian dollar, offset by new originations. Repayments, lower drawdowns and the impact of the stronger Australian dollar contributed to the reduction in the asset financing portfolio carrying balance over the period.

Following the impact of COVID-19, the Consolidated Entity continued to work with and support its clients and customers. The provision of six month payment pause for Australian retail customers seeking support represented the largest initiative within the loan assets' category. The majority of the customers have since been contacted and the Consolidated Entity continues to see a growing number of customers resuming payments on their facilities. At 30 September 2020, loan assets with a gross carrying value of $4,511 million continued to be subject to COVID-19 related payment deferrals after peaking at $10,088 million during the period, which has continued to reduce post the reporting date as our customers have either resumed payments or have entered into alternate arrangements. Where the Consolidated Entity's customers utilising payment pauses have expressed negative sentiments on their ability to resume payments or have been uncontactable during the period, the loan assets have been recorded as Stage II with the ECL allowance at 30 September 2020 reflecting this.

(1) Includes $729 million (31 March 2020: $891 million; 30 September 2019: $721 million) of fee and commission receivables and $655 million (31 March 2020: $270 million; 30 September 2019: $1,517 million) of fee-related contract assets.
(2) Includes $256 million (31 March 2020: $240 million; 30 September 2019: $234 million) of investment properties measured at fair value. The valuation is classified as Level 3 in the fair value hierarchy as defined in Note 24 *Fair values of financial assets and liabilities*.
(3) Certain assets were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.
(4) The ECL allowance carried against loan assets measured at FVOCI is not represented in the table as the allowance is included in reserves.
(5) Includes $14,810 million (31 March 2020: $16,402 million; 30 September 2019: $11,975 million) held by consolidated Structured Entities (SEs), which are available as security to note holders and debt providers.

Note 12
Expected credit losses

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 on initial recognition.

Determination of expected credit losses

The Consolidated Entity has developed several models to predict the ECL. These models incorporate a range of inputs notably that of Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) ('credit inputs') as well as FLI.

The inclusion of FLI assumptions in the models to calculate the ECL impacts the PD, the determination of whether there has been a SICR as well as the LGD (relevant to the determination of the recovery rate on collateral).

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. COVID-19 has had economic impacts on the markets in which the Consolidated Entity operated during the period. The continued uncertainty in the economic outlook in a number of these markets has resulted in an increased use of post model adjustments (overlays). These overlays to the modelled ECL results reflect the application of judgement.

For the period ended 30 September 2020, overlays were made to address the risk that defaults may emerge over longer periods than historically assumed, models may be overly sensitive to certain economic variables, and to incorporate client and customer information received by the Consolidated Entity in its dealings with retail customers who had elected to participate in certain payment pause arrangements as a consequence of COVID-19. At the reporting date, these overlays supported approximately $300 million of the ECL provision.

Additional overlays for the risk that underlying credit risk events have occurred but observable modelled inputs are yet to reflect those events, as well as risks that are specific to counterparties or industries which are difficult to account for within the modelled outcomes were made. All overlays are reviewed and approved by both FMG and RMG at each reporting date.

Significant increase in credit risk

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors.

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 since origination. This may result in exposures being classified in Stage II that are of a higher credit quality than other similar exposures that are classified as Stage I. Accordingly, while increases in the quantum of Stage II exposures will suggest a relative deterioration of credit quality, it should not necessarily be inferred that the assets are of a lower credit quality.

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 90 days or more past due.

The Consolidated Entity periodically monitors its exposures for potential indicators of default such as significant financial difficulty of the borrower including breaches of lending covenants; it is 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 III 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

RMG is responsible for the FLI including the development of scenarios and the range of weights considered for those scenarios. The EADs, PDs and LGDs are determined under each scenario to calculate the ECL for that scenario. The resultant ECL for each scenario is then probability weighted to determine the reported ECL. The scenarios and the assigned probabilities are updated semi-annually or more frequently if a material disruption event was to occur. The scenarios, including the underlying indicators, are developed using a combination of publicly available data, internal forecasts, and third-party information.

The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources. COVID-19 has resulted in significant economic contractions in the markets in which the Consolidated Entity operates. The development of scenarios forecasting the economic outlook for these markets, including the modelling of forecast economic variables, and the assigning of probabilities to these scenarios has required enhanced professional judgement which draws on internal risk and economics' specialist input and comparison to general market outlooks and publicly available market commentary. The scenarios and the associated probabilities are ultimately approved by senior risk and finance executives.

Note 12

Expected credit losses continued

Forward Looking Information continued

The modelled ECL for each scenario is sensitive to the length of time between a downturn and a recovery, and the period of time to complete recovery steps, as it influences both the probability of default, and the value of collateral that may be utilised. Future economic conditions may differ to the scenarios outlined, the impact of which will be accounted for in future reporting periods.

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~$1,600 million[(1)]	Probable	**Global:** The baseline assumes the economic recovery continues through the second half of 2020 helped by targeted localised health policies replacing broader 'lockdown' containment measures utilised in the early stages of the COVID-19 pandemic. Job retention schemes and other policy measures are expected to ease gradually through the remainder of 2020, leading to increases in official unemployment rates but coinciding with private sector activity returning gradually towards normalised levels. In most developed markets GDP is expected to return to pre-COVID-19 levels by mid-2022. **Australia:** The Australian economy is expected to recover ahead of other economies having experienced a relatively smaller contraction in the first half of 2020. Equity markets are expected to continue to stabilise and return to modest growth but remaining below pre-COVID-19 peaks in 2020. With business activity continuing to be impacted, unemployment rates peak at ~9% in early 2021 with a recovery occurring to broadly pre-COVID-19 levels over the next three years. House prices decline ~4% during 2020, before recovering to pre-COVID-19 levels in mid-2022. The RBA maintains the cash rate at its historic lows until 2023. **United States (US):** The unemployment rate is expected to decline after reaching a high of ~13% in the first half of 2020, but remain above pre-COVID-19 levels, reaching ~6% in early 2023. US GDP contracted by ~10% in the first half of the year and is expected to return to pre-COVID-19 levels by the end of 2022. 10-year government bond yields are expected to recover slightly in late 2020 but remain at historical lows. **Europe:** The GDP is expected to recover to pre-COVID-19 levels by mid-2023, after contracting by ~16%. The unemployment rate is expected to peak at ~9% by the end of 2020 and return to pre-COVID-19 levels of ~7% by 2024. The European Central Bank (ECB) is expected to maintain its policy rate in slightly negative territory.
Downside A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~$1,850 million[(1)]	Possible	**Global:** The downside assumes COVID-19 takes longer to contain leading to movement restrictions being maintained and delaying the expected recovery above the baseline scenario. The economic recovery is restrained during the second half of 2020 as rolling lockdowns, more localised than at national levels, are imposed to address rising infections. Weak growth and the length of mobility restrictions are expected to hamper the effectiveness of fiscal support, having an adverse impact on businesses and employment, with developed market unemployment rates peaking in early 2021. In developed markets, activity returns to pre-COVID-19 levels in late 2023. Equity markets fall further in late 2020 as it becomes clear that recovery will be shallower and more prolonged. **Australia:** With business activity impacted more severely, unemployment rates rise to ~9.5% in early-2021 before declining to ~6.5% (~1% above pre-COVID-19 levels) over the next three years. By the end of 2020, Australian GDP is expected at ~7% lower from pre-COVID-19 levels and continues to be slightly below pre-COVID-19 levels until late 2023. House prices decline ~20% from pre-COVID-19 levels by late 2021. The RBA maintains the cash rate at historic lows throughout the forecast period. **United States:** The unemployment rate remains around ~13% through to early 2021 before gradually declining to ~6.5% (~3% above the pre-COVID-19 levels) by 2024. After US GDP contracted by ~10% from pre-COVID-19 levels, the economy commences a very gradual recovery during the 2H20, only returning to pre-COVID-19 levels by end of 2023. 10-year government bond yields remain below 1% for the forecast period. **Europe:** After the GDP contracts by ~16% from pre-COVID-19 levels the economy has a delayed but gradual recovery, with GDP still ~4% below pre-COVID-19 levels at the end of 2021. The unemployment rate rises to ~10% by the end of 2020 and remains slightly above pre-COVID-19 levels at ~8% through to 2025. The ECB maintains interest rates in negative territory for the forecast period.

(1) This number provides comparative ECL provision information as at the reporting date assuming the scenarios outlined. This number reflects neither changes in the credit rating of the counterparty nor changes in post model adjustments that may occur if these scenarios were to occur. Changes in credit rating and post model adjustments may have a material impact on these ECL provisions.

Note 12
Expected credit losses continued

Scenario	Weighting	Expectation
Upside A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~$1,500 million[(1)]	Unlikely	**Global:** The scenario assumes governments are able to ease restrictions quickly and without reversal. Improved treatments that greatly reduce the virus mortality rate allow a return to pre-COVID lifestyles. In this scenario economic activity is able to recover quickly to pre-pandemic levels. The growth trajectory is steeper and maintained, requiring less active stimulus from governments and central banks. Global GDP surpasses pre-COVID-19 levels in early 2021 facilitating higher employment and stimulating commodity prices. Equity markets reflect the broader economic recovery, varying internationally but generally reaching new highs in late 2020 or early 2021. In Australia, GDP surpasses pre-COVID-19 levels by mid-2021 and continues to grow at 3–4% annually through to 2024. The uptick in economic activity segues with the withdrawal of job retention schemes, preventing a sharp rise in unemployment levels. House prices respond to this improved outlook and steadily increase.

(1) This number provides comparative ECL provision information as at the reporting date assuming the scenarios outlined. This number reflects neither changes in the credit rating of the counterparty nor changes in post model adjustments that may occur if these scenarios were to occur. Changes in credit rating and post model adjustments may have a material impact on these ECL provisions.

Note 12
Expected credit losses continued

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

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI $m	Other[2] $m	Total exposure $m	Amortised cost $m	FVOCI $m	Other $m	Total ECL allowance $m
								AS AT 30 SEP 20
Cash and bank balances	**8,681**	**–**	**–**	**8,681**	**–**	**–**	**–**	**–**
Cash collateral on securities borrowed and reverse repurchase agreements	**11,448**	**17,921**	**–**	**29,369**	**–**	**–**	**–**	**–**
Margin money and settlement assets	**12,320**	**–**	**–**	**12,320**	**71**	**–**	**–**	**71**
Financial investments	**31**	**7,329**	**–**	**7,360**	**–**	**14**	**–**	**14**
Held for sale and other assets	**2,620**	**6**	**594**	**3,220**	**137**	**–**	**–**	**137**
Loan assets	**93,326**	**774**	**–**	**94,100**	**1,155**	**131**	**–**	**1,286**
Loans to associates and joint ventures	**696**	**84**	**–**	**780**	**80**	**31**	**–**	**111**
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	**–**	**–**	**6,769**	**6,769**	**–**	**–**	**34**	**34**
Total	**129,122**	**26,114**	**7,363**	**162,599**	**1,443**	**176**	**34**	**1,653**
								AS AT 31 MAR 20
Cash and bank balances	9,717	–	–	9,717	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	6,689	23,064	–	29,753	–	–	–	–
Margin money and settlement assets	15,909	–	–	15,909	71	–	–	71
Financial investments	–	7,345	–	7,345	–	15	–	15
Held for sale and other assets	3,879	–	270	4,149	143	–	–	143
Loan assets	92,342	1,592	–	93,934	924	182	–	1,106
Loans to associates and joint ventures	799	117	–	916	88	62	–	150
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	–	–	6,792	6,792	–	–	56	56
Total	129,335	32,118	7,062	168,515	1,226	259	56	1,541
								AS AT 30 SEP 19
Cash and bank balances	8,357	–	–	8,357	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	11,062	8,861	–	19,923	–	–	–	–
Margin money and settlement assets	14,364	–	–	14,364	–	–	–	–
Financial investments	–	6,022	–	6,022	–	5	–	5
Held for sale and other assets	2,681	8	1,517	4,206	87	–	–	87
Loan assets	82,897	695	–	83,592	565	111	–	676
Loans to associates and joint ventures	1,176	244	–	1,420	70	38	–	108
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	–	–	8,269	8,269	–	–	38	38
Total	120,537	15,830	9,786	146,153	722	154	38	914

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance. The gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) Other represents contract assets and undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL).
(3) Gross exposure for undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL) represents the notional values of these contracts.

Note 12
Expected credit losses continued

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

	Margin money and settlement assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Undrawn credit commitments, letters of credit and financial guarantees contracts $m	Total $m
Balance as at 1 Apr 2019	–	91	102	618	119	29	959
Impairment charges (Note 2)	–	2	16	126	6	8	158
Amounts written off, previously provided for	–	–	(3)	(74)	–	–	(77)
Foreign exchange, reclassifications, and other movements	–	(88)	(28)	6	(17)	1	(126)
Balance as at 30 Sep 2019	–	5	87	676	108	38	914
Impairment charges (Note 2)	71	10	65	492	7	16	661
Amounts written off, previously provided for	–	–	(16)	(82)	–	–	(98)
Foreign exchange, reclassifications, and other movements	–	–	7	20	35	2	64
Balance as at 31 Mar 2020	71	15	143	1,106	150	56	1,541
Impairment charges/(reversal) (Note 2)	**36**	**4**	**20**	**368**	**(2)**	**(17)**	**409**
Amounts written off, previously provided for	**(33)**	**–**	**(7)**	**(111)**	**(21)**	**–**	**(172)**
Foreign exchange, reclassifications, and other movements	**(3)**	**(5)**	**(19)**	**(77)**	**(16)**	**(5)**	**(125)**
Balance as at 30 Sep 2020	**71**	**14**	**137**	**1,286**	**111**	**34**	**1,653**

The $112 million increase in ECL provisions during the half year ended 30 September 2020 was predominantly driven by an impairment charge of $409 million, reflecting portfolio and specific impairments for counterparties who have experienced a deterioration in relative credit quality together with changes in FLI. This impairment charge was partially offset by the write-off of impairment provisions and the appreciation of Australian dollar during the period.

Note 12
Expected credit losses continued

ECL on loan assets

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

		LIFETIME ECL		
	Stage I 12 month ECL $m	Stage II Not credit impaired $m	Stage III Credit impaired $m	Total ECL Allowance $m
Balance as at 1 Apr 2019	158	199	261	618
Transfers during the period	17	(11)	(6)	–
Impairment (reversal)/charge (Note 2)	(7)	6	127	126
Amounts written off, previously provided for	–	–	(74)	(74)
Foreign exchange, reclassifications and other movements	–	1	5	6
Balance as at 30 Sep 2019	168	195	313	676
Transfers during the period	10	(2)	(8)	–
Impairment charge (Note 2)	104	164	224	492
Amounts written off, previously provided for	–	–	(82)	(82)
Foreign exchange, reclassifications and other movements	3	1	16	20
Balance as at 31 Mar 2020	285	358	463	1,106
Transfers during the period	**(12)**	**(3)**	**15**	**–**
Impairment charge (Note 2)	**173**	**64**	**131**	**368**
Amounts written off, previously provided for	**–**	**–**	**(111)**	**(111)**
Foreign exchange, reclassifications and other movements	**(17)**	**(18)**	**(42)**	**(77)**
Balance as at 30 Sep 2020	**429**	**401**	**456**	**1,286**

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m

Note 13
Interests in associates and joint ventures

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Equity investments with no provisions for impairment	**4,487**	6,415	6,165
Equity investments with provisions for impairment			
Gross carrying value	**1,355**	1,600	1,476
Less: provisions for impairment	**(593)**	(648)	(493)
Equity investments with provisions for impairment	**762**	952	983
Total equity investments in associates and joint ventures[1]	**5,249**	7,367	7,148
Loans to associates and joint ventures	**843**	1,040	1,421
Less: credit impairment charges[2]	**(80)**	(88)	(69)
Total loans to associates and joint ventures	**763**	952	1,352
Total interests in associates and joint ventures[3],[4],[5]	**6,012**	8,319	8,500

Disclosure of principal associates

The Consolidated Entity's principal associates at the reporting date are:

Associates	Carrying value 30 Sep 20 $m	Carrying value 31 Mar 20 $m	Carrying value 30 Sep 19 $m	Ownership interest 30 Sep 20	Nature of activities	Financial reporting date
East Anglia ONE Limited	**2,680**	2,834	2,225	40.0%	Offshore wind farm	31 December
Macquarie Infrastructure Corporation	**622**	763	794	15.8%	Infrastructure business	31 December
Macquarie AirFinance Limited	**607**	789	1,554	50.0%	Aircraft leasing	31 March

East Anglia ONE Limited

The Consolidated Entity's 40% interest in East Anglia ONE Limited, a UK offshore wind farm, is partially funded with asset-specific borrowings. The carrying value of the Consolidated Entity's investment in East Anglia ONE Limited was assessed as being recoverable at 30 September 2020.

(1) Includes investments in Macquarie-managed funds of $1,114 million (31 March 2020: $1,185 million; 30 September 2019: $1,115 million). The Consolidated Entity classifies its investments in such funds as equity accounted associates where it has a less than 20% ownership interest on the basis of its ability to participate in the financial and operating policy decisions through its role as manager.
(2) Excludes credit losses of $31 million (31 March 2020: $62 million; 30 September 2019: $38 million) which have been recognised on loans to associates classified as FVOCI. Such loans are measured at fair value through OCI and hence the ECL has also been recognised in OCI.
(3) Comprises $4,732 million (31 March 2020: $6,880 million; 30 September 2019: $5,690 million) relating to interests in associates and $1,280 million (31 March 2020: $1,439 million; 30 September 2019: $2,810 million) relating to interests in joint ventures.
(4) Financial statements of associates and joint ventures have various reporting dates which have been adjusted to align with the Consolidated Entity's reporting date.
(5) Includes the Consolidated Entity's 66% economic interest in Nuix Pty Ltd which is accounted for as an associate on the basis of its board representation.

Note 13
Interests in associates and joint ventures continued

Macquarie Infrastructure Corporation

The Consolidated Entity holds a 15.8% interest in Macquarie Infrastructure Corporation (MIC) and accounts for it as an interest in associate on the basis of exercising significant influence through its advisory contract, Board representation and secondment of key management. MIC owns, operates and invests in a portfolio of infrastructure businesses and is listed on the New York Stock Exchange. Based on MIC's value-in-use (ViU), no impairment was required to be recognised. The ViU is higher than the listed share price by $117 million (31 March 2020: $215 million) as the share price continues to be impacted by general market sentiment and uncertainty over the timing of recovery from COVID-19 disruptions on the portfolio assets. The ViU is calculated in accordance with accounting standards and does not represent the Consolidated Entity's view of the investment's underlying value.

Changes in the carrying value of the investment during the period as a result of the appreciation of the Australian dollar against the United States dollar are accounted for in the Consolidated Entity's foreign currency translation and net investment hedge reserve, together with applicable hedges.

Macquarie AirFinance Limited

On 1 August 2019, the Consolidated Entity disposed of its Macquarie AirFinance (MAF) business to a newly formed joint venture of which the Consolidated Entity held a 75% interest (Refer to Note 25 *Acquisitions and disposals of subsidiaries and businesses*).

During the half year to 31 March 2020, the Consolidated Entity disposed of a 25% interest in the joint venture and the remaining 50% retained interest was classified as an equity-accounted associate due to retaining significant influence.

During the period, MAF continued to be impacted by a global reduction in airline movements due to COVID-19 resulting in a drop in cash collections following deferrals and non-payments. As a result, an impairment analysis on an aircraft-by-aircraft basis was undertaken. The higher of each aircraft's ViU and its fair value less costs to sell was determined and compared to the aircraft's book value. The ViU's cash flows considered the circumstances of each lessee and its impact on contracted lease revenue, unleased aircraft, probability of leases being extended, time that an aircraft is off lease, future lease rates and disposal proceeds. The fair value less costs to sell was determined with reference to independent appraisal values. The ViU for each aircraft was higher than its fair value less costs to sell. Where the ViU was less than the aircraft's carrying value the Consolidated Entity's share of the impairment was recognised as part of its equity accounted loss for the period of $79 million. Following the recognition of this loss, no impairment was required to be recognised in relation to the Consolidated Entity's investment in Macquarie AirFinance Limited. A more protracted recovery resulting in further airline distress and potentially repossessions could result in a further reassessment of the carrying values of the aircraft in MAF.

Changes in the carrying value of the investment during the period as a result of the appreciation of the Australian dollar against the United States dollar are accounted for in the Consolidated Entity's foreign currency translation and net investment hedge reserve, together with applicable hedges.

Note 14
Property, plant and equipment, right-of-use assets and intangible assets

Property, plant and equipment and right-of-use assets

	AS AT 30 SEP 20			AS AT 31 MAR 20			AS AT 30 SEP 19		
	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m
Assets under operating lease	**4,540**	**(1,753)**	**2,787**	5,101	(1,802)	3,299	5,794	(1,857)	3,937
Assets for own use	**1,850**	**(859)**	**991**	1,878	(954)	924	1,611	(859)	752
Right-of-use assets	**1,035**	**(294)**	**741**	1,055	(234)	821	890	(108)	782
Total property, plant and equipment and right-of-use assets	**7,425**	**(2,906)**	**4,519**	8,034	(2,990)	5,044	8,295	(2,824)	5,471

Included within assets under operating lease is a portfolio of rotorcraft assets for which indicators of impairments existed and impairment testing was performed. The carrying value for these assets was compared to the recoverable amount being the higher of fair value less cost to sell or value-in-use determined with reference to current market values and future value forecasts from the independent appraisal firms and management's view of lease placements and downtime. No impairment was required to be recognised at 30 September 2020.

While COVID-19 did not have a significant impact on the rotorcraft business at the reporting date, it may further adversely impact rotorcraft operators resulting in a decrease in demand for rotorcraft and a reassessment of the carrying values.

Intangible assets

	AS AT 30 SEP 20			AS AT 31 MAR 20			AS AT 30 SEP 19		
	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m
Goodwill	**1,666**	**(205)**	**1,461**	1,975	(258)	1,717	1,703	(237)	1,466
Customer and servicing contracts	**628**	**(208)**	**420**	619	(219)	400	310	(181)	129
Intangible assets with indefinite lives	**289**	**–**	**289**	337	–	337	307	–	307
Other identifiable intangible assets	**1,026**	**(380)**	**646**	1,188	(374)	814	1,082	(318)	764
Total intangible assets	**3,609**	**(793)**	**2,816**	4,119	(851)	3,268	3,402	(736)	2,666

Goodwill and Intangible assets with indefinite lives comprises of $1,090 million (31 March 2020: $1,239 million; 30 September 2019: $1,131 million) related to the Consolidated Entity's integrated consolidated businesses and $660 million (31 March 2020: $815 million; 30 September 2019: $642 million) related to the Consolidated Entity's other consolidated investments.

Goodwill and intangible assets with indefinite lives for which there was an impairment indicator, the recoverable amount was determined on the basis of the asset or cash generating unit's fair value less costs to sell. This measurement basis was determined either with reference to external valuations or using earnings multiple valuation methodologies, in which case the key assumptions included earnings multiples ranging from 10.8–19.2x, referencing market transactions of comparable companies, and earnings information specific to the underlying asset or cash generating unit. The impairment assessment concluded that no material impairment charge was required to be recognised.

Note 15
Trading liabilities

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Equity securities			
Listed	**6,136**	5,534	6,278
Debt securities			
Foreign government securities	**–**	–	677
Corporate loans and securities	**–**	2	8
Commodities	**–**	8	19
Total trading liabilities	**6,136**	5,544	6,982

Note 16
Margin money and settlement liabilities

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Margin money	**13,255**	13,894	9,304
Security settlements	**5,572**	6,607	7,957
Commodity settlements	**1,266**	2,314	3,109
Total margin money and settlement liabilities	**20,093**	22,815	20,370

Note 17
Held for sale and other liabilities

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Held for sale liabilities			
Liabilities of disposal groups classified as held for sale	**1,267**	260	94
Other liabilities			
Accrued charges, employment-related liabilities and provisions(1)	**2,888**	3,803	2,971
Creditors	**1,279**	1,402	1,500
Lease liabilities	**905**	1,038	993
Income tax payable	**708**	984	445
Commodity-related payables	**595**	314	177
Life investment linked contracts and other unitholder liabilities(2)	**13**	307	368
Other	**173**	179	297
Total other liabilities	**6,561**	8,027	6,751

(1) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current period in each of these matters did not have and is not currently expected to have a material impact on the Consolidated Entity.
(2) Certain liabilities were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Note 18			
Debt issued			
Bonds, NCDs and commercial paper[1]	**53,318**	61,611	53,968
Structured notes[2]	**3,021**	2,945	3,266
Total debt issued[3],[4]	**56,339**	64,556	57,234

The Consolidated Entity did not have any debt restructuring, covenant breaches, defaults of principal and/or interest or any other breaches with respect to its debt during the reported periods.

Reconciliation of debt issued by major currency

(In Australian dollar equivalent)

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
United States dollar	**27,924**	33,102	32,161
Australian dollar	**18,861**	21,046	15,762
Euro	**5,816**	6,627	5,213
Swiss franc	**1,133**	1,260	1,122
British pound	**897**	1,028	834
Japanese yen	**735**	840	1,180
Chinese renminbi	**511**	120	150
Norwegian krone	**160**	165	166
Korean won	**110**	123	113
Hong Kong dollar	**89**	103	156
South African rand	**–**	7	255
Other	**103**	135	122
Total debt issued	**56,339**	64,556	57,234

(1) Includes $12,264 million (31 March 2020: $13,665 million; 30 September 2019: $9,360 million) payable to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security.
(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates, other assets or credit risk of a counterparty.
(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued that is measured at DFVTPL (Refer to Note 23 *Measurement categories of financial instruments*) for the Consolidated Entity is $3,681 million (31 March 2020: $3,615 million; 30 September 2019: $2,682 million). This amount is based on the final notional amount.
(4) Includes a cumulative fair value loss of $11 million (31 March 2020: $119 million gain; 30 September 2019: $6 million gain) due to changes in own credit risk on DFVTPL debt securities recognised directly in retained earnings through OCI.

Note 19
Contributed equity

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Ordinary share capital	**10,138**	9,290	9,282
Treasury shares	**(1,702)**	(1,446)	(1,568)
Other equity	**(2)**	7	7
Total contributed equity	**8,434**	7,851	7,721

(i) Ordinary share capital[1]

	Number of shares	Total $m
Balance as at 1 Apr 2019	340,382,738	7,546
Issue of shares pursuant to the Institutional Private Placement, net of transaction costs[2]	8,333,333	991
Issue of shares pursuant to the Share Purchase Plan (SPP)[3]	5,660,150	679
Issue of shares on retraction of exchangeable shares	246	–
For employee MEREP awards:		
Transfer of MEREP from share-based payments reserve on vesting of MEREP awards	–	448
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	–	31
Transfer from treasury shares for awards exercised	–	(411)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	–	(2)
Balance as at 30 Sep 2019	354,376,467	9,282
Issue of shares on retraction of exchangeable shares	4,929	–
For employee MEREP awards:		
Transfer of MEREP from share-based payments reserve on vesting of MEREP awards	–	109
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	–	21
Transfer from treasury shares for awards exercised	–	(122)
Balance as at 31 Mar 2020	354,381,396	9,290
Issue of shares pursuant to the MEREP[4]	**5,163,874**	**579**
Issue of shares pursuant to the Dividend Reinvestment Plan[5]	**1,958,357**	**216**
For employee MEREP awards:		
Transfer of MEREP from share-based payments reserve on vesting of MEREP awards	**–**	**374**
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	**–**	**2**
Transfer from treasury shares for awards exercised	**–**	**(323)**
Balance as at 30 Sep 2020	**361,503,627**	**10,138**

(1) Ordinary shares have no par value.
(2) On 3 September 2019, MGL issued 8,333,333 fully paid ordinary shares at a price of $120 per share.
(3) On 30 September 2019, MGL issued 5,660,150 fully paid ordinary shares under the Share Purchase Plan offered to eligible existing shareholders with a registered address in Australia or New Zealand.
(4) On 9 June 2020 and 4 August 2020, MGL issued 5,024,608 and 139,266 fully paid ordinary shares respectively, that were allocated to the MEREP trust under the MEREP plan at a price of $112.15 per share that were accounted for as treasury shares.
(5) On 3 July 2020, MGL issued 1,958,357 fully paid ordinary shares at a price of $110.47 per share to the DRP participative shareholders.

Note 19
Contributed equity continued

(ii) Treasury shares[1]

	Number of shares	Total $m
Balance as at 1 Apr 2019	(16,433,421)	(1,372)
Purchase of shares for employee MEREP awards	(4,960,137)	(607)
Transfer to ordinary share capital for awards exercised	5,563,022	411
Purchase of shares for allocation under DRP scheme	(701,215)	(85)
Allocation of shares under DRP scheme	701,215	85
Balance as at 30 Sep 2019	(15,830,536)	(1,568)
Transfer to ordinary share capital for awards exercised	1,439,477	122
Purchase of shares for allocation under DRP scheme	(422,555)	(57)
Allocation of shares under DRP scheme	422,555	57
Purchase of shares for allocation under Macquarie Group Employee Share Plan (ESP) scheme	(10,717)	(1)
Allocation of shares under ESP scheme	10,717	1
Balance as at 31 Mar 2020	(14,391,059)	(1,446)
Issue of shares for the MEREP	**(5,163,874)**	**(579)**
Transfer to ordinary share capital for awards exercised	**3,707,103**	**323**
Balance as at 30 Sep 2020	**(15,847,830)**	**(1,702)**

(iii) Other equity

(a) Exchangeable shares[2]

	Number of shares	Total $m
Balance as at 1 Apr 2019	105,984	7
Retraction of exchangeable shares	(260)	–
Balance as at 30 Sep 2019	105,724	7
Retraction of exchangeable shares	(5,223)	–
Balance as at 31 Mar 2020	100,501	7
Balance as at 30 Sep 2020	**100,501**	**7**

(b) Other

	Number of shares	Total $m
Balance as at 31 Mar 2020	–	–
Transaction cost relating to Macquarie Income Securities (MIS)[3]	**–**	**(9)**
Balance as at 30 Sep 2020	**–**	**(9)**

(1) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares.
(2) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity.
(3) Balance represents transaction cost relating to original issuance of MIS which was transferred to Contributed equity on redemption of the MIS during the current period. The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020.

Note 20

Reserves, retained earnings and non-controlling interests

(i) Reserves

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Foreign currency translation and net investment hedge reserve			
Balance at the beginning of the period	**2,016**	1,152	824
Exchange differences on translation and hedge accounting of foreign operations, net of tax[(1)]	**(1,276)**	864	328
Balance at the end of the period	**740**	2,016	1,152
FVOCI reserve			
Balance at the beginning of the period	**(72)**	35	9
Revaluation movement for the period, net of tax	**174**	(192)	84
Changes in ECL allowance, net of tax	**(60)**	85	(58)
Balance at the end of the period	**42**	(72)	35
Share-based payments reserve			
Balance at the beginning of the period	**1,067**	957	1,086
MEREP share-based payment arrangements for the period	**253**	250	336
Deferred tax benefit/(expense) on MEREP share-based payment arrangements	**10**	(10)	14
Transfer to ordinary share capital on vesting of MEREP awards	**(374)**	(109)	(448)
Transfer of deferred tax benefit to ordinary share capital on vesting of MEREP awards	**(2)**	(21)	(31)
Balance at the end of the period	**954**	1,067	957
Share-based payments capital reduction reserve[(2)]			
Balance at the beginning of the period	**(7)**	(7)	(9)
Transfer to ordinary share capital on vested and forfeited awards	**–**	–	2
Balance at the end of the period	**(7)**	(7)	(7)
Cash flow hedge reserve			
Balance at the beginning of the period	**(90)**	(140)	(102)
Revaluation movement for the period, net of tax	**(64)**	36	(60)
Transferred to income statement on realisation, net of tax[(3)]	**8**	14	28
Transferred to share of reserves in associates and joint ventures	**–**	–	(6)
Balance at the end of the period	**(146)**	(90)	(140)
Cost of hedging reserve			
Balance at the beginning of the period	**(10)**	(2)	(5)
Revaluation movement for the period, net of tax	**–**	(8)	3
Balance at the end of the period	**(10)**	(10)	(2)
Share of reserves in associates and joint ventures			
Balance at the beginning of the period	**(131)**	(68)	(30)
Share of other comprehensive losses of associates and joint ventures during the period, net of tax	**(64)**	(63)	(44)
Transferred from cash flow hedge reserve	**–**	–	6
Balance at the end of the period	**(195)**	(131)	(68)
Total reserves at the end of the period	**1,378**	2,773	1,927

(1) The current period movement represents the revaluation of the Group's unhedged investments in foreign operations primarily driven by the appreciation of the Australian dollar against the United States dollar. It excludes foreign exchange movements of $43 million attributable to non-controlling interest. Refer to Note 34.3 *Market Risk* in the annual financial report for the year ended 31 March 2020 for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.
(2) The share based payment capital reduction reserve represents the capital distribution attributable to all the unvested MEREP awards on the disposal of the Sydney Airport. At the time of distribution, the reserve was created which will be transferred to ordinary share capital on vesting of the MEREP awards.
(3) Half year to 31 March 2020 include $12 million related to a previously designated hedge relationship for which the hedged future cash flows are no longer highly probable to occur.

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

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
(ii) Retained earnings			
Balance at the beginning of the period	**10,439**	9,969	9,758
Profit attributable to the ordinary equity holders of MGL	**985**	1,274	1,457
Dividends on ordinary share capital and exchangeable shares (Note 5)	**(637)**	(884)	(1,224)
Loss on change in non-controlling ownership interest	**–**	(1)	(2)
Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax	**(91)**	81	(20)
Balance at the end of the period	**10,696**	10,439	9,969
(iii) Non-controlling interests			
Macquarie Income Securities[(1)]:			
4,000,000 MIS of $100 each	**–**	400	400
Less: transaction costs for original placement	**–**	(9)	(9)
Total Macquarie Income Securities	**–**	391	391
Other non-controlling interests[(2)]:			
Share capital and partnership interests	**434**	437	416
Reserves[(3)]	**(53)**	(14)	(45)
Accumulated losses	**(100)**	(93)	(67)
Total other non-controlling interests	**281**	330	304
Total non-controlling interests	**281**	721	695

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Distributions to Macquarie Income Securities[(4)] holders			
Distributions paid (net of distributions previously provided for)	**–**	3	4
Distributions provided for	**–**	3	2
Total distributions paid or provided for	**–**	6	6

(1) The MIS were redeemed on 16 April 2020, for which $400 million cash was paid to holders on 15 April 2020. Following the redemption of MIS, $9 million of transaction costs incurred on the original placement was re-attributed to contributed equity.
(2) Other non-controlling interests represents equity in subsidiaries that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.
(3) Includes non-controlling interest in the foreign currency translations reserve.
(4) The distributions are reflected as 'Profit attributable to non-controlling interests' in the consolidated income statement.

Note 21

Notes to the consolidated statement of cash flows

During March 2020, the Consolidated Entity revised its policy for the accounting treatment for client money and cash and cash equivalents. Consistent with the changes reflected in the March 2020 financial statements, the cash and cash equivalents and the cash flow statement for the period ended 30 September 2019 have been re-presented.

The following changes were effected for the half year ended 30 September 2019:

- certain reverse repurchase agreements held for liquidity management purposes of $8,131 million have now been included in cash and cash equivalents
- certain trading assets of $101 million, margin money balances of $2,676 million, funds received from clients which are segregated from the Consolidated Entity's own funds of $3,134 million[1] and other balances of $518 million have been excluded from cash and cash equivalents as these balances are not available to meet the Consolidated Entity's short term cash commitments or does not qualify as cash equivalents
- the effect of exchange rate movements of $454 million on cash and cash equivalents has been disclosed together with other exchange rate movements in the statement of cash flows.

As a result of these changes, cash flows from operating activities decreased by $3,491 million and the opening and closing cash and cash equivalents increased by $4,739 million and $1,702 million respectively for the period ended 30 September 2019. This revision had no impact on the Consolidated Entity's statements of financial position, income statements or reserves.

(i) Reconciliation of cash and cash equivalents

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

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Cash and bank balances[2],[3]	5,289	6,838	5,436
Cash collateral on securities borrowed and reverse repurchase agreements	17,651	21,469	8,131
Financial investments	662	616	624
Held for sale assets	30	37	11
Cash and cash equivalents at the end of the period	**23,632**	28,960	14,202

(1) The amount shown as the impact of the revision includes amounts now removed from the statement of financial position which do not meet the definition of an asset. Refer to Note 1(ii) *Comparatives*.
(2) Amounts excluded from cash and cash equivalents but presented in the statement of financial position as cash and bank balances primarily relates to $2,654 million (31 March 2020: $2,360 million; 30 September 2019: $1,912 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and are not available to meet the Consolidated Entity's short-term cash commitments.
(3) Cash and bank balances includes $998 million (31 March 2020: $947 million; 30 September 2019: $1,070 million) of balances held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is restricted.

Note 21
Notes to the consolidated statement of cash flows continued

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

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Profit after income tax	**978**	1,262	1,464
Adjustments to profit after income tax:			
Depreciation and amortisation	**486**	625	828
Expected credit losses and other impairment charges	**447**	887	153
Investment income and gain on sale of operating lease assets and other non-financial assets	**(589)**	(986)	(687)
Share-based payments expense	**255**	250	336
Share of net losses/(profit) of associates and joint ventures	**54**	(144)	49
Changes in assets and liabilities:			
Trading assets, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities)	**(8,486)**	7,249	(6,940)
Debt issued	**(2,735)**	3,658	4,078
Loan assets	**(2,291)**	(9,149)	(6,338)
Borrowings	**(1,694)**	1,049	4,924
Debtors, prepayments, accrued charges and creditors	**(545)**	(90)	(747)
Other assets and liabilities	**(555)**	(365)	(232)
Interest, fee and commission receivable and payable	**(339)**	996	(483)
Tax balances	**(121)**	(79)	(238)
Operating lease assets	**(72)**	(159)	(328)
Carrying value of associates due to dividends received	**53**	226	130
Deposits	**10,153**	8,118	2,802
Net cash flows (utilised in)/generated from operating activities	**(5,001)**	13,348	(1,229)

(iii) Non-cash financing activities

Non-cash transactions include the issue of ordinary shares of $579 million relating to the issue of shares to the MEREP trust under the MEREP plan and $216 million relating to issue of shares to shareholders under the DRP for settlement of the dividend liability during the half year ended 30 September 2020. Refer to Note 19 *Contributed equity* for details.

(iv) Reconciliation of Loan Capital

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Balance at the beginning of the period	**7,414**	7,246	6,963
Cash flows:			
Issuance[(1),(2)]	**2,474**	–	–
Redemption[(2)]	**(740)**	(429)	–
Non-cash changes:			
Foreign currency translation and other movements	**(737)**	597	283
Balance at the end of the period	**8,411**	7,414	7,246

(1) On 2 June 2020, the Consolidated entity issued BCN2 amounting to $641 million. BCN2 is a perpetual security which is eligible for conversion into a variable number of Consolidated Entity's ordinary shares on the scheduled mandatory exchange date (being 21 December 2028), provided the exchange conditions are satisfied, unless redeemed, resold or written off earlier.
(2) During the half year ended 30 September 2020, the Consolidated Entity raised $1,833 million through the issue of Tier 2 Loan capital and redeemed $740 million of Loan Capital under fixed repayment obligation.

Note 22
Contingent liabilities and commitments

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Contingent liabilities exist in respect of:			
Letters of credit	**887**	1,030	1,185
Guarantees	**545**	623	593
Indemnities	**441**	417	556
Performance-related contingent liabilities	**311**	313	296
Total contingent liabilities(1)	**2,184**	2,383	2,630
Commitments exist in respect of:			
Undrawn credit facilities and securities commitments(2),(3),(4)	**9,449**	11,948	14,791
Property, plant and equipment and right-of-use assets and asset developments(5)	**2,394**	4,155	2,114
Total commitments	**11,843**	16,103	16,905
Total contingent liabilities and commitments	**14,027**	18,486	19,535

The Consolidated Entity operates in a number of regulated markets and is subject to regular regulatory reviews and inquiries. From time to time these may result in litigation, fines or other regulatory enforcement actions. At the reporting date there are no matters of this nature which are expected to result in a material economic outflow of resources for the Consolidated Entity and, consistent with its accounting policies and disclosures in its March 2020 annual financial statements, the Consolidated Entity considers the probability of there being a material adverse effect in respect of litigation or claims that have not been provided for to be remote.

(1) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(2) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.
(3) Includes $990 million (31 March 2020: $648 million; 30 September 2019: $927 million) of undrawn facilities to be assigned to a third-party on drawdown.
(4) Includes $1,111 million (31 March 2020: $1,645 million; 30 September 2019: $720 million) equity commitments and $21 million (31 March 2020: $54 million; 30 September 2019: $Nil) of debt commitments to the Consolidated Entity's associates and joint ventures.
(5) Includes asset development commitments to third parties of $429 million (31 March 2020: $2,161 million; 30 September 2019: $Nil) in certain subsidiaries which are funded with borrowings of $295 million (31 March 2020: $1,874 million; 30 September 2019: $Nil).

Note 23

Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of financial instruments, including commodities, of the Consolidated Entity.

The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 24 *Fair values of financial assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets								**AS AT 30 SEP 2020**	
Cash and bank balances	–	–	–	–	8,681	–	8,681	–	8,681
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	13,564	17,921	11,448	–	42,933	31,485	11,448
Trading assets(1)	19,252	–	–	–	–	–	19,252	19,252	–
Margin money and settlement assets	–	–	89	–	12,249	–	12,338	89	12,273
Derivative assets(2)	22,055	–	–	–	–	–	22,055	22,055	–
Financial investments									
Equity	–	–	1,161	–	–	–	1,161	1,161	–
Debt	–	–	410	7,375	31	–	7,816	7,785	31
Held for sale assets(3)	45	–	–	6	498	1,627	2,176	51	498
Other assets(3)	–	1,733	19	–	1,985	2,594	6,331	1,752	1,985
Loan assets(4)	–	33	560	650	92,171	–	93,414	1,243	92,664
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	5,249	5,249	–	–
Loans to associates and joint ventures(4)	–	–	95	52	616	–	763	147	603
Property, plant and equipment and right-of-use assets	–	–	–	–	–	4,519	4,519	–	–
Intangible assets	–	–	–	–	–	2,816	2,816	–	–
Deferred tax assets	–	–	–	–	–	1,231	1,231	–	–
Total assets	**41,352**	**1,766**	**15,898**	**26,004**	**127,679**	**18,036**	**230,735**	**85,020**	**128,183**
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,079	–	–	3,882	–	4,961	1,079	3,882
Trading liabilities	6,136	–	–	–	–	–	6,136	6,136	–
Margin money and settlement liabilities	–	–	–	–	20,093	–	20,093	–	20,093
Derivative liabilities(2)	16,467	–	–	–	–	–	16,467	16,467	–
Deposits	–	–	–	–	77,258	–	77,258	–	77,290
Held for sale liabilities(5)	46	–	–	–	1,159	62	1,267	46	1,159
Other liabilities(5)	–	608	–	–	1,949	4,004	6,561	608	1,041
Borrowings	–	–	–	–	12,288	–	12,288	–	12,298
Debt issued(4)	–	3,021	–	–	53,318	–	56,339	3,021	54,667
Deferred tax liabilities	–	–	–	–	–	165	165	–	–
Loan capital(4)	–	–	–	–	8,411	–	8,411	–	8,605
Total liabilities	**22,649**	**4,708**	**–**	**–**	**178,358**	**4,231**	**209,946**	**27,357**	**179,035**

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationships are included as HFT.
(3) Non-financial assets primarily represent non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale and fee-related contract assets, prepayments, tax receivables, inventory and investment properties under other assets.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risks.
(5) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale and accrued charges, employee-related provisions, retained director profit share, tax payables and income received in advance presented under other liabilities. The fair value of Other liabilities excludes lease liabilities.

Note 23
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets								AS AT 31 MAR 2020	
Cash and bank balances	–	–	–	–	9,717	–	9,717	–	9,717
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,957	23,064	6,689	–	37,710	31,021	6,689
Trading assets(1)	16,855	–	–	–	–	–	16,855	16,855	–
Margin money and settlement assets	–	–	555	–	15,838	–	16,393	555	15,838
Derivative assets(2)	45,607	–	–	–	–	–	45,607	45,607	–
Financial investments									
Equity	–	–	1,301	–	–	–	1,301	1,301	–
Debt	–	–	323	7,306	–	–	7,629	7,629	–
Held for sale assets(3)	–	–	52	–	609	973	1,634	52	609
Other assets(3)	–	947	315	–	3,127	2,479	6,868	1,262	3,127
Loan assets(4)	–	83	1,257	1,359	91,418	–	94,117	2,699	91,445
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	7,367	7,367	–	–
Loans to associates and joint ventures(4)	–	–	185	56	711	–	952	241	756
Property, plant and equipment and right-of-use assets	–	–	–	–	–	5,044	5,044	–	–
Intangible assets	–	–	–	–	–	3,268	3,268	–	–
Deferred tax assets	–	–	–	–	–	1,340	1,340	–	–
Total assets	62,462	1,030	11,945	31,785	128,109	20,471	255,802	107,222	128,181
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,042	–	2,334	1,292	1,042
Trading liabilities(1)	5,544	–	–	–	–	–	5,544	5,544	–
Margin money and settlement liabilities	–	–	–	–	22,815	–	22,815	–	22,815
Derivative liabilities(2)	38,399	–	–	–	–	–	38,399	38,399	–
Deposits	–	–	–	–	67,342	–	67,342	–	67,413
Held for sale liabilities(5)	–	–	–	–	123	137	260	–	123
Other liabilities(5)	–	622	–	–	2,174	5,231	8,027	622	1,130
Borrowings	–	–	–	–	17,093	–	17,093	–	17,031
Debt issued(4)	–	2,929	–	–	61,627	–	64,556	2,929	60,961
Deferred tax liabilities	–	–	–	–	–	234	234	–	–
Loan capital(4)	–	–	–	–	7,414	–	7,414	–	7,013
Total liabilities	43,943	4,843	–	–	179,630	5,602	234,018	48,786	177,528

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationships are included as HFT.
(3) Non-financial assets primarily represent non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale and fee-related contract assets, prepayments, tax receivables, inventory and investment properties under other assets.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale and accrued charges, employee-related provisions, retained director profit share, tax payables and income received in advance presented under other liabilities. The fair value of Other liabilities excludes lease liabilities.

Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

Note 23

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets								AS AT 30 SEP 2019	
Cash and bank balances	–	–	–	–	8,357	–	8,357	–	8,357
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	10,278	8,861	11,062	–	30,201	19,139	11,062
Trading assets(1)	23,900	–	–	–	–	–	23,900	23,900	–
Margin money and settlement assets	–	–	857	–	14,364	–	15,221	857	14,364
Derivative assets(2)	18,221	–	–	–	–	–	18,221	18,221	–
Financial investments									
Equity	–	–	1,313	–	–	–	1,313	1,313	–
Debt	–	–	911	6,043	–	–	6,954	6,954	–
Held for sale assets(3)	–	–	36	8	15	549	608	44	15
Other assets(3)	–	1,310	426	–	2,579	3,253	7,568	1,736	2,579
Loan assets(4)	–	11	260	609	82,332	–	83,212	880	82,842
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	7,148	7,148	–	–
Loans to associates and joint ventures(4)	–	–	39	207	1,106	–	1,352	246	1,108
Property, plant and equipment and right-of-use assets	–	–	–	–	–	5,471	5,471	–	–
Intangible assets	–	–	–	–	–	2,666	2,666	–	–
Deferred tax assets	–	–	–	–	–	1,079	1,079	–	–
Total assets	42,121	1,321	14,120	15,728	119,815	20,166	213,271	73,290	120,327
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	3,023	–	–	2,780	–	5,803	3,023	2,780
Trading liabilities(1)	6,982	–	–	–	–	–	6,982	6,982	–
Margin money and settlement liabilities	–	–	–	–	20,370	–	20,370	–	20,370
Derivative liabilities(2)	14,514	–	–	–	–	–	14,514	14,514	–
Deposits	–	–	–	–	59,042	–	59,042	–	59,096
Held for sale liabilities(5)	–	–	–	–	67	27	94	–	67
Other liabilities(5)	–	546	–	–	2,299	3,906	6,751	546	1,306
Borrowings	–	–	–	–	14,626	–	14,626	–	14,687
Debt issued(4)	–	3,373	–	–	53,861	–	57,234	3,373	54,776
Deferred tax liabilities	–	–	–	–	–	297	297	–	–
Loan capital(4)	–	–	–	–	7,246	–	7,246	–	7,492
Total liabilities	21,496	6,942	–	–	160,291	4,230	192,959	28,438	160,574

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationships are included as HFT.
(3) Non-financial assets primarily represent non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale and fee-related contract assets, prepayments, tax receivables, inventory and investment properties under other assets.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale and accrued charges, employee-related provisions, retained director profit share, tax payables and income received in advance presented under Other liabilities. The fair value of Other liabilities excludes lease liabilities.

Note 24
Fair values of financial assets and liabilities

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

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

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

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

Level 1:	unadjusted quoted prices 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 fair value hierarchy level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair Value Measurement* requires the use of the price within the bid-offer spread that is most representative of fair value.

Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all of the residual net exposure to market risks were closed, on a portfolio basis, using available hedging instruments.

The fair values calculated for financial instruments which are carried in the statement of financial position at amortised cost (as disclosed in Note 23 *Measurement categories of financial instruments)* are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold or a liability repurchased in a market-based transaction:

- 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 portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on securities borrowed, cash collateral on securities lent and repurchase agreements approximates their carrying amounts
- the fair values of all loan assets, term deposits and debt liabilities carried at amortised cost, is determined with reference to changes in interest rates and credit spreads
- the fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of issued debt and loan capital, where carried at amortised cost, is based on quoted prices in active markets where available. Where quoted prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.

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

- trading assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified as FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of quoted prices and observable market inputs. Unrealised gains and losses on FVOCI debt assets, excluding changes in ECL on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of variable rate loans classified at FVOCI approximates its amortised cost carrying value on the basis that the interest rates are reflective of market rates offered on similar loans
- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty

Note 24
Fair values of financial assets and liabilities
continued

- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations
- the Consolidated Entity has incorporated the market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

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

To the extent possible, models use only observable market data (for example OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument such as volatility and correlation.

Note 24

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments, including commodities measured at fair value[1]:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**AS AT 30 SEP 2020**
Cash collateral on securities borrowed and reverse repurchase agreements	**–**	**31,485**	**–**	**31,485**
Trading assets[2]	**9,428**	**9,424**	**400**	**19,252**
Margin money and settlement assets	**–**	**89**	**–**	**89**
Derivative assets	**202**	**21,409**	**444**	**22,055**
Financial investments	**600**	**7,099**	**1,247**	**8,946**
Held for sale and other assets	**–**	**1,740**	**63**	**1,803**
Loan assets	**–**	**160**	**1,083**	**1,243**
Loans to associates and joint ventures	**–**	**–**	**147**	**147**
Total assets	**10,230**	**71,406**	**3,384**	**85,020**
Liabilities				
Cash collateral on securities lent and repurchase agreements	**–**	**1,079**	**–**	**1,079**
Trading liabilities	**6,004**	**132**	**–**	**6,136**
Derivative liabilities	**572**	**15,567**	**328**	**16,467**
Held for sale and other liabilities	**–**	**606**	**48**	**654**
Debt issued	**–**	**3,021**	**–**	**3,021**
Total liabilities	**6,576**	**20,405**	**376**	**27,357**
Assets				AS AT 31 MAR 2020
Cash collateral on securities borrowed and reverse repurchase agreements	–	31,021	–	31,021
Trading assets[2]	10,362	5,837	656	16,855
Margin money and settlement assets	–	555	–	555
Derivative assets	1,009	43,718	880	45,607
Financial investments	723	6,819	1,388	8,930
Held for sale and other assets	3	1,301	10	1,314
Loan assets	–	184	2,515	2,699
Loans to associates and joint ventures	–	–	241	241
Total assets	12,097	89,435	5,690	107,222
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	1,292	–	1,292
Trading liabilities[2]	5,164	380	–	5,544
Derivative liabilities	1,059	36,957	383	38,399
Held for sale and other liabilities	3	619	–	622
Debt issued	–	2,929	–	2,929
Total liabilities	6,226	42,177	383	48,786

(1) Where applicable, the level in the fair value hierarchy for non-financial instruments measured at fair value is disclosed under the respective notes.
(2) Includes commodities carried at fair value which are held for trading purposes.

Note 24
Fair values of financial assets and liabilities continued

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				AS AT 30 SEP 2019
Cash collateral on securities borrowed and reverse repurchase agreements	–	19,139	–	19,139
Trading assets[1]	16,529	6,736	635	23,900
Margin money and settlement assets	87	770	–	857
Derivative assets	210	17,384	627	18,221
Financial investments	649	6,332	1,286	8,267
Held for sale and other assets	10	1,720	50	1,780
Loan assets	–	314	566	880
Loans to associates and joint ventures	–	–	246	246
Total assets	17,485	52,395	3,410	73,290
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	3,023	–	3,023
Trading liabilities[1]	6,740	242	–	6,982
Derivative liabilities	416	13,774	324	14,514
Held for sale and other liabilities	4	539	3	546
Debt issued	–	3,373	–	3,373
Total liabilities	7,160	20,951	327	28,348

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

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Note 24
Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table summarises the movements in Level 3 of the fair value hierarchy for the financial instruments, including commodities measured at fair value:

	Trading assets $m	Financial investments $m	Held for sale and other assets $m
Balance as at 1 Apr 2019	225	1,502	97
Purchases and other additions	245	119	44
Sales and settlements	(36)	(317)	(71)
Transfers into Level 3[2]	212	66	7
Transfers out of Level 3[2]	(35)	(214)	(45)
Fair value movements recognised in the income statement[3]	24	110	18
Fair value movements recognised in OCI[3]	–	20	–
Balance as at 30 Sep 2019	635	1,286	50
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[3]	24	77	4
Balance as at 1 Oct 2019	635	1,286	50
Purchases and other additions	118	247	–
Sales and settlements	(9)	(185)	(28)
Transfers into Level 3[2]	–	–	5
Transfers out of Level 3[2]	(87)	(5)	–
Fair value movements recognised in the income statement[3]	(1)	52	(17)
Fair value movements recognised in OCI[3]	–	(7)	–
Balance as at 31 Mar 2020	656	1,388	10
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[3]	(1)	69	(4)
Balance as at 1 Apr 2020	**656**	**1,388**	**10**
Purchases and other additions	**207**	**333**	**6**
Sales and settlements	**(248)**	**(253)**	**(1)**
Reclassification	**–**	**–**	**45**
Transfers into Level 3[2]	**–**	**181**	**4**
Transfers out of Level 3[2]	**(185)**	**(244)**	**–**
Fair value movements recognised in the income statement[3]	**(30)**	**(154)**	**(1)**
Fair value movements recognised in OCI[3]	**–**	**(4)**	**–**
Balance as at 30 Sep 2020	**400**	**1,247**	**63**
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[3]	**(30)**	**(151)**	**(1)**

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $444 million (31 March 2020: $880 million; 30 September 2019: $627 million) and derivative liabilities are $328 million (31 March 2020: $383 million; 30 September 2019: $324 million).
(2) Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the period.
(3) The Consolidated Entity employs various hedging techniques in order to manage risks including foreign exchange risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency financial instruments measured at amortised cost. The fair value movements recognised in the income statement for assets and liabilities in Level 3 presented in the table above also includes foreign exchange differences on such assets and liabilities and do not include the related gains and losses arising on hedging instruments.

Loan assets $m	Loans to associates and joint ventures $m	Held for sale and other liabilities $m	Derivative financial instruments (net replacement values)[1] $m	Total $m
621	208	–	238	2,891
217	105	(3)	17	744
(164)	(33)	–	(23)	(644)
–	–	–	21	306
(113)	(6)	–	(55)	(468)
36	(23)	–	105	270
(31)	(5)	–	–	(16)
566	246	(3)	303	3,083
30	(23)	–	105	217
566	246	(3)	303	3,083
1,996	151	3	232	2,747
(44)	(134)	–	(90)	(490)
113	–	–	(3)	115
–	(1)	–	49	(44)
32	(7)	–	6	65
(148)	(14)	–	–	(169)
2,515	241	–	497	5,307
23	(7)	–	6	86
2,515	**241**	**–**	**497**	**5,307**
186	**37**	**(2)**	**26**	**793**
(1,249)	**(8)**	**–**	**(111)**	**(1,870)**
–	**–**	**(46)**	**1**	**–**
–	**4**	**–**	**8**	**197**
(49)	**(16)**	**–**	**(69)**	**(563)**
(339)	**(37)**	**–**	**(236)**	**(797)**
19	**(74)**	**–**	**–**	**(59)**
1,083	**147**	**(48)**	**116**	**3,008**
(339)	**(37)**	**–**	**(234)**	**(792)**

Directors' Report

Financial Report

Note 24
Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

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

Transfers into Level 3 were due to the lack of observable valuation inputs for certain investments and trading balances. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the period. Financial assets reclassified into/out of the fair value hierarchy disclosure due to recognition and measurement category changes, or due to changes in significant influence or control are also presented as transfers into/out of Level 3.

Unrecognised gains

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

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which significant unobservable inputs are used:

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Balance at the beginning of the period	**179**	226	185
Deferral on new transactions	**33**	24	91
Amounts recognised in the income statement and other changes	**(90)**	(71)	(50)
Balance at the end of the period	**122**	179	226

Sensitivity analysis of valuations using unobservable inputs

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

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss $m	OCI $m	Profit or loss $m	OCI $m
Product type				**AS AT 30 SEP 2020**
Equity and equity-linked products	**108**	**–**	**(123)**	**–**
Commodities	**109**	**–**	**(62)**	**–**
Interest rate and other products	**60**	**11**	**(84)**	**(17)**
Total	**277**	**11**	**(269)**	**(17)**
Product type				AS AT 31 MAR 2020
Equity and equity-linked products	112	–	(122)	–
Commodities	167	–	(133)	–
Interest rate and other products	69	32	(213)	(49)
Total	348	32	(468)	(49)
Product type				AS AT 30 SEP 2019
Equity and equity-linked products	87	–	(95)	–
Commodities	113	–	(112)	–
Interest rate and other products	21	45	(21)	(45)
Total	221	45	(228)	(45)

Note 24
Fair values of financial assets and liabilities continued

The favourable and unfavourable changes of using reasonably possible alternative assumptions for the valuation of the equity and equity-linked products, commodities and interest rate and other products have been calculated by recalibrating the valuation model using stressed significant unobservable inputs within the Consolidated Entity's range of possible estimates.

Significant unobservable inputs

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

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS Minimum value	Maximum value
						AS AT 30 SEP 2020
Equity and equity-linked products	**842**	**46**	Net Asset Value (NAV)	Fund's NAV[1]		
			Pricing model	Earnings multiples	2.0x	16.1x
Commodities	**523**	**270**	Pricing model	Commodity margin curves	(334.0)	913.0
			Pricing model	Correlations	(55.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	400.0%
Interest rate and other products	**2,019**	**60**	Discounted cash flows	Discount rates	7.0%	14.0%
			Pricing model	Correlations	0.0%	100.0%
			Comparable transactions	Prices in %	44.0%	97.0%
Total	**3,384**	**376**				
						AS AT 31 MAR 2020
Equity and equity-linked products	976	10	NAV	Fund's NAV[1]		
			Pricing model	Earnings multiples	2.0x	15.0x
Commodities	1,170	364	Pricing model	Commodity margin curves	(126.3)	967.5
			Pricing model	Correlations	(55.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	293.4%
Interest rate and other products	3,544	9	Discounted cash flows	Discount rates	2.0%	12.0%
			Pricing model	Correlations	0.0%	100.0%
Total	5,690	383				
						AS AT 30 SEP 2019
Equity and equity-linked products	781	–	NAV	Fund's NAV[1]		
			Pricing model	Earnings multiples	1.5x	14.9x
Commodities	1,055	319	Pricing model	Commodity margin curves	(364.0)	990.0
			Pricing model	Correlations	(45.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	264.6%
Interest rate and other products	1,574	8	Discounted cash flows	Discount rates	2.0%	13.0%
			Pricing model	Correlations	0.0%	100.0%
Total	3,410	327				

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

Note 24
Fair values of financial assets and liabilities
continued

Correlation

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

Volatility

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

Correlations and volatilities are derived through the extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.

Inputs for equity and equity-linked products

Unlisted equity securities are generally valued based on earnings or revenue multiples, referencing market transactions for comparable companies adjusted as appropriate for current economic conditions. Other significant unobservable inputs may include NAV and discount rates determined using inputs specific to the underlying investment, and forecast cash flows and earnings/revenues of investee entities.

Inputs for interest rate products (discount rate)

Loans are generally valued using discount rates. Significant unobservable inputs may include interest rates and credit spreads of counterparties and original issue discounts on primary debt issuances and the discounts to par on comparable secondary market debt trades.

Note 25
Acquisitions and disposals of subsidiaries and businesses

Significant acquisition of businesses:

There were no individually significant entities or businesses where control was gained during the period to 30 September 2020.

Other entities or businesses acquired:

During the half year to 30 September 2020, other entities or businesses acquired or consolidated due to the acquisition of control were: Alira Energy, LLC, Woodway Holdings LLC, Vantage Commodities Financial Services LLC and Global Listed Real Assets Fund. The incremental impact of the acquisitions on the Consolidated Entity's revenue and earnings was not material.

During the half year to 31 March 2020, other entities or businesses acquired or consolidated due to the acquisition of control were: Biocow Ltd, Zajaczkowo Windfarm Sp. z o.o, Business Keeper AG, Management Kisielice spółka z ograniczoną odpowiedzialnością, Macquarie Fund Solutions – Macquarie Corporate Bond, PESY II Holdings S.a.r.l and Matrix Networks Group Limited.

During the half year to 30 September 2019, other entities or businesses acquired or consolidated due to the acquisition of control were: Premier Technical Services Group, The Dovel Group LLC, Ace Info Solutions LLC, Eolica Kisielice spólka z ograniczoną odpowiedzialnością and Lake Wind AB.

Aggregate provisional details of the above-mentioned entities and businesses acquired are as follows:

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Fair value of net assets acquired			
Cash and bank balances	**19**	7	37
Other assets	**14**	32	181
Financial investments	**–**	74	–
Loan assets	**6**	–	–
Property, plant and equipment and right-of-use assets	**51**	107	86
Intangible assets	**73**	33	211
Payables, provisions, borrowings and other liabilities	**(52)**	(122)	(405)
Non-controlling interests	**(2)**	(50)	(19)
Total fair value of net assets acquired	**109**	81	91
Consideration			
Cash consideration	**109**	173	715
Deferred consideration	**–**	6	–
Total consideration	**109**	179	715
Goodwill recognised on acquisition	**–**	98	624
Net cash flow			
Cash consideration	**(109)**	(173)	(715)
Less: cash and cash equivalents acquired	**19**	7	37
Net cash outflow	**(90)**	(166)	(678)

Note 25
Acquisitions and disposals of subsidiaries and businesses continued

Significant disposal of businesses:

There were no individually significant entities or businesses where control was lost during the period ended 30 September 2020.

Other disposal of entities:

During the half year to 30 September 2020, other entities or businesses disposed of or deconsolidated due to the loss of control were: Lohas Ece Brown K.K , Offshore Wind Power Limited, VeenIX BaHo B.V, Aennea B.V, Solar Field 10 G.K, Macquarie European Rail, Macquarie Corporate Bond Funds, Graywhale Off Shore Wind Power No 1 Co. Ltd, Graywhale Off shore Wind Power No 2 Co. Ltd. Ulsan Floating Offshore Wind Power Co. Ltd, Maenggoldo Offshore Wind Power Co. Limited, Komudo Offshore Wind Power Co. Limited, Acacia Renewables K.K.

During the half year to 31 March 2020, the Consolidated Entity disposed of 25% interest in the Macquarie AirFinance Limited joint venture and accounted for its remaining 50% retained interest as an equity-accounted associate due to retaining significant influence. Refer to Note 13 *Interests in associates and joint ventures* for details. Prior to this, in the half year ended 30 September 2019, the Consolidated Entity disposed of the Macquarie AirFinance business, which was achieved by contributing the net assets of the business to a newly formed joint venture along with a third-party investor and in which Macquarie held a 75% interest. Rental income and other operating lease related charges up to the date of the disposal have been included in the Consolidated Entity's net operating lease income.

During the half year to 31 March 2020, other entities or businesses disposed of or deconsolidated due to the loss of control were: Delaware Emerging Market Debt Fund, Delaware Small Cap Growth Fund, Global Multi Asset Income, Delaware Investments Corporate Bond Fund (UCITs), PPP Irish Accommodation Limited, Zajączkowo Windfarm Sp. z o.o, Poland Bidco 1 Ltd, Kisielice Wind Limited, Eolica Kisielice spółka z ograniczoną odpowiedzialnością and Management Kisielice spółka z ograniczoną odpowiedzialnością.

During the half year to 30 September 2019, other entities or businesses disposed of or deconsolidated due to the loss of control were: Dalmatia WtE EUR Holdings Limited, Energy S. LSIS, Achim Solar Power Co. Ltd, Aran Solar Company Limited, Suri Solar Company Limited, Sosu Solar Company Limited, Mir Solar Company Limited, Maru Solar Company Limited, Laon Solar Company Limited, Nuix Pty Ltd, Nuix North America Inc., Nuix USG Inc., Nuix Ireland Ltd, Nuix Technology UK Ltd, Nuix Pte. Ltd, Nuix Holding Pty Ltd, Nuix Philippines ROHQ, Dalmatia WtE EUR Topco Limited, LPC Venture I, LLC, Godo Kaisha Alpha Mega Solar Project No. 1, Godo Kaisha Alpha Mega Solar Project No. 2, Alchemy Telco Solutions Limited and American Alpha Master Fund.

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

	Half year to 30 Sep 20 $m	Half year to 31 Mar 20 $m	Half year to 30 Sep 19 $m
Carrying value of assets and liabilities			
Cash and bank balances	**9**	40	74
Financial investments	**88**	296	–
Held for sale and other assets	**694**	185	9,591
Property, plant and equipment and right-of-use assets	**8**	67	27
Interests in associates and joint ventures	**–**	–	44
Intangible assets	**13**	–	453
Held for sale liabilities, borrowings and other liabilities	**(237)**	(193)	(7,095)
Non-controlling interests	**(40)**	(212)	(137)
Total carrying value of net assets	**535**	183	2,957
Consideration			
Cash consideration	**902**	167	1,056
Consideration receivable	**–**	–	17
Fair value of retained investment	**54**	44	680
Interest acquired through contribution to the joint venture[1]	**–**	–	1,558
Total consideration	**956**	211	3,311
Direct costs relating to disposal	**(3)**	(4)	(4)
Net cash flow			
Cash consideration	**902**	167	1,056
Less: cash and cash equivalents disposed of or deconsolidated[2]	**(24)**	(87)	(1,110)
Net cash inflow/(outflow)	**878**	80	(54)

(1) Refer to Note 13 *Interests in associates and joint ventures* for details of the interest in the joint venture.
(2) Includes $15 million (half year ended 31 March 2020: $47 million; half year ended 30 September 2019: $1,036 million) of cash and bank balances included under held for sale and other assets.

Note 26

Events after the reporting date

There were no material events between 30 September 2020 and the date of this report that have not been disclosed elsewhere in the financial statements.

Directors' declaration

Macquarie Group Limited

In the Directors' opinion:

(a) the financial statements and notes set out on pages 20 to 79 are in accordance with the *Corporations Act 2001* (Cth) including:

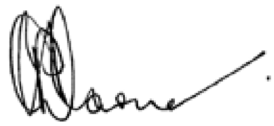
  (i) complying with the Australian Accounting Standards, and

  (ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2020 and performance for the half year ended on that date, and

(c) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth).

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



Peter Warne
Independent Director and Chairman

Shemara Wikramanayake
Managing Director and Chief Executive Officer

Sydney
6 November 2020

Independent auditor's review report

To the members of Macquarie Group Limited

pwc

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Macquarie Group Limited (the Company) and the entities it controlled during the half-year (together the Consolidated Entity), which comprises the consolidated statement of financial position as at 30 September 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* (Cth) including giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations* 2001 (Cth). As the auditor of Macquarie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

1. giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2020 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth).

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
6 November 2020

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