MACQUARIE BANK

Macquarie Bank Interim Financial Report

Half year ended 30 September 2021

Macquarie Bank Limited ACN 008 583 542

Macquarie Bank 2022 Interim Financial Report

This Interim Financial Report has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth) and does not include all the notes of the type normally included in an annual financial report. Macquarie Bank Limited's (MBL) most recent annual financial report is available at **www.maquarie.com** as part of Macquarie Bank's 2021 Annual Report. MBL has also released information to the Australian Securities Exchange operated by ASX Limited (ASX) in compliance with the continuous disclosure requirements of the ASX Listing Rules. Announcements made by MBL under such rules are available on ASX's internet site **www.asx.com.au** (MBL's ASX code is 'MBL').

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

The Interim Financial Report was authorised for issue by MBL's Directors on 29 October 2020. The Board of Directors has the power to amend and reissue the Financial Report.

Cover image

For almost two decades we have worked with governments and clients to drive the energy transition and advance practical solutions to climate challenges. We have built market leading capabilities in investing directly into climate mitigation and adaptation infrastructure and in supporting our clients and portfolio companies to decarbonise their activities. we are committed to playing a leading role in achieving global net zero emissions by 2050.

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Directors' Report

Directors

For the half year ended 30 September 2021

The Directors of MBL submit their report with the financial report of the Consolidated Entity for the half year ended 30 September 2021.

Directors

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

Independent Directors

P.H. Warne, Chairman

J.R. Broadbent AC

P.M. Coffey

M.J. Coleman

D.J. Grady AO

R.J. McGrath

M. Roche

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Directors

S. Green, Managing Director and Chief Executive Officer

S.R. Wikramanayake

Other than S. Green, the Directors listed above each held office as a Director of Macquarie Bank throughout the period and until the date of this report.

G.M. Cairns retired as an Independent Director on 7 May 2021.

M.J. Reemst retired from her roles as Managing Director and Chief Executive Officer, and as an Executive Voting Director of MBL, on 1 July 2021.

S. Green was appointed as Managing Director and Chief Executive Officer, and as an Executive Voting Director of MBL, on 1 July 2021.

Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Result

The financial report for the half year ended 30 September 2021 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

The consolidated profit attributable to the ordinary equity holder of Macquarie Bank, in accordance with Australian Accounting Standards, for the period was $A1,243 million (half year to 31 March 2021: $A1,016 million; half year to 30 September 2020: $A660 million).

Operating and financial review

For the half year ended 30 September 2021

Review of performance and financial position

Overview

Macquarie Bank's consolidated profit attributable to the ordinary equity holder of $A1,243 million for the half year ended 30 September 2021 increased 88% from $A660 million in the prior corresponding period[1] and increased 22% from $A1,016 million in the prior period.[2]

	HALF YEAR TO			*MOVEMENT*	
	30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am	*31 Mar 21 %*	*30 Sep 20 %*
Net operating income	**4,412**	4,052	2,943	*9*	*50*
Operating expenses	**(2,783)**	(2,594)	(2,103)	*7*	*32*
Income tax expense	**(386)**	(442)	(180)	*(13)*	*114*
Profit attributable to the ordinary equity holder	**1,243**	1,016	660	*22*	*88*

Corporate update

In November 2020, the transfer of MGL's service entities from the Non-Bank Group to the Consolidated Entity was executed following approval from both the MGL and MBL Boards. The service entities largely employ staff in Central Service Groups, together with some back and middle office staff from the Operating Groups. The transfer resulted in an increase of approximately 7,500 permanent headcount for the Consolidated Entity. Where staff provide services to the Non-Bank Group, the Consolidated Entity earns fees for these services, which are charged on an arms-length basis.

Refer to Note 22 *Acquisitions and disposals of subsidiaries and businesses* for additional information.

(1) Prior corresponding period (pcp) refers to the six months ended 30 September 2020.
(2) Prior period refers to the six months ended 31 March 2021.

Net profit contribution by Operating Group[1]

Banking and Financial Services (BFS)

$A482m

↑ 53% on pcp

- Higher net interest and trading income driven by volume growth in the loan portfolio and BFS deposits
- Decreased credit impairment charges driven by an improvement in expected macroeconomic conditions compared to the prior corresponding period
- Decreased brokerage, commission and fee expenses largely due to the cessation of grandfathered commission payments to third party advisors in line with legislation.

Partially offset by:

- higher employment and technology expenses, including increased headcount, to support business growth.

Commodities and Global Markets (CGM)

$A1,772m

↑ 92% on pcp

- Increased risk management products income reflecting strong results across all sectors particularly from Gas and Power, Resources, and Agriculture due to increased client hedging activity and gains associated with management of those exposures as a result of elevated levels of volatility and price movements in commodity markets
- Net income on equity, debt and other investments up significantly driven by the gain on the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio
- Decreased credit and other impairment charges due to an improvement in expected global macroeconomic conditions.

Partially offset by:

- lower inventory management and trading income included strong trading gains from supply and demand imbalances in Gas and Power that were more than offset by the impact of timing of income recognition, primarily on storage contracts and transport agreements
- lower fee and commission income due to a reduction in fees associated with structured deals in asset finance which occur on an intermittent basis.

(1) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

Net operating income

Net operating income of $A4,412 million for the half year ended 30 September 2021 increased 50% from $A2,943 million in the prior corresponding period, mainly driven by higher Net interest and trading income, Net other operating income and Fee and commission income.

Net interest and trading income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
2,917	3,025	2,379

↑ **23%** on prior corresponding period

- Increased risk management products income reflecting strong results across all sectors, particularly from Gas and Power, Resources, and Agriculture in CGM
- Growth in the average loan and lease portfolio and growth in average deposit volumes in BFS.

Partially offset by:

- lower inventory management and trading income with strong trading gains more than offset by the impact of timing of income recognition in CGM.

Fee and commission income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
896	810	516

↑ **74%** on prior corresponding period

- Higher income due to fees received from the Non-Bank Group for services provided by the Central Service Groups which were transferred to MBL during the prior period.

Net operating lease income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
154	189	206

↓ **25%** on prior corresponding period

- Reduction in secondary income in Technology, Media and Telecoms as well as the partial sale of the UK Meters portfolio of assets in CGM.

Credit and other impairment charges

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
(83)	(71)	(262)

↓ **68%** on prior corresponding period

- Lower credit impairment charges recognised across the Consolidated Entity compared to the prior corresponding period reflecting improvement in expected macroeconomic conditions.

Net other operating income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
528	99	104

↑ **significantly** on prior corresponding period

- Gain on the partial sale of the UK Meters portfolio of assets in CGM.

Operating and financial review

For the half year ended 30 September 2021 continued

Operating expenses

Total operating expenses of $A2,783 million for the half year ended 30 September 2021 increased 32% from $A2,103 million in the prior corresponding period, mainly driven by higher Employment expenses. This was partially offset by lower Other operating expenses.

Employment expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
1,796	1,460	643

↑ **significantly** on prior corresponding period

- Higher employment expenses mainly due to the transfer of staff from MGL's service entities during the prior period resulting in an increase in permanent headcount of approximately 7,500 for the Consolidated Entity
- Increase in performance-related profit share expense and share-based payments as a result of increased headcount due to the transfer of the service entities, as well as the improved performance of the Consolidated Entity.

Brokerage, commission and fee expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
251	229	296

↓ **15%** on prior corresponding period

- The cessation of grandfathered commission payments to third party advisors in line with legislation in BFS
- Reduced trading volumes in financial markets in specific high volume activities in CGM.

Non-salary technology expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
320	239	88

↑ **significantly** on prior corresponding period

- Higher technology expenses mainly due to the transfer of costs of Central Service Groups during the prior period to the Consolidated Entity.

Other operating expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
416	666	1,076

↓ **61%** on prior corresponding period

- Reduced Other operating expenses mainly driven by the transfer of MGL's service entities to the Consolidated Entity in November 2020:
  - prior to the transfer, the Consolidated Entity recognised its allocation of charges from the service entities in Other expenses which were charged on an arms-length basis
  - following the transfer, the costs of the service entities have been incurred directly by the Consolidated Entity and recognised in the underlying expense categories, including Employment expenses and Non-salary technology expenses.

Income tax expense

Income tax expense of $A386 million for the half year ended 30 September 2021 increased significantly from $A180 million in the prior corresponding period, primarily reflecting the higher operating profit before income tax. The effective tax rate for the half year ended 30 September 2021 was 23.7%, up from 21.4% in the prior corresponding period and down from 30.3% in the prior period.

The higher effective tax rate compared to the prior corresponding period was mainly driven by the geographic composition and nature of earnings.

Statement of financial position

The Consolidated Entity's statement of financial position was impacted during the half year ended 30 September 2021 by changes resulting from a combination of business activities, Group Treasury management initiatives and macroeconomic factors including the depreciation of the Australian dollar against major currencies and the elevated levels of volatility and price movements in commodity markets.

Total assets

AS AT 30 Sep 21 $Am	31 Mar 21 $Am
306,127	216,848

↑ **41%** on 31 Mar 21

The principal drivers for the increase in the Consolidated Entity's total assets were as follows:

- derivative assets of $A77.1 billion as at 30 September 2021 increased significantly from $A20.6 billion as at 31 March 2021 primarily due to an increase in CGM in client trade volumes and mark-to-market movements in interest rate and foreign exchange products and, in particular, energy markets and commodities. European gas prices increased significantly during the period due to an increase in global demand alongside low storage and supply levels ahead of the European winter. After taking into account related financial instruments, cash and other collateral, the residual derivative asset is $A12.5 billion (31 March 2021: $A5.1 billion)
- cash and bank balances of $A28.8 billion as at 30 September 2021 increased 80% from $A16.0 billion as at 31 March 2021 primarily due to an increase in surplus cash placed on overnight deposit with the Reserve Bank of Australia (RBA)
- loan assets of $A109.5 billion as at 30 September 2021 increased 11% from $A99.0 billion as at 31 March 2021 primarily due to growth in BFS in its business banking and home loans' portfolios, partially offset by a decrease in the vehicle finance portfolio
- margin money and settlement assets of $A16.1 billion as at 30 September 2021 increased 94% from $A8.3 billion as at 31 March 2021 primarily due to higher trade volumes resulting in an increase in margin placed with financial institutions and broker settlement balances in CGM.

These increases were partially offset by:

- a decrease in cash collateralised lending and reverse repurchase agreements of 5% from $A34.6 billion as at 31 March 2021 to $A32.8 billion as at 30 September 2021 primarily due to a decrease in client reverse repurchase agreements in CGM and in Group Treasury following higher Operating Group funding requirements.

Total liabilities

AS AT 30 Sep 21 $Am	31 Mar 21 $Am
290,088	202,774

↑ **43%** on 31 Mar 21

The principal drivers for the increase in the Consolidated Entity's total liabilities were as follows:

- derivative liabilities of $A77.8 billion as at 30 September 2021 increased significantly from $A17.5 billion as at 31 March 2021 primarily due to an increase in CGM in client trade volumes and mark-to-market movements in interest rate and foreign exchange products and, in particular, energy markets and commodities. European gas prices increased significantly during the period due to an increase in global demand alongside low storage and supply levels ahead of the European winter. After taking into account related financial instruments, cash and other collateral, the residual derivative liability is $A13.7 billion (31 March 2021: $A3.7 billion)
- issued debt securities of $A57.4 billion as at 30 September 2021 increased 28% from $A44.7 billion as at 31 March 2021 primarily due to the net issuance of short and long-term debt in Group Treasury and net issuance of bondholder notes by securitisation vehicles in BFS
- cash collateralised borrowing and repurchase agreements of $A13.8 billion as at 30 September 2021 increased significantly from $A4.5 billion as at 31 March 2021 primarily due to the additional draw down of the RBA Term Funding Facility by Group Treasury
- deposits of $A91.7 billion as at 30 September 2021 increased 9% from $A84.1 billion as at 31 March 2021 primarily due to an increase in retail and business banking deposits in BFS
- margin money and settlement liabilities of $A20.6 billion as at 30 September 2021 increased 26% from $A16.3 billion as at 31 March 2021 primarily due to higher trade volumes resulting in an increase in broker settlement balances and margin placed by financial institutions with CGM.

Total equity

AS AT 30 Sep 21 $Am	31 Mar 21 $Am
16,039	14,074

↑ **14%** on 31 Mar 21

The increase in the Consolidated Entity's equity was attributable to the profit during the current period of $A1.2 billion, issue of ordinary share capital of $A0.5 billion and an increase in the foreign currency translation reserve of $A0.2 billion following the depreciation of the Australian dollar against major currencies.

Operating and financial review

For the half year ended 30 September 2021 continued

Funding

4.2 years

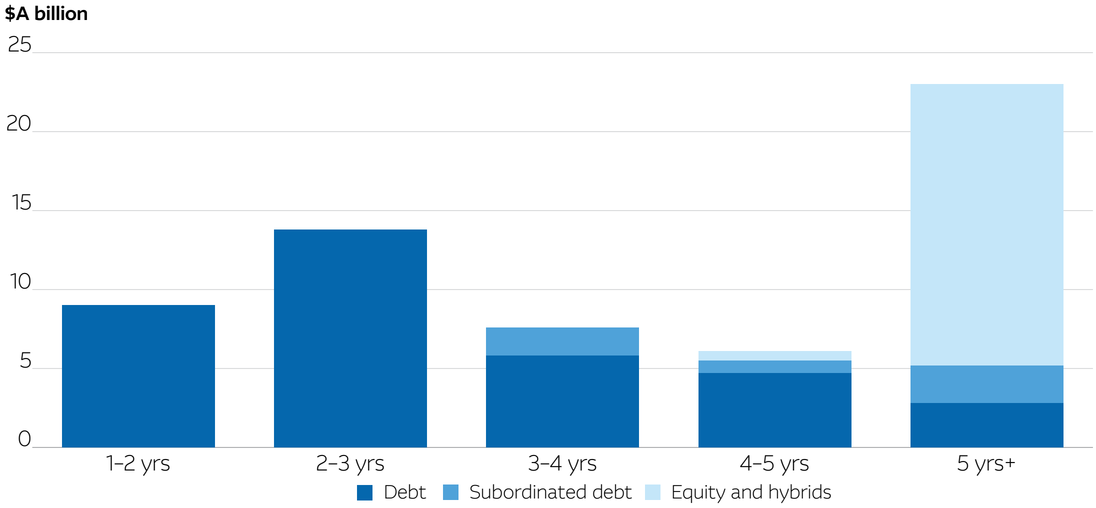
Weighted average maturity

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

Macquarie Bank has diversity of funding across a range of tenors, currencies and products. The weighted average term to maturity of term funding maturing beyond one year (excluding Term Funding Facility (TFF), equity and securitisations) was 4.2 years and the weighted average term to maturity of term funding maturing beyond one year including TFF (excluding equity and securitisations) was 3.7 years as at 30 September 2021.

Term funding profile

Detail of drawn funding maturing beyond one year



Macquarie Bank has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2021, Macquarie Bank has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2021 and 30 September 2021:

		Total $Ab
Issued paper	– Senior and subordinated	**1.8**
Secured funding	– Term securitisation and other secured finance	**6.0**
	– RBA Term Funding Facility[(1)]	**9.5**
Hybrids	– Hybrid instruments	**0.7**
Total[(2)]		**18.0**

Macquarie Bank has continued to develop its major funding markets and products during the half year ended 30 September 2021.

(1) $A9.5 billion of Supplementary and Additional Allowance drawn in June 2021. $A1.7 billion of Initial Allowance was drawn in September 2020.
(2) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance. Includes refinancing of loan facilities.

Capital

Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110[(1)]. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum BCBS Basel III leverage ratio requirement of 3% was effective from 1 January 2018[(2)].

On 1 April 2021, APRA announced actions required regarding MBL's risk management practices and ability to calculate and report key prudential ratios. APRA increased MBL's operational risk capital requirement and made adjustments to requirements for certain liquidity prudential ratios, effective from 1 April 2021. The actions relate to specific intra-group funding arrangements as well as breaches of APRA's reporting standards on liquidity between 2018 and 2020. APRA noted that the breaches are historical and do not impact the current overall soundness of Macquarie Group's capital and liquidity positions. On 22 October 2021, Macquarie published restated historical MBL Pillar 3 disclosures for the period March 2018 to June 2021.

Macquarie has ongoing programs which focus on strengthening MBL's processes and controls, including those around intra-group funding arrangements and internal exposures; capital and liquidity reporting; risk management frameworks; and accountabilities and governance. A number of these programs also form part of a remediation plan as required by APRA, which has been established to define and deliver programs of work that strengthen MBL's governance, risk culture, structure, and incentives to ensure full and ongoing compliance with prudential standards.

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 30 September 2021.

Bank Group Level 2 Basell III ratios as at 30 September 2021	Harmonised Basel III[(3)]	APRA Basel III
Common Equity Tier 1 Capital Ratio	**14.8%**	**11.7%**
Tier 1 Capital Ratio	**17.0%**	**13.7%**
Leverage Ratio	**6.0%**	**5.3%**

For further information relating to the capital adequacy of Macquarie Bank, refer to section 6 *Capital* of the Management Discussion and Analysis available at **macquarie.com/results**.

(1) Based on materiality, the countercyclical capital buffer (CCyB) of ~1bps has not been included.
(2) APRA has released draft prudential standards on its implementation of a minimum requirement for the leverage ratio of 3.5% expected to be effective from January 2023.
(3) 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.

Our purpose

Empowering people to innovate and invest for a better future.

What we stand for

Opportunity

Accountability

Integrity

The way we fulfil our purpose is defined by these three long held principles that determine how we conduct business and guide what we do every day. Our purpose and principles and what we expect of our staff are set out in our *Code of Conduct*.

The balance between opportunity and accountability, while operating with integrity within a strong risk management framework, is a feature of Macquarie Bank's success and a key factor in our long record of unbroken profitability.

The *Code of Conduct* is available at **macquarie.com/what-we-stand-for**

Our business strategy

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

Risk management approach

Adopting a conservative approach to risk management underpinned by a sound risk culture. Macquarie Bank's robust risk management framework and risk culture are embedded across all Bank Group entities.

Strong balance sheet

Maintaining a strong and conservative balance sheet.

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

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

Business mix

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

Macquarie Bank has progressively developed its annuity style businesses, providing steady returns to the business and our stakeholders, and stability to clients.

Diversification

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

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

Proven expertise

Utilising proven deep expertise has allowed Macquarie Bank to establish leading market positions as a global specialist in sectors including resources and commodities, energy and financial institutions.

Adjacencies

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

These include products and geographies adjacent to our established areas of expertise, supporting sustainable evolutionary growth.

Pursuit of growth opportunities

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

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

Events after the reporting date

There were no material events subsequent to 30 September 2021 and up until the authorisation of the financial statements for issue, requiring a disclosure in the interim financial report, other than those that have been disclosed elsewhere in the financial statements.

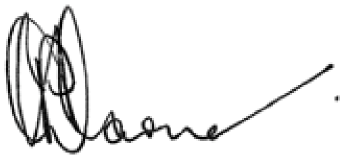
Interim dividend

No dividends were paid during the current period.

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

Stuart Green
Managing Director and Chief Executive Officer

Sydney
29 October 2021

Auditor’s independence declaration

For the half year ended 30 September 2021

pwc

As lead auditor for the review of Macquarie Bank Limited for the half year ended 30 September 2021, I declare that to the best of my knowledge and belief, there have been:

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

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

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
29 October 2021

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02

Financial Report

Contents

For the half year ended 30 September 2021

The Financial Report was authorised for issue by the Board of Directors on 29 October 2021.

The Board of Directors has the power to amend and reissue the Financial Report.

Consolidated income statement

For the half year ended 30 September 2021

	Notes	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Interest and similar income				
Effective interest rate method	2	**1,595**	1,542	1,559
Other	2	**118**	117	144
Interest and similar expense	2	**(498)**	(575)	(698)
Net interest income		**1,215**	1,084	1,005
Net trading income	2	**1,702**	1,941	1,374
Fee and commission income	2	**896**	810	516
Net operating lease income	2	**154**	189	206
Net credit impairment charges	2	**(94)**	(46)	(241)
Net other impairment reversal/(charges)	2	**11**	(25)	(21)
Net other operating income	2	**528**	99	104
Net operating income		**4,412**	4,052	2,943
Employment expenses	2	**(1,796)**	(1,460)	(643)
Brokerage, commission and fee expenses	2	**(251)**	(229)	(296)
Non-salary technology expenses	2	**(320)**	(239)	(88)
Other operating expenses	2	**(416)**	(666)	(1,076)
Total operating expenses		**(2,783)**	(2,594)	(2,103)
Operating profit before income tax		**1,629**	1,458	840
Income tax expense	4	**(386)**	(442)	(180)
Profit after income tax		**1,243**	1,016	660
Profit attributable to the ordinary equity holder of Macquarie Bank Limited		**1,243**	1,016	660

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 2021

	Notes	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Profit after income tax		**1,243**	1,016	660
Other comprehensive income/(loss)[1]				
Movements in items that may be subsequently reclassified to the income statement:				
Fair value through other comprehensive (FVOCI) reserve:				
Revaluation movement	16	**–**	2	69
Change in allowance for expected credit losses	16	**(3)**	(3)	–
Cash flow hedges:				
Revaluation movement	16	**(2)**	55	(48)
Transferred to income statement	16	**25**	10	29
Share of other comprehensive income from associates and joint ventures	16	**–**	1	–
Foreign exchange movements on translation and hedge accounting of foreign operations		**187**	(183)	(618)
Movements in items that will not be subsequently reclassified to the income statement:				
Fair value changes attributable to own credit risk on debt designated as fair value through profit or loss (DFVTPL)	16	**(3)**	(1)	(78)
Total other comprehensive income/(loss)		**204**	(118)	(646)
Total comprehensive income		**1,447**	898	14
Total comprehensive (income)/loss attributable to non-controlling interest		**–**	(1)	1
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited		**1,447**	897	15

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 2021

	Notes	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Assets				
Cash and bank balances		**28,769**	15,966	6,869
Cash collateralised lending and reverse repurchase agreements		**32,805**	34,555	42,933
Trading assets	6	**20,964**	21,212	18,518
Margin money and settlement assets	7	**16,092**	8,302	9,162
Derivative assets		**77,124**	20,552	21,618
Financial investments		**8,853**	7,999	7,575
Held for sale assets		**665**	74	454
Other assets	8	**4,650**	3,419	3,647
Loan assets	9	**109,501**	98,992	87,737
Due from related body corporate entities		**3,017**	2,154	4,525
Property, plant and equipment and right-of-use assets		**2,899**	2,797	2,239
Deferred tax assets		**788**	826	577
Total assets		**306,127**	216,848	205,854
Liabilities				
Cash collateralised borrowing and repurchase agreements		**13,809**	4,542	4,954
Trading liabilities	11	**5,431**	6,134	5,971
Margin money and settlement liabilities	12	**20,610**	16,251	16,746
Derivative liabilities		**77,801**	17,475	16,139
Deposits		**91,683**	84,140	77,186
Held for sale liabilities		**–**	1	39
Other liabilities	13	**4,106**	4,349	2,425
Borrowings		**2,214**	2,473	2,256
Due to related body corporate entities		**9,634**	15,901	19,647
Issued debt securities	14	**57,406**	44,668	40,618
Deferred tax liabilities		**49**	36	45
Total liabilities excluding loan capital		**282,743**	195,970	186,026
Loan capital		**7,345**	6,804	5,985
Total liabilities		**290,088**	202,774	192,011
Net assets		**16,039**	14,074	13,843
Equity				
Contributed equity	15	**9,041**	8,523	8,501
Reserves	16	**513**	306	424
Retained earnings	16	**6,485**	5,245	4,918
Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited		**16,039**	14,074	13,843
Total equity		**16,039**	14,074	13,843

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

Consolidated statement of changes in equity

For the half year ended 30 September 2021

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 1 Apr 2020		8,899	991	4,336	14,226	1	14,227
Profit after income tax		–	–	660	660	–	660
Other comprehensive loss, net of tax		–	(567)	(78)	(645)	(1)	(646)
Total comprehensive (loss)/income		–	(567)	582	15	(1)	14
Transactions with equity holder:							
Redemption of Macquarie Income Securities (MIS)	15	(400)	–	–	(400)	–	(400)
Other equity movements:							
Contributions from ultimate parent entity[1] in relation to share-based payments	15	2	–	–	2	–	2
		(398)	–	–	(398)	–	(398)
Balance as at 30 Sep 2020		8,501	424	4,918	13,843	–	13,843
Profit after income tax		–	–	1,016	1,016	–	1,016
Other comprehensive (loss)/income, net of tax		–	(118)	(1)	(119)	1	(118)
Total comprehensive (loss)/income		–	(118)	1,015	897	1	898
Transactions with equity holder:							
Dividends and distributions paid or provided for	5	–	–	(500)	(500)	–	(500)
Change attributable to group restructure		–	–	(189)	(189)	–	(189)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	1	1	(1)	–
Other equity movements:							
Contributions from ultimate parent entity[1] in relation to share-based payments	15	22	–	–	22	–	22
		22	–	(688)	(666)	(1)	(667)
Balance as at 31 Mar 2021		**8,523**	**306**	**5,245**	**14,074**	**–**	**14,074**
Profit after income tax		**–**	**–**	**1,243**	**1,243**	**–**	**1,243**
Other comprehensive income/(loss), net of tax		**–**	**207**	**(3)**	**204**	**–**	**204**
Total comprehensive income		**–**	**207**	**1,240**	**1,447**	**–**	**1,447**
Transactions with equity holder:							
Contributions of ordinary equity	15	**500**	**–**	**–**	**500**	**–**	**500**
Other equity movements:							
Contributions from ultimate parent entity[1] in relation to share-based payments	15	**18**	**–**	**–**	**18**	**–**	**18**
		518	**–**	**–**	**518**	**–**	**518**
Balance as at 30 Sep 2021		**9,041**	**513**	**6,485**	**16,039**	**–**	**16,039**

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

(1) Macquarie Group Limited.

Consolidated statement of cash flows

For the half year ended 30 September 2021

	Notes	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Cash flows generated from/(utilised in) operating activities				
Interest income and expense:				
Received		**1,726**	1,650	1,720
Paid		**(518)**	(624)	(773)
Fees, commission, other income and charges:				
Received		**881**	906	549
Paid		**(256)**	(217)	(305)
Operating lease income received		**294**	426	507
Dividends and distributions received		**1**	2	3
Operating expenses paid:				
Employment expenses		**(1,966)**	(914)	(837)
Other operating expenses including brokerage, commission and fee expenses		**(751)**	(866)	(1,139)
Income tax paid		**(233)**	(119)	(93)
Changes in operating assets:				
Loan assets and balances with related body corporate entities		**(18,159)**	(11,458)	(2,171)
Other assets		**(553)**	(182)	(412)
Assets under operating lease		**(236)**	(323)	(84)
Trading, trading-related and collateralised lending balances (net of liabilities)		**10,118**	6,333	(7,912)
Changes in operating liabilities:				
Issued debt securities		**11,053**	5,376	(3,055)
Deposits		**7,471**	7,040	10,165
Other liabilities		**30**	52	(34)
Borrowings		**(349)**	315	(479)
Net cash flows generated from/(utilised in) operating activities	17	**8,553**	7,397	(4,350)
Cash flows generated from/(utilised in) investing activities				
Net proceeds from financial investments		**50**	187	17
Associates, joint ventures, subsidiaries, and businesses:				
Proceeds from capital return or disposal, net of cash deconsolidated		**536**	9	4
Payments for additional capital contribution or acquisitions, net of cash acquired		**(12)**	(314)	(10)
Property, plant and equipment, right-of-use assets, investment property and intangible assets				
Proceeds from disposals		**–**	20	–
Payments for acquisitions		**(58)**	(88)	(65)
Net cash flows generated from/(utilised in) investing activities		**516**	(186)	(54)
Cash flows generated from/(utilised in) financing activities				
Issuance of ordinary shares		**500**	–	–
Loan Capital:				
Issuance		**1,405**	1,220	2,474
Redemption		**(1,084)**	–	(740)
Redemption of Macquarie Income Securities		**–**	–	(400)
Dividends and distributions paid		**–**	(500)	(3)
Payments to non-controlling interests		**–**	(1)	–
Net cash flows generated from financing activities		**821**	719	1,331
Net increase/(decrease) in cash and cash equivalents		**9,890**	7,930	(3,073)
Cash and cash equivalents at the beginning of the period		**29,318**	22,059	27,290
Effect of exchange rate movements on cash and cash equivalents		**742**	(671)	(2,158)
Cash and cash equivalents at the end of the period	17	**39,950**	29,318	22,059

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

Notes to the consolidated financial statements

For the half year ended 30 September 2021

Note 1
Basis of preparation

This general purpose interim financial report for the half year reporting period ended 30 September 2021 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* (AASB 134) and the *Corporations Act 2001* (Cth). 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 financial report comprises the consolidated financial report of Macquarie Bank Limited (MBL or the Company) and the entities it controlled at the end of, or during the half year ended 30 September 2021 (the Consolidated Entity).

This interim financial report 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 2021 and any public announcements made by the Consolidated Entity during the reporting period in accordance with the continuous disclosure requirements issued by the Australian securities exchange (ASX).

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 to the nearest million Australian dollars ($) unless otherwise indicated.

The accounting policies adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Consolidated Entity's annual financial report for the year ended 31 March 2021.

(i) Critical accounting estimates and significant judgements

The preparation of this interim financial report 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 Consolidated Entity's accounting policies.

Areas of estimation uncertainty and the basis of key judgements applied by management in preparing the interim financial report are consistent with those that were applied and disclosed in the annual financial report for the year ended 31 March 2021.

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 interim financial report are reasonable. It is however reasonably possible that future outcomes that are different from the Consolidated Entity's assumptions and estimates at 30 September 2021, other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

(ii) Coronavirus (COVID-19) impact

The Novel Coronavirus (COVID-19) continued to impact global economies and equity, debt and commodity markets which resulted in several support actions by governments and regulators. Where applicable, the impact of COVID-19 has been incorporated into the determination of the Consolidated Entity's results of operations and measurement of its assets and liabilities at the reporting date.

The Consolidated Entity's processes to determine the impact of COVID-19 for this interim financial report are consistent with the processes disclosed and applied in its 31 March 2021 financial reports. Those processes identified that expected credit losses (Note 10) required continued judgement as a result of the impact of COVID-19.

The Consolidated Entity drew down an additional $9.5 billion from the Reserve Bank of Australia (RBA) under the Term Funding Facility (TFF) during the reporting period. As at 30 September 2021, the Consolidated entities had drawn $11.3 billion of its total TFF allowance which is in the form of repurchase agreements, is collateralised with issued loan notes in the Consolidated Entity's home loans' securitisation vehicles. The objective of the TFF is to reduce interest rates for borrowers and support businesses during this period through lending.

Note 1
Basis of preparation continued

(iii) New Australian Accounting Standards and amendments to Australian Accounting Standards and interpretations that are either effective in the current period or have been early adopted

The amendments made to existing standards that were mandatorily effective or have been early adopted for the annual reporting period beginning on 1 April 2021 did not result in a material impact on this interim financial report.

There were no new Australian accounting standards that were mandatorily effective or have been early adopted for this interim financial report.

(iv) Other developments

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

The Consolidated Entity's IBOR reform project, as outlined in the Consolidated Entity's 31 March 2021 annual financial report, continued to progress in line with its overall strategy to transition broadly in line with markets and ahead of the relevant IBOR cessation dates.

The IBOR reform project's progress during the reporting period included implementation of plans to:

- ensure that the use of LIBOR in new products ceases in line with industry milestones and regulatory expectations
- increase the use of ARRs in new business
- convert legacy contracts that reference GBP LIBOR, and other IBORs that will cease publication on 31 December 2021, where feasible, to ARRs. The conversion approach, which is outlined in a group-wide transition framework, aligns to industry recommendations and regulatory expectations, and includes client communications, conduct risk management, conversion timing, use of recommended ARRs, pricing methodologies and spread adjustments designed to mitigate potential value transfer during transition
- assess the implications of the Financial Conduct Authority's (FCA) updated arrangements for synthetic LIBOR including its decision to compel the LIBOR administrator to continue to publish selected GBP and JPY LIBOR settings for a limited time period after the end of 2021 using a 'synthetic' methodology
- continue to apply the available accounting relief under AASB 2020-8 *Interest Rate Benchmark Reform Phase 2* amendments, which was early adopted by the Consolidated Entity for its annual financial report for the year ended 31 March 2021, and
- enhance system and operational readiness to support a broader range of ARR products and transition activities.

Whilst IBOR reforms are important changes for the Consolidated Entity, the risks associated with the transition are managed within the Consolidated Entity's existing risk management framework.

(v) Comparatives

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

Notes to the consolidated financial statements

For the half year ended 30 September 2021 continued

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Note 2			
Operating profit before income tax			
Net interest income			
Interest and similar income			
Effective interest rate method[1]	**1,595**	1,542	1,559
Other	**118**	117	144
Interest and similar expense[2]	**(498)**	(575)	(698)
Net interest income	**1,215**	1,084	1,005
Net trading income[3]			
Commodities[4],[5]	**1,216**	1,486	953
Credit, interest rate and foreign exchange products	**292**	307	228
Equities	**194**	148	193
Net trading income	**1,702**	1,941	1,374
Fee and commission income			
Service fee from related body corporate entities[6]	**460**	365	–
Brokerage and other trading-related fee income	**132**	133	227
Portfolio administration fees	**118**	109	107
Lending fees	**65**	67	62
Other fee and commission income	**121**	136	120
Total fee and commission income	**896**	810	516
Net operating lease income			
Rental income	**310**	363	483
Depreciation and other operating lease-related charges	**(156)**	(174)	(277)
Net operating lease income	**154**	189	206

(1) Includes interest income of $1,566 million (half year to 31 March 2021: $1,513 million; half year to 30 September 2020: $1,519 million) on financial assets measured at amortised cost and $29 million (half year to 31 March 2021: $29 million; half year to 30 September 2020: $40 million) on financial assets measured at FVOCI.
(2) Includes interest expense on financial liabilities measured at amortised cost calculated using the effective interest rate method of $471 million (half year to 31 March 2021: $571 million; half year to 30 September 2020: $671 million).
(3) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships, fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk and foreign currency gains and losses on foreign currency-dominated monetary assets and liabilities.
(4) Includes $190 million (half year to 31 March 2021: $257 million; half year to 30 September 2020: $228 million) of transportation, storage and certain other trading related costs.
(5) Includes $5 million (half year to 31 March 2021: $5 million; half year to 30 September 2020: $6 million) depreciation on right-of-use (ROU) assets held for trading-related business.
(6) Represents fee and service income earned from the Non-Bank Group by the service entities acquired from MGL during half year ended 31 March 2021. For details, refer to Note 22 *Acquisition and disposals of subsidiaries and businesses.*

Note 2
Operating profit before income tax continued

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Credit and other impairment (charges)/reversal			
Credit impairment (charges)/reversal			
Loan assets	**(41)**	(3)	(193)
Margin money and settlement assets	**(11)**	(5)	(24)
Financial investments, other assets, undrawn credit commitments, letters of credit and financial guarantees	**(42)**	(38)	(26)
Gross credit impairment charges	**(94)**	(46)	(243)
Recovery of loans previously written off	**–**	–	2
Net credit impairment charges	**(94)**	(46)	(241)
Other impairment reversal/(charges)			
Interests in associates and joint ventures	**12**	(14)	(10)
Intangible and other non-financial assets	**(1)**	(11)	(11)
Net other impairment reversal/(charges)	**11**	(25)	(21)
Total credit and other impairment charges	**(83)**	(71)	(262)
Net other operating income			
Investment income			
Net gain on:			
Disposal of businesses and subsidiaries	**455**	8	–
Financial investments and other assets	**24**	56	61
Total investment income	**479**	64	61
Share of net profits from associates and joint ventures	**15**	29	12
Other income	**34**	6	31
Total net other operating income	**528**	99	104
Net operating income	**4,412**	4,052	2,943

Note 2
Operating profit before income tax continued

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Employment expenses			
Salary and related costs including commissions, superannuation and performance-related profit share	**(1,602)**	(1,324)	(551)
Share-based payments	**(156)**	(133)	(73)
Provision for long service leave and annual leave	**(38)**	(3)	(19)
Total employment expenses	**(1,796)**	(1,460)	(643)
Brokerage, commission and fee expenses			
Brokerage and other trading-related fee expenses	**(202)**	(204)	(253)
Other fee and commission expenses	**(49)**	(25)	(43)
Total brokerage, commission and fee expenses	**(251)**	(229)	(296)
Non-salary technology expenses			
Information services	**(52)**	(51)	(41)
Depreciation on own use assets: equipment	**(9)**	(7)	(3)
Service provider and other non-salary technology expenses	**(259)**	(181)	(44)
Total non-salary technology expenses	**(320)**	(239)	(88)
Other operating expenses			
Occupancy expenses			
Lease and other occupancy expenses[1]	**(81)**	(79)	(55)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements	**(18)**	(14)	(2)
Total occupancy expenses	**(99)**	(93)	(57)
Other expenses			
Service cost recoveries from related body corporate entities	**–**	(283)	(825)
Professional fees	**(90)**	(111)	(67)
Indirect and other taxes	**(60)**	(42)	(44)
Audit fees	**(14)**	(13)	(15)
Amortisation of intangible assets	**(12)**	(11)	(11)
Advertising and promotional expenses	**(20)**	(16)	(10)
Other	**(121)**	(97)	(47)
Total other expenses	**(317)**	(573)	(1,019)
Total other operating expenses	**(416)**	(666)	(1,076)
Total operating expenses	**(2,783)**	(2,594)	(2,103)
Operating profit before income tax	**1,629**	1,458	840

(1) Includes $47 million (half year to 31 March 2021: $35 million; half year to 30 September 2020: $2 million) of depreciation on ROU assets relating to property leases.

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 two Operating Groups and a Corporate segment (reportable segments).

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

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

- **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** is a global business offering capital and financing, risk management, market access, physical execution and logistics solutions to its diverse client base across Commodities, Financial Markets and Asset Finance.

The Corporate segment, which is not considered an Operating Group, comprises head office and Central Service Groups, including Group Treasury and holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups. Consequent to a group internal restructuring, any balances pertaining to an operating segment that are not individually material are also reported as part of the Corporate segment.

Items of income and expense within the Corporate segment include the net result of managing Macquarie Bank's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied, as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable.

Other items of income and expenses within the Corporate segment include earnings from investments, changes in central overlays to impairments, unallocated head office costs and costs of Central Service Groups, the Consolidated Entity's performance-related profit share and share-based payments expense and income tax expense.

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. The value of deposits that the Bank Group generates is recognised 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.

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.

(1) Includes general plant and equipment.

Note 3
Segment reporting continued

(i) Operating Segments continued

Central Service Groups

The Central Service Groups provide a range of functions supporting MBL'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 Group (LGG) and Central Executive.

In November 2020, MGL's service entities were transferred from the Non-Bank Group to the Consolidated Entity following approval from both the MGL and MBL Boards.

The transfer was achieved through the execution of sale and purchase agreements whereby the Consolidated Entity acquired a 100% interest in Macquarie Group Services Australia (MGSA) and its subsidiaries from MGL and a 100% interest in Macquarie Global Services Private Limited (MGSPL) from Macquarie Global Finance Services (Mauritius) Limited (an indirect subsidiary of MGL).

The service entities largely employ staff in Central Service Groups, together with some back and middle office staff from MGL's Operating Groups. The transfer resulted in an increase of approximately 7,500 employees for the Consolidated Entity. Where the Consolidated Entity and its staff provide services to the Non-Bank Group, the Consolidated Entity earns fees for these services, which are charged on arms-length basis.

Performance-related profit share and share-based payments

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

Income tax

Income tax expense and benefits are recognised in the Corporate segment and 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:

	Banking and Financial Services $m	Commodities and Global Markets $m	Corporate[1] $m	Total $m
				HALF YEAR TO 30 SEP 21
Net interest and trading income	**974**	**1,868**	**75**	**2,917**
Fee and commission income	**220**	**216**	**460**	**896**
Net operating lease income	**–**	**152**	**2**	**154**
Net credit and other impairment (charges)/reversals	**(31)**	**(60)**	**8**	**(83)**
Net other operating income	**–**	**510**	**18**	**528**
Internal management revenue/(charges)	**–**	**34**	**(34)**	**–**
Net operating income	**1,163**	**2,720**	**529**	**4,412**
Total operating expenses	**(681)**	**(948)**	**(1,154)**	**(2,783)**
Operating profit/(loss) before income tax	**482**	**1,772**	**(625)**	**1,629**
Income tax expense	**–**	**–**	**(386)**	**(386)**
Net profit/(loss) contribution	**482**	**1,772**	**(1,011)**	**1,243**
Reportable segment assets	**100,067**	**162,829**	**43,231**	**306,127**
				HALF YEAR TO 31 MAR 21
Net interest and trading income	902	2,030	93	3,025
Fee and commission income	215	222	373	810
Net operating lease income	–	186	3	189
Net credit and other impairment (charges)/reversals	(37)	(67)	33	(71)
Net other operating income	12	70	17	99
Internal management (charge)/revenue	–	(4)	4	–
Net operating income	1,092	2,437	523	4,052
Total operating expenses	(638)	(937)	(1,019)	(2,594)
Operating profit/(loss) before income tax	454	1,500	(496)	1,458
Income tax expense	–	–	(442)	(442)
Net profit/(loss) contribution	454	1,500	(938)	1,016
Reportable segment assets	90,227	94,668	31,953	216,848

(1) The corporate segment in the current and prior comparative periods includes certain balances relating to the Cash Equities business – primarily being margin money and settlements assets amounting to $879 million (31 March 2021: $335 million and; 30 September 2020: $3,871 million). Following the transfer of the business from the CGM segment to the Macquarie Capital segment in the Non-Bank Group during the period ended September 2020, certain balances have remained on the Consolidated Entity's balance sheet for an interim transition period.

Note 3
Segment reporting continued

(i) Operating Segments continued

	Banking and Financial Services $m	Commodities and Global Markets $m	Corporate[1] $m	Total $m
				HALF YEAR TO 30 SEP 20
Net interest and trading income/(expense)	844	1,546	(11)	2,379
Fee and commission income	201	225	90	516
Net operating lease income	–	198	8	206
Net credit and other impairment charges	(78)	(173)	(11)	(262)
Net other operating income	15	70	19	104
Internal management revenue/(charge)	1	1	(2)	–
Net operating income	983	1,867	93	2,943
Total operating expenses	(668)	(943)	(492)	(2,103)
Operating profit/(loss) before income tax	315	924	(399)	840
Income tax expense	–	–	(180)	(180)
Net profit/(loss) contribution	315	924	(579)	660
Reportable segment assets	80,041	103,079	22,734	205,854

(1) The corporate segment in the current and prior comparative periods includes certain balances relating to the Cash Equities business – primarily being margin money and settlements assets amounting to $879 million (March 2021: $335 million and; September 2020: $3,781 million). Following the transfer of the business from the CGM segment to the Macquarie Capital segment in the Non-Bank Group during the prior period, certain balances have remained on the Consolidated Entity's balance sheet for an interim transition period.

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:

	Banking and Financial Services $m	Commodities and Global Markets $m	Corporate $m	Total $m
Fee and commission income				**HALF YEAR TO 30 SEP 21**
Service fee from related body corporate entities	**–**	**–**	**460**	**460**
Brokerage and other trading-related fee income	**24**	**108**	**–**	**132**
Portfolio administration fees	**117**	**1**	**–**	**118**
Lending fees	**60**	**5**	**–**	**65**
Other fee and commission income	**19**	**102**	**–**	**121**
Total fee and commission income	**220**	**216**	**460**	**896**
Fee and commission income				HALF YEAR TO 31 MAR 21
Service fee from related body corporate entities	–	–	365	365
Brokerage and other trading-related fee income	23	93	17	133
Portfolio administration fees	107	2	–	109
Lending fees	62	5	–	67
Other fee and commission income/(expense)	23	122	(9)	136
Total fee and commission income	215	222	373	810
Fee and commission income				HALF YEAR TO 30 SEP 20
Brokerage and other trading-related fee income	24	108	95	227
Portfolio administration fees	105	2	–	107
Lending fees	56	6	–	62
Other fee and commission income/(expense)	16	109	(5)	120
Total fee and commission income	201	225	90	516

Notes to the consolidated financial statements

For the half year ended 30 September 2021 continued

Note 3
Segment reporting continued

(iii) Products and services

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

- **Lending**: home loans, corporate loans, structured financing, banking activities, asset financing and leasing
- **Financial markets**: broker services and trading in fixed income, equities, foreign exchange and commodities
- **Corporate support services**: business support services (including staff, technology, occupancy and other ancillary services) provided for day-to-day operations
- **Wealth management**: distribution and management of wealth management products.

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Revenue from external customers			
Lending	**2,400**	1,959	2,049
Financial markets	**2,365**	2,658	2,216
Corporate support services	**427**	365	–
Wealth management	**152**	153	151
Total revenue from external customers[1]	**5,344**	5,135	4,416

(iv) Geographical areas

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

Revenue from external customers			
Australia	**2,270**	2,501	2,183
Europe, Middle East and Africa[2]	**1,333**	820	864
Americas[3]	**1,323**	1,532	916
Asia Pacific	**418**	282	453
Total	**5,344**	5,135	4,416

(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, service fees from related body corporate entities, share of net profits/losses from associates and joint ventures, income associated with investing activities and other operating income.
(2) Includes external revenue generated in the United Kingdom of $1,173 million (half year to 31 March 2021: $770 million; half year to 30 September 2020: $836 million).
(3) Includes external revenue generated in the United States of America of $1,299 million (half year to 31 March 2021: $1,421 million; half year to 30 September 2020: $855 million).

Note 4
Income tax expense

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
(i) Reconciliation of income tax expense to *prima facie* tax expense			
Prima facie income tax expense on operating profit[1]	**(489)**	(437)	(252)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**110**	(7)	75
Other items	**(7)**	2	(3)
Total income tax expense	**(386)**	(442)	(180)
(ii) Tax (expense)/benefit relating to OCI items			
FVOCI reserve	**–**	2	(16)
Own credit risk	**2**	1	33
Cash flow hedges and cost of hedging	**(3)**	(4)	–
Total tax (expense)/benefit relating to OCI items	**(1)**	(1)	17

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

(1) *Prima facie* income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (half year to 31 March 2021: 30%; half year to 30 September 2020: 30%).

Note 5
Dividends

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Dividends to ordinary equity holder			
Dividend paid	**–**	500	–
Total dividends paid (Note 16)	**–**	500	–

Note 6
Trading assets

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Listed equity securities	**7,090**	6,657	5,256
Commodities	**6,982**	6,691	6,183
Commodity contracts	**4,104**	3,345	1,745
Debt securities			
Commonwealth and foreign government securities	**2,520**	4,385	4,995
Corporate loans and securities	**267**	133	317
Other	**1**	1	22
Total trading assets	**20,964**	21,212	18,518

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Note 7			
Margin money and settlement assets			
Margin money	**9,817**	4,552	4,191
Security settlements	**3,595**	1,828	3,453
Commodity settlements	**2,680**	1,922	1,518
Total margin money and settlement assets	**16,092**	8,302	9,162

Note 8
Other assets

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Commodity-related receivables	**2,556**	1,661	2,132
Debtors and prepayments[1]	**1,252**	1,016	858
Income tax receivables	**347**	277	237
Interests in associates and joint ventures	**308**	281	227
Intangible assets	**143**	146	162
Other	**44**	38	31
Total other assets	**4,650**	3,419	3,647

(1) Includes $160 million (31 March 2021: $117 million, 30 September 2020: $159 million) of fee and commission receivables.

Note 9
Loan assets

	AS AT 30 SEP 21			AS AT 31 MAR 21			AS AT 30 SEP 20		
	Gross $m	ECL allowance[1] $m	Net $m	Gross $m	ECL allowance[1] $m	Net $m	Gross $m	ECL allowance[1] $m	Net $m
Home loans[2]	**81,365**	**(73)**	**81,292**	71,588	(67)	71,521	61,673	(76)	61,597
Corporate, commercial, and other lending	**16,911**	**(334)**	**16,577**	14,596	(366)	14,230	12,679	(416)	12,263
Asset financing[2]	**11,976**	**(344)**	**11,632**	13,584	(343)	13,241	14,205	(328)	13,877
Total loan assets	**110,252**	**(751)**	**109,501**	99,768	(776)	98,992	88,557	(820)	87,737

(1) The ECL allowance carried against loan assets measured at FVOCI is not presented in the table as the allowance is included in FVOCI reserves. Refer to Note 10 *Expected credit losses*.
(2) Includes $13,580 million (31 March 2021: $11,344 million; 30 September 2020: $14,810 million) loans that are held by consolidated Structured Entities (SEs), and which are available as security to note holders and debt providers. Refer to Note 14 *Issued debt securities*.

Note 10
Expected credit losses

The Consolidated Entity models the ECL for on-balance sheet financial assets measured at amortised cost or FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantee contracts and letters of credit.

Model Inputs

The Consolidated Entity segments its credit portfolio between retail and wholesale exposures, and further splits these portfolios into representative groupings which are typically based on shared risk characteristics.

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 Forward Looking Indicators (FLI).

For retail portfolios, behavioural variables are also considered in the determination of inputs for ECL modelling. The key model components used in measuring the ECL include:

- exposure at default (EAD): The EAD represents the estimated exposure in the event of a default
- probability of default (PD): The calculation of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. Wholesale portfolio PDs are a function of industry type, internal credit ratings, region and transition matrices are used to determine a point in time PD estimate. PD estimates for both retail and wholesale portfolios are also adjusted for FLI
- loss given default (LGD): The LGD associated with the PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios.

Significant increase in credit risk (SICR)

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

Qualitative factors include, but are not limited to, whether an exposure has been identified and placed on Credit Watch, an internal credit monitoring mechanism supervised by the Credit Watch Management Committee to closely monitor exposures showing signs of stress. All exposures on Credit Watch are classified as stage II or, if defaulted, as stage III.

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on 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.

Forward-looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The predicted relationships between these key indicators and the key model components (EAD, PD and LGD) in measuring the ECL have been developed by analysing historical data as part of the development of internal models, and the calibration and validation process.

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. The overlays primarily reflect management's assessment of the current economic and credit environment relative to the FLI credit cycle model. These overlays account 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 regions, counterparties or industries which are difficult to account for within the modelled outcomes. Overtime the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately $400 million. These judgements are reviewed by FMG and RMG at each reporting date.

Note 10
Expected credit losses continued

Forward-looking information continued

RMG is responsible for the FLI including the development of scenarios and recommending the range of probability weights to apply to those scenarios. For this purpose, four possible economic scenarios have been developed for this period, being an upside, downside, more severe downside, and baseline scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposures' PDs and LGDs.

The scenarios have been developed using a combination of publicly available data, internal forecasts, and third-party information to form the initial baseline. Internal specialists within the Consolidated Entity are consulted to assist in refining and challenging the baseline and the alternate scenarios. For the current reporting period, the Consolidated Entity has re-introduced a fourth scenario to better reflect the range of potential loss outcomes and associated macroeconomic uncertainties.

Refinement of the scenarios includes benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks, where available.

Where limited official data sources against which to benchmark key economic indicators on a forward-looking basis are available, management exercises judgement when determining the duration, severity and impact of the macroeconomic scenarios used by the Consolidated Entity.

Assigning probabilities to these scenarios requires professional judgement which draws on internal risk and economics' specialist input and comparison to general market outlooks and publicly available market commentary.

The scenarios and the associated probabilities are ultimately approved by senior risk and finance executives.

The scenarios for each of the key regions where Macquarie's ECL is derived have been set out on the following page. Noting the wide range of possible scenarios and macroeconomic outcomes, and the continuing uncertainty of how COVID-19 and its social and economic consequences will flow, these scenarios represent plausible forward-looking views as at the reporting date.

These scenarios impact the modelled ECL provisioning levels through determination of PDs and determination of losses that may be incurred should a default occur. The ability of borrowers to service their obligations through personal or business income is generally estimated using unemployment rates, GDP, commodity prices and interest rates. The losses that the Consolidated Entity may incur should a default occur, and the collateral utilised is generally estimated through property and share price index outlooks.

The modelled ECL for each scenario is sensitive to the speed and resilience of post-COVID-19 economic normalisation, and the longevity of monetary and fiscal intervention, as these influence both the PD, 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.

Note 10
Expected credit losses continued

Forward-looking information continued

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 ~$950 million[1]	Probable	**Global:** The baseline scenario assumes the global economic recovery continues into 2022 as containment measures and vaccine rollouts enable countries to cautiously open up. Job retention schemes and other policy measures are expected to be withdrawn gradually, with unemployment rates receding slowly as growth picks up in most economies. Global growth is expected to ease back towards pre-COVID-19 trend levels over the next 12 months. **Australia:** The September 2021 quarter reflected a sharp contraction in Australian GDP as a result of COVID-19 lockdowns across much of the country. A steady recovery is expected over the next 12 months. Unemployment is projected to decline to below 4.5% by the end of 2022 as the recovery gathers pace. House prices are projected to grow at approximately 5% year on year, supported by low interest rates as the RBA maintains the cash rate at historic lows until late 2023. **United States:** Having recovered to, and exceeded, pre-COVID-19 output levels, the rate of growth in the US economy is projected to slow over the next 12 months. Growth in 2022 is projected to be at 3% year on year, down from an estimated 5.6% year on year in 2021, but still above historical trends. Equity markets are above their early 2020 peak. This growth is not projected to continue in 2022 as the US Federal Reserve tapering of stimulus takes effect, however a material decline in the equity markets from current levels is not projected. **Europe:** After enduring a prolonged second wave of COVID-19 infections, the Eurozone recovery is projected to remain behind developed markets. Unemployment rates have been largely controlled through job retention schemes and Europe's overall unemployment rate is projected to continue to steadily decline towards long-run levels. The European Central Bank (ECB) is projected to maintain an accommodative monetary policy position through 2022 and into 2023.
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 ~$1,150 million[1]	Possible	**Global:** The downside scenario projects growth in global GDP that is approximately 1% lower than the baseline scenario through to 2025. **Australia:** The scenario projects that the post-lockdown economic recovery is delayed, with GDP trending up at a slower pace. Unemployment is projected to remain above 5% for much of 2022. Continued supportive monetary policy from the RBA is projected leading house price growth to stabilise but not fall. **United States:** The scenario projects modestly lower growth compared to the baseline through to 2025. As a consequence the US Federal Reserve would delay the tapering of stimulus and interest rate increases. Unemployment rates are projected to remain at approximately 5.5% until 2023. **Europe:** The scenario projects GDP growth to be below 1% year on year through 2022 and 2023, resulting in unemployment levels above 8.5%. Equity prices are projected to remain close to current levels throughout the forecast period to 2025.
More Severe 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 ~$1,600 million[1]	Unlikely	**Global:** The scenario projects a slowdown followed by a recession throughout 2022 and into 2023. A robust recovery from 2024 onwards is projected, however this recovery would remain significantly below the baseline scenario expectations. **Australia:** The scenario projects GDP to recover to pre-pandemic levels before Australia re-enters a recession in the second half of 2022. Unemployment rates are projected to rise to approximately 7% and, despite continued low interest rates, house prices are projected to decline by approximately 9% over 2022 and 2023. **United States:** The scenario projects the current economic recovery slows in late-2021 and GDP contracts by 3% year on year in 2022. House prices are projected to decline by 8% from their peak by the end of 2023 as unemployment rate peaks at a projection of approximately 8% in 2023. **Europe:** The scenario projects growth to be impacted with GDP declining further below pre-pandemic levels, with a recovery to pre-pandemic levels not reached until the end of the 2025 forecast period. Unemployment, house prices and equity indexes are all projected to be significantly impacted within this scenario.
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 ~$850 million[1]	Unlikely	**Global:** The upside scenario projects growth in global GDP that is approximately 1% higher that then the baseline scenario throughout the forecast period to 2025. **Australia:** The scenario projects the post-lockdown recovery continues through 2022, with the RBA cash rate projected to rise by the end of 2022. Property and equity markets are projected to stabilise without declining. Unemployment rates in this scenario are projected to fall below 4% in 2022. **United States:** The scenario projects the strong growth trend to continue, restoring GDP to pre-pandemic trend levels. By 2023 the unemployment rate is projected to be below 3.5% and to remain at that level through to the end of 2025. US Federal Reserve policy normalisation is projected to increase in 2022 resulting in equity indexes stabilising and slowing the growth in house prices. **Europe:** The scenario projects moderately higher growth than the baseline expectations throughout 2022 and 2023 resulting in Europe's unemployment falling below 7% by 2024.

(1) This number provides comparative ECL provision information as at the reporting date assuming the scenarios outlined, but does not reflect changes in the credit rating of the counterparties that may occur if these scenarios were to occur, nor changes to individually assessed stage 3 provisions. Changes in credit ratings or these individually assessed provisions may have a material impact on these ECL provisions.

Notes to the consolidated financial statements

For the half year ended 30 September 2021 continued

Note 10

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] *Financial Instruments*.

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI $m	Other $m	Total exposure $m	Amortised cost $m	FVOCI $m	Other $m	Total ECL allowance $m
								AS AT 30 SEP 21
Cash and bank balances	**28,769**	–	**–**	**28,769**	–	–	–	–
Cash collateralised lending and reverse repurchase agreements	**12,259**	**14,846**	**–**	**27,105**	–	–	–	–
Margin money and settlement assets	**15,569**	–	**–**	**15,569**	**65**	–	–	**65**
Financial investments	**10**	**8,566**	**–**	**8,576**	–	**4**	–	**4**
Held for sale and other assets	**2,282**	–	**–**	**2,282**	**167**	–	–	**167**
Loan assets	**110,096**	–	**–**	**110,096**	**750**	–	–	**750**
Due from related body corporate entities	**2,066**	–	**–**	**2,066**	**1**	–	–	**1**
Undrawn credit commitments, letters of credit and financial guarantees[2]	–	–	**6,813**	**6,813**	–	–	**24**	**24**
Total	**171,051**	**23,412**	**6,813**	**201,276**	**983**	**4**	**24**	**1,011**
								AS AT 31 MAR 21
Cash and bank balances	15,966	–	–	15,966	–	–	–	–
Cash collateralised lending and reverse repurchase agreements	9,284	17,362	–	26,646	–	–	–	–
Margin money and settlement assets	8,024	–	–	8,024	54	–	–	54
Financial investments	18	7,624	–	7,642	–	6	–	6
Held for sale and other assets	1,160	–	–	1,160	111	–	–	111
Loan assets	99,575	–	–	99,575	776	–	–	776
Due from related body corporate entities	1,508	–	–	1,508	1	–	–	1
Undrawn credit commitments, letters of credit and financial guarantees[2]	–	–	6,338	6,338	–	–	24	24
Total	135,535	24,986	6,338	166,859	942	6	24	972

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amounts presented in the Statement of financial position.
(2) Gross exposure for undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL) represents the notional values of these contracts.

Note 10
Expected credit losses continued

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI $m	Other $m	Total exposure $m	Amortised cost $m	FVOCI $m	Other $m	Total ECL allowance $m
								AS AT 30 SEP 20
Cash and bank balances	6,869	–	–	6,869	–	–	–	–
Cash collateralised lending and reverse repurchase agreements	11,448	17,921	–	29,369	–	–	–	–
Margin money and settlement assets	9,128	–	–	9,128	55	–	–	55
Financial investments	31	7,250	–	7,281	–	9	–	9
Held for sale and other assets	1,532	–	–	1,532	85	–	–	85
Loan assets	88,445	–	–	88,445	820	–	–	820
Due from related body corporate entities	3,928	–	–	3,928	2	–	–	2
Undrawn credit commitments, letters of credit and financial guarantees[2]	–	–	4,891	4,891	–	–	9	9
Total	121,381	25,171	4,891	151,443	962	9	9	980

(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 carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statement of financial position.
(2) Gross exposure for undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL) represents the notional values of these contracts.

Note 10
Expected credit losses continued

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

	Margin money and settlement assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets $m	Due from related body corporate entities $m	Undrawn credit commitments, letters of credit and financial guarantees $m	Total $m
Balance as at 1 Apr 2020	66	10	77	688	1	10	852
Credit impairment charge/(reversal) (Note 2)	24	4	21	193	2	(1)	243
Amounts written off, previously provided for	(33)	–	(3)	(27)	–	–	(63)
Reclassifications, foreign exchange and other movements	(2)	(5)	(10)	(34)	(1)	–	(52)
Balance as at 30 Sep 2020	55	9	85	820	2	9	980
Credit impairment charge/(reversal) (Note 2)	5	(7)	31	3	(2)	16	46
Amounts written off, previously provided for	–	–	(4)	(48)	–	–	(52)
Reclassifications, foreign exchange and other movements	(6)	4	(1)	1	1	(1)	(2)
Balance as at 31 Mar 2021	54	6	111	776	1	24	972
Credit impairment charge/(reversal) (Note 2)	**11**	**3**	**40**	**41**	–	**(1)**	**94**
Amounts written off, previously provided for	–	–	**(4)**	**(51)**	–	–	**(55)**
Reclassifications, foreign exchange and other movements	–	**(5)**	**20**	**(16)**	–	**1**	–
Balance as at 30 Sep 2021	**65**	**4**	**167**	**750**	**1**	**24**	**1,011**

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, is monitored through its credit policies, as set out in Note 35.1 *Credit risk* in the consolidated entity's March 2021 Annual Financial Statements.

Note 10
Expected credit losses continued

ECL on loan assets

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

		LIFETIME ECL		
	Stage I 12-month ECL $m	Stage II Not credit impaired $m	Stage III Credit impaired $m	Total ECL Allowance $m
Balance as at 1 Apr 2020	173	288	227	688
Transfers during the period	2	(20)	18	–
Credit impairment charge (Note 2)	86	54	53	193
Amounts written off, previously provided for	–	–	(27)	(27)
Reclassifications, foreign exchange and other movements	(10)	(10)	(14)	(34)
Balance as at 30 Sep 2020	251	312	257	820
Transfers during the period	28	(5)	(23)	–
Credit impairment charge/(reversal) (Note 2)	37	(111)	77	3
Amounts written off, previously provided for	–	–	(48)	(48)
Reclassifications, foreign exchange and other movements	(1)	6	(4)	1
Balance as at 31 Mar 2021	315	202	259	776
Transfers during the period	**18**	**1**	**(19)**	–
Credit impairment charge/(reversal) (Note 2)	**20**	**(29)**	**50**	**41**
Amounts written off, previously provided for	–	–	**(51)**	**(51)**
Reclassifications, foreign exchange and other movements	**(8)**	**(2)**	**(6)**	**(16)**
Balance as at 30 Sep 2021	**345**	**172**	**233**	**750**

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Note 11			
Trading liabilities			
Listed equity securities	**5,402**	6,134	5,971
Debt securities	**29**	–	–
Total trading liabilities	**5,431**	6,134	5,971

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Note 12			
Margin money and settlement liabilities			
Margin money	**15,572**	12,336	13,225
Security settlements	**2,565**	1,929	2,395
Commodity settlements	**2,473**	1,986	1,126
Total margin money and settlement liabilities	**20,610**	16,251	16,746
Note 13			
Other liabilities			
Accrued charges, employment-related liabilities and provisions[1]	**1,947**	2,038	944
Creditors	**655**	674	628
Commodity-related payables	**544**	604	595
Lease liabilities	**428**	479	36
Income tax payable	**375**	396	187
Other	**157**	158	35
Total other liabilities	**4,106**	4,349	2,425

(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.

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Note 14			
Issued debt securities			
Bonds, negotiable certificate of deposits and commercial paper[1]	**55,587**	42,555	38,132
Structured notes[2]	**1,819**	2,113	2,486
Total issued debt securities[3],[4]	**57,406**	44,668	40,618

Subsequent to 30 September 2021, the Consolidated Entity has raised $2.7 billion[5] of term funding.

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

Reconciliation of issued debt securities by major currency

(In Australian dollar equivalent)

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
United States dollar	**32,790**	22,146	15,883
Australian dollar	**19,374**	17,168	17,839
Euro	**2,238**	3,195	4,253
Pound sterling	**1,444**	580	897
Swiss franc	**1,100**	1,031	1,133
Japanese yen	**175**	168	187
Norwegian krone	**162**	157	160
Chinese renminbi	**72**	68	92
Hong Kong dollar	**51**	48	52
Korean won	**–**	107	110
Other	**–**	–	12
Total issued debt securities	**57,406**	44,668	40,618

(1) Includes $12,170 million (31 March 2021: $9,994 million; 30 September 2020: $12,264 million) liabilities to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security. Refer to Note 9 *Loan assets*.
(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or credit risk of a counterparty.
(3) The amount that would be contractually required to be paid at maturity to the holders of issued debt securities which are measured at DFVTPL is $1,996 million (31 March 2021: $2,136 million, 30 September 2020: $2,609 million). This amount is based on the final notional amount rather than the fair value. Refer to Note 19 *Measurement categories of financial instruments* for the carrying value of issued debt securities measured at DFVTPL.
(4) Includes a cumulative fair value loss of $15 million (31 March 2021: $10 million loss, 30 September 2020: $8 million loss) due to changes in own credit risk on DFVTPL debt securities recognised directly in OCI.
(5) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on exchange rates at the time of issuance and includes undrawn facilities.

Note 15
Contributed equity

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Ordinary share capital	**8,779**	8,279	8,279
Other equity	**262**	244	222
Total contributed equity	**9,041**	8,523	8,501

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
(i) Ordinary share capital[1]			
Opening balance of 634,361,966 (1 October 2020: 634,361,966; 1 April 2020: 634,361,966) fully paid ordinary shares	**8,279**	8,279	8,288
Issue of 20,746,888 shares to parent entity[2] on 30 September 2021 at $24.10 per share	**500**	–	–
Other	**–**	–	(9)
Closing balance of 655,108,854 (31 March 2021: 634,361,966; 30 September 2020: 634,361,966) fully paid ordinary shares	**8,779**	8,279	8,279

(ii) Other equity
Equity contribution from ultimate parent entity

Balance at the beginning of the period	**244**	222	220
Additional paid in capital	**18**	22	2
Balance at the end of the period	**262**	244	222

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

(1) Ordinary shares have no par value.
(2) Macquarie B.H. Pty Limited.

Note 16
Reserves, retained earnings and non-controlling interests

(i) Reserves

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Foreign currency translation reserve			
Balance at the beginning of the period	**397**	580	1,197
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax[1]	**187**	(183)	(617)
Balance at the end of the period	**584**	397	580
FVOCI reserve			
Balance at the beginning of the period	**35**	36	(33)
Revaluation movement for the period, net of tax	**–**	2	69
Changes in ECL allowance, net of tax	**(3)**	(3)	–
Balance at the end of the period	**32**	35	36
Cash flow hedge reserve			
Balance at the beginning of the period	**(113)**	(176)	(157)
Revaluation movement for the period, net of tax	**(2)**	55	(48)
Transferred to income statement on realisation, net of tax	**25**	8	29
Balance at the end of the period	**(90)**	(113)	(176)
Share of reserves in associates and joint ventures			
Balance at the beginning of the period	**(5)**	(6)	(6)
Share of other comprehensive income from associates and joint ventures during the period, net of tax	**–**	1	–
Balance at the end of the period	**(5)**	(5)	(6)
Other reserves			
Balance at the beginning of the period	**(8)**	(10)	(10)
Transferred to income statement on realisation, net of tax	**–**	2	–
Balance at the end of the period	**(8)**	(8)	(10)
Total reserves at the end of the period	**513**	306	424

(1) The current period movement represents the revaluation of the Consolidated Entity's unhedged investments in foreign operations primarily driven by the depreciation of the Australian dollar against the foreign currencies. Refer to Note 35.3 *Market risk* of Consolidated Entity's March 2021 financial report for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.

Note 16

Reserves, retained earnings and non-controlling interests continued

(ii) Retained earnings

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Balance at the beginning of the period	**5,245**	4,918	4,336
Change attributable to group restructure[1]	**–**	(189)	–
Profit attributable to the ordinary equity holder of MBL	**1,243**	1,016	660
Dividends paid on ordinary share capital (Note 5)	**–**	(500)	
Gain on change in non-controlling ownership interest	**–**	1	–
Fair value changes attributable to own credit risk on debt classified at DFVTPL, net of tax	**(3)**	(1)	(78)
Balance at the end of the period	**6,485**	5,245	4,918

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
(iii) Non-controlling interests[2]			
Share capital	**48**	46	47
Reserves	**4**	4	3
Accumulated losses	**(52)**	(50)	(50)
Total non-controlling interests	**–**	–	–

(1) Represents adjustment to retained earnings for the difference between the purchase price and the book value of the net assets of Macquarie's service entities acquired from the Non-Bank Group. Refer to Note 22 *Acquisition and disposal of subsidiaries and businesses*.
(2) 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.

Note 17

Notes to the consolidated statement of cash flows

(i) Reconciliation of cash and cash equivalents

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

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Cash and bank balances[(1),(2)]	**26,138**	13,590	3,948
Cash collateralised lending and reverse repurchase agreements	**13,074**	15,480	17,651
Financial investments	**738**	248	460
Cash and cash equivalents	**39,950**	29,318	22,059

(1) Amounts excluded from cash and cash equivalents but presented in the Statement of financial position as cash and bank balances primarily relates to $2,461 million (31 March 2021: $2,294 million; 30 September 2020: $2,524 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of $170 million (31 March 2021: $82 million; 30 September 2020: $397 million) that are not readily available to meet the Consolidated Entity's short-term cash commitments.

(2) Cash and bank balances include $999 million (31 March 2021: $946 million; 30 September 2020: $648 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 subject to certain restrictions.

Note 17
Notes to the consolidated statement of cash flows continued

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

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Profit after income tax	**1,243**	1,016	660
Adjustments to profit after income tax:			
Depreciation and amortisation	**251**	250	301
Expected credit losses and other impairment charges	**83**	71	262
Investment income and gain on sale of operating lease assets and other non-financial assets	**(471)**	(71)	(62)
Share of net profits from associates and joint ventures	**(15)**	(29)	(12)
Changes in assets and liabilities:			
Trading, trading-related and collateralised lending balances (net of liabilities)[1]	**8,399**	4,419	(9,288)
Issued debt securities	**11,053**	5,376	(3,055)
Loan assets and balances with related body corporate entities	**(18,159)**	(11,458)	(2,171)
Borrowings	**(349)**	315	(479)
Other assets and liabilities	**(523)**	(129)	(447)
Debtors, prepayments, accrued charges and creditors	**(290)**	577	(164)
Operating lease assets	**(236)**	(323)	(84)
Interest, fee and commission receivable and payable	**(57)**	18	(63)
Tax balances	**153**	323	87
Carrying values of associates due to dividends received	**–**	2	–
Deposits	**7,471**	7,040	10,165
Net cash flows generated from/(utilised in) operating activities	**8,553**	7,397	(4,350)

(iii) Reconciliation of loan capital:

	Half year to 30 Sep 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Balance at the beginning of the period	**6,804**	5,985	4,997
Cash flows:[2],[3]			
Issuance	**1,405**	1,220	2,474
Redemption	**(1,084)**	–	(740)
Non-cash changes:			
Foreign currency translation and other movements	**220**	(401)	(746)
Balance at the end of the period	**7,345**	6,804	5,985

(1) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.
(2) During half year ended 30 September 2021, the Consolidated Entity issued BCN3 $655 million (half year to 31 March 2021: $nil; half year to 30 September 2020: issued BCN2 $641 million). These are perpetual securities which are eligible for conversion into a variable number of the Consolidated Entity's ordinary shares on the scheduled mandatory exchange date, provided the exchange conditions are satisfied, unless redeemed, resold or written off earlier.
(3) During the half year ended 30 September 2021, the Consolidated entity raised $750 million (half year to March 2021: $1,220 million; half year to September 2020: $1,833 million) through the issue of Tier 2 Loan Capital and redeemed $1,084 million (31 March 2021: $nil; 30 September 2020: $740 million) of Loan Capital under fixed repayment obligation.

Note 18

Contingent liabilities and commitments

	As at 30 Sep 21 $m	As at 31 Mar 21 $m	As at 30 Sep 20 $m
Contingent liabilities:			
Letters of credit	**1,385**	1,197	1,075
Performance-related contingencies[1]	**841**	888	1,047
Indemnities	**183**	164	217
Guarantees	**76**	195	67
Total contingent liabilities[2]	**2,485**	2,444	2,406
Commitments:			
Undrawn credit facilities and securities commitments[3]	**6,274**	5,865	4,813
Other asset developments	**850**	754	831
Total commitments	**7,124**	6,619	5,644
Total contingent liabilities and commitments	**9,609**	9,063	8,050

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 that has not been provided for. 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) Includes $556 million (31 March 2021: $591 million; 30 September 2020: $737 million) in favour of a related party for which collateral of a similar amount has been received.
(2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(3) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting include firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Note 19

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 assets and liabilities 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 20 *Fair values of 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 21**
Cash and bank balances	–	–	–	–	28,769	–	28,769	–	28,769
Cash collateralised lending and reverse repurchase agreements	–	–	5,700	14,846	12,259	–	32,805	20,546	12,259
Trading assets[1]	13,982	–	–	–	–	6,982	20,964	13,982	–
Margin money and settlement assets	–	–	588	–	15,504	–	16,092	588	15,504
Derivative assets[2]	76,488	–	636	–	–	–	77,124	77,124	–
Financial investments									
Equity	–	–	228	–	–	–	228	228	–
Debt	–	–	10	8,605	10	–	8,625	8,615	10
Held for sale and other assets[3]	–	1,956	13	–	2,115	1,231	5,315	1,969	2,115
Loan assets[4]	–	34	119	–	109,348	–	109,501	153	109,825
Due from related body corporate entities[5]	510	–	3	–	2,064	440	3,017	513	2,064
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,899	2,899	–	–
Deferred tax assets	–	–	–	–	–	788	788	–	–
Total assets	**90,980**	**1,990**	**7,297**	**23,451**	**170,069**	**12,340**	**306,127**	**123,718**	**170,546**
Liabilities									
Cash collateralised borrowing and repurchase agreements	–	420	–	–	13,389	–	13,809	420	13,389
Trading liabilities	5,431	–	–	–	–	–	5,431	5,431	–
Margin money and settlement liabilities	–	–	–	–	20,610	–	20,610	–	20,610
Derivative liabilities[2]	77,392	–	409	–	–	–	77,801	77,801	–
Deposits	–	214	–	–	91,469	–	91,683	214	91,480
Held for sale and other liabilities[6]	–	539	–	–	967	2,600	4,106	539	539
Borrowings	–	–	–	–	2,214	–	2,214	–	2,222
Due to related body corporate entities[7]	827	–	–	–	8,708	99	9,634	827	8,708
Issued debt securities[4]	–	1,819	–	–	55,587	–	57,406	1,819	55,927
Deferred tax liabilities	–	–	–	–	–	49	49	–	–
Loan capital[4]	–	–	–	–	7,345	–	7,345	–	7,667
Total liabilities	83,650	2,992	409	–	200,289	2,748	290,088	87,051	200,542

(1) Non-financial instruments represent commodities carried at fair value less costs to sell.
(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL.
(3) Non-financial assets primarily represents equity interests in associates and joint ventures, prepayments, tax receivables and intangible assets.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risks.
(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(6) Non-financial liabilities primarily represent accrued charges, employee-related provisions and tax payables. The fair value of other liabilities carried at amortised cost excludes lease liabilities.
(7) Due to related body corporate entities includes derivatives and trading positions classified as HFT. All other intercompany payables are carried at amortised cost except for non-financial liabilities.

Note 19
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 21	
Cash and bank balances	–	–	–	–	15,966	–	15,966	–	15,966
Cash collateralised lending and reverse repurchase agreements	–	–	7,909	17,362	9,284	–	34,555	25,271	9,284
Trading assets[1]	14,521	–	–	–	–	6,691	21,212	14,521	–
Margin money and settlement assets	–	–	332	–	7,970	–	8,302	332	7,970
Derivative assets[2]	19,973	–	579	–	–	–	20,552	20,552	–
Financial investments									
Equity	–	–	206	–	–	–	206	206	–
Debt	–	–	110	7,665	18	–	7,793	7,775	18
Held for sale and other asset[3]	–	1,266	12	–	1,049	1,166	3,493	1,278	1,049
Loan assets[4]	–	64	129	–	98,799	–	98,992	193	99,177
Due from related body corporate entities[5]	384	–	–	–	1,507	263	2,154	384	1,507
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,797	2,797	–	–
Deferred tax assets	–	–	–	–	–	826	826	–	–
Total assets	34,878	1,330	9,277	25,027	134,593	11,743	216,848	70,512	134,971
Liabilities									
Cash collateralised borrowing and repurchase agreements	–	345	–	–	4,197	–	4,542	345	4,197
Trading liabilities	6,134	–	–	–	–	–	6,134	6,134	–
Margin money and settlement liabilities	–	–	–	–	16,251	–	16,251	–	16,251
Derivative liabilities[2]	16,801	–	674	–	–	–	17,475	17,475	–
Deposits	–	–	–	–	84,140	–	84,140	–	84,157
Held for sale and other liabilities[6]	–	605	–	–	1,063	2,682	4,350	605	584
Due to related body corporate entities[7]	902	–	–	–	14,976	23	15,901	902	14,976
Borrowings	–	–	–	–	2,473	–	2,473	–	2,484
Issued debt securities[4]	–	2,113	–	–	42,555	–	44,668	2,113	42,893
Deferred tax liabilities	–	–	–	–	–	36	36	–	–
Loan capital[4]	–	–	–	–	6,804	–	6,804	–	7,072
Total liabilities	23,837	3,063	674	–	172,459	2,741	202,774	27,574	172,614

(1) Non-financial instruments represent commodities carried at fair value less costs to sell.
(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(6) Non-financial liabilities primarily represent accrued charges, employee-related provisions and tax payables. The fair value of other liabilities excludes lease liabilities.
(7) Due to related body corporate entities includes derivatives and trading positions classified as HFT. All other inter-company payables are carried at amortised cost except for non-financial liabilities.

Note 19

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 20	
Cash and bank balances	–	–	–	–	6,869	–	6,869	–	6,869
Cash collateralised lending and reverse repurchase agreements		–	13,564	17,921	11,448	–	42,933	31,485	11,448
Trading assets[(1)]	12,335	–	–	–	–	6,183	18,518	12,335	–
Margin money and settlement assets	–	–	89	–	9,073	–	9,162	89	9,082
Derivative assets[(2)]	20,548	–	1,070	–	–	–	21,618	21,618	–
Financial investments									
Equity	–	–	192	–	–	–	192	192	–
Debt	–	–	53	7,299	31	–	7,383	7,352	31
Held for sale and other assets [(3)]	–	1,733	11	–	1,447	910	3,712	1,744	1,447
Loan assets[(4)]	–	33	79	–	87,625	–	87,737	112	88,025
Due from related body corporate entities[(5)]	364	–	–	–	3,926	235	4,525	364	3,926
Property, plant and equipment and right-of-use assets		–	–	–	–	2,239	2,239	–	–
Deferred tax assets	–	–	–	–	–	577	577	–	–
Total assets	33,247	1,766	15,058	25,220	120,419	10,144	205,854	75,291	120,828
Liabilities									
Cash collateralised borrowing and repurchase agreements	–	1,079	–	–	3,875	–	4,954	1,079	3,875
Trading liabilities	5,971	–	–	–	–	–	5,971	5,971	–
Margin money and settlement liabilities	–	–	–	–	16,746	–	16,746	–	16,746
Derivative liabilities[(2)]	15,605	–	534	–	–	–	16,139	16,139	–
Deposits	–	–	–	–	77,186	–	77,186	–	77,218
Held for sale and other liabilities[(6)]	–	608	–	–	571	1,285	2,464	608	534
Due to related body corporate entities[(7)]	1,515	–	–	–	18,080	52	19,647	1,515	18,080
Borrowings	–	–	–	–	2,256	–	2,256	–	2,270
Issued debt securities[(4)]	–	2,486	–	–	38,132	–	40,618	2,486	38,433
Deferred tax liabilities	–	–	–	–	–	45	45	–	–
Loan capital[(4)]	–	–	–	–	5,985	–	5,985	–	6,078
Total liabilities	23,091	4,173	534	–	162,831	1,382	192,011	27,798	163,234

(1) Non-financial instruments represent commodities carried at fair value less costs to sell.
(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(6) Non-financial liabilities primarily represent accrued charges, employee-related provisions and tax payables. The fair value of other liabilities excludes lease liabilities.
(7) Due to related body corporate entities includes derivatives and trading positions classified as HFT. All other inter-company payables are carried at amortised cost except for non-financial liabilities.

Note 20
Fair values of 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 19 *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 for, 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 to their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on lending and borrowing and repurchase agreements approximates their carrying amounts
- the fair value 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 securities 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 fair value of balances due to/from related body corporate entities approximates the carrying value as interest on the balances is generally payable/receivable at variable rates of interest.

Note 20
Fair values of assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments including balances with related body corporate entities that 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 at 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 market price and observable market inputs
- 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 reflect counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures
- for financial liabilities carried at fair value, in order to reflect the Consolidated Entity's own credit risk, an adjustment is incorporated into the valuations
- the Consolidated Entity's 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 MBL's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test those 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 20
Fair values of assets and liabilities continued

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				AS AT 30 SEP 21
Cash collateralised lending and reverse repurchase agreements	–	20,546	–	20,546
Trading assets[1]	8,716	11,710	538	20,964
Margin money and settlement assets	–	588	–	588
Derivative assets	31	76,749	344	77,124
Financial investments	541	7,569	733	8,843
Held for sale and other assets	–	1,931	38	1,969
Loan assets	–	98	55	153
Due from related body corporate entities[2]	–	513	–	513
Total assets	9,288	119,704	1,708	130,700
Liabilities				
Cash collateralised borrowing and repurchase agreements	–	420	–	420
Trading liabilities	5,265	166	–	5,431
Derivative liabilities	44	76,971	786	77,801
Deposits	–	214	–	214
Held for sale and other liabilities	–	539	–	539
Due to related body corporate entities[2]	–	827	–	827
Issued debt securities	–	1,819	–	1,819
Total liabilities	5,309	80,956	786	87,051
Assets				AS AT 31 MAR 21
Cash collateralised lending and reverse repurchase agreements	–	25,271	–	25,271
Trading assets[1]	10,188	10,604	420	21,212
Margin money and settlement assets	–	332	–	332
Derivative assets	232	20,059	261	20,552
Financial investments	507	6,822	652	7,981
Held for sale and other assets	–	1,253	25	1,278
Loan assets	–	138	55	193
Due from related body corporate entities[2]	–	384	–	384
Total assets	10,927	64,863	1,413	77,203
Liabilities				
Cash collateralised borrowing and repurchase agreements	–	345	–	345
Trading liabilities	6,024	110	–	6,134
Derivative liabilities	224	16,973	278	17,475
Held for sale and other liabilities	–	605	–	605
Due to related body corporate entities[2]	–	902	–	902
Issued debt securities	–	2,113	–	2,113
Total liabilities	6,248	21,048	278	27,574

(1) Includes commodities carried at fair value less costs to sell.
(2) Includes balances with related body corporate entities. For details, refer Note 19 *Measurement categories of financial instruments*.

Note 20
Fair values of assets and liabilities continued

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				AS AT 30 SEP 20
Cash collateralised lending and reverse repurchase agreements	–	31,485	–	31,485
Trading assets[1]	9,272	9,062	184	18,518
Margin money and settlement assets	–	89	–	89
Derivative assets	183	21,055	380	21,618
Financial investments	417	6,662	465	7,544
Held for sale and other assets	–	1,744	–	1,744
Loan assets	–	108	4	112
Due from related body corporate entities[2]	–	364	–	364
Total assets	9,872	70,569	1,033	81,474
Liabilities				
Cash collateralised borrowing and repurchase agreements	–	1,079	–	1,079
Trading liabilities	5,851	120	–	5,971
Derivative liabilities	566	15,305	268	16,139
Held for sale and other liabilities	–	608	–	608
Due to related body corporate entities[2]	–	1,515	–	1,515
Issued debt securities	–	2,486	–	2,486
Total liabilities	6,417	21,113	268	27,798

(1) Includes commodities carried at fair value less costs to sell.
(2) Includes balances with related body corporate entities. For details, refer Note 19 *Measurement categories of financial instruments*.

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Note 20
Fair values of 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 and commodities measured at fair value:

	Trading assets $m	Financial investments $m	Held for sale and other assets $m
Balance as at 1 Apr 2020	310	527	–
Purchases, originations, issuances and other additions	66	212	1
Sales, settlements and repayments	(73)	(209)	(1)
Transfers into Level 3(2)	–	81	–
Transfers out of Level 3(2)	(96)	(146)	–
Fair value movements recognised in the income statement			–
Net trading loss(3)	(23)	(3)	–
Other income	–	6	–
Fair value movements recognised in OCI(3)	–	(3)	–
Balance as at 30 Sep 2020	184	465	–
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period(3)	(23)	3	–
Balance as at 1 Oct 2020	184	465	–
Purchases, originations, issuances and other additions	388	218	22
Sales, settlements and repayments	(32)	–	–
Transfers into Level 3(2)	116	–	–
Transfers out of Level 3(2)	(68)	(62)	–
Fair value movements recognised in the income statement			
Net trading loss(3)	(168)	(49)	–
Other income	–	40	3
Fair value movements recognised in OCI(3)	–	40	–
Balance as at 31 Mar 2021	420	652	25
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period(3)	41	(6)	2
Balance as at 1 Apr 2021	**420**	**652**	**25**
Purchases, originations, issuances and other additions	**83**	**39**	**31**
Sales, settlements and repayments	**(13)**	**(33)**	**(19)**
Transfers into Level 3(2)	**14**	**166**	**–**
Transfers out of Level 3(2)	**(83)**	**(56)**	**–**
Fair value movements recognised in the income statement			
Net trading income/(loss)(3)	**117**	**14**	**–**
Other income	**–**	**–**	**1**
Fair value movements recognised in OCI(3)	**–**	**(49)**	**–**
Balance as at 30 Sep 2021	**538**	**733**	**38**
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period(3)	**134**	**5**	**2**

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $344 million (31 March 2021: $261 million; 30 September 2020: $380 million) and derivative liabilities are $786 million (31 March 2021: $278 million; 30 September 2020: $268 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. The gains and losses relating to such hedging 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 that are not presented in the table above.

Loan assets $m	Held for sale and other liabilities $m	Derivative financial instruments (net fair values)[1] $m	Total $m
64	–	458	1,359
–	(2)	22	299
(15)	2	(81)	(377)
–	–	12	93
(28)	–	(58)	(328)
(5)	–	(241)	(272)
(12)	–	–	(6)
–	–	–	(3)
4	–	112	765
(17)	–	(241)	(278)
4	–	112	765
110	–	164	902
–	–	(198)	(230)
–	–	(7)	109
–	–	34	(96)
–	–	(122)	(339)
(59)	–	–	(16)
–	–	–	40
55	–	(17)	1,135
(60)	–	(146)	(169)
55	**–**	**(17)**	**1,135**
–	**–**	**11**	**164**
–	**–**	**4**	**(61)**
–	**–**	**(6)**	**174**
–	**–**	**17**	**(122)**
–	**–**	**(451)**	**(320)**
–	**–**	**–**	**1**
–	**–**	**–**	**(49)**
55	**–**	**(442)**	**922**
–	**–**	**(421)**	**(280)**

Note 20
Fair values of 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 Level 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 in/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 or losses

For financial instruments, 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 21 $m	Half year to 31 Mar 21 $m	Half year to 30 Sep 20 $m
Balance at the beginning of the period	**75**	110	168
Deferred gain/(losses) on new transactions and other adjustments	**29**	13	(8)
Foreign exchange movements	**1**	(29)	6
Recognised in net trading income during the period[1]	**(43)**	(19)	(56)
Balance at the end of the period	**62**	75	110

(1) Includes amortisation, subsequent realisation due to unobservable inputs becoming observable, maturity and termination.

Note 20
Fair values of assets and liabilities continued

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. The impact of the sensitivity of financial instruments which hedge the Level 3 positions, but are classified as Level 1 or 2, is not included in the table below:

	FAVOURABLE CHANGES	UNFAVOURABLE CHANGES
	Profit or loss $m	Profit or loss $m
Product type		**AS AT 30 SEP 21**
Commodities	**141**	**(131)**
Equity and equity-linked products	**3**	**(23)**
Interest rate and other products	**9**	**(9)**
Total	**153**	**(163)**
Product type		AS AT 31 MAR 21
Commodities	112	(73)
Equity and equity-linked products	4	(14)
Interest rate and other products	11	(11)
Total	127	(98)
Product type		AS AT 30 SEP 20
Commodities	107	(60)
Equity and equity-linked products	18	(27)
Interest rate and other products	11	(10)
Total	136	(97)

The favourable and unfavourable changes from using reasonably possible alternative assumptions for the valuation of the above product types have been calculated by recalibrating the valuation model using stressed significant unobservable inputs within the Consolidated Entity's range of reasonably possible estimates.

Note 20
Fair values of assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair value. The range of values represent the highest and lowest input used in the valuation techniques. The range does not therefore 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 21
Equity and equity-linked products	**223**	**–**	Market comparability	Price in %[1]		
Commodities	**732**	**781**	Pricing model	Commodity margin curves	**(175.4)**	**1,691.0**
			Pricing model	Correlations	**(46.0%)**	**100.0%**
			Pricing model	Volatility and related variables	**(3.5%)**	**19.5%**
Interest rate and other products	**753**	**5**	Market comparability	Price in %[1]		
			Pricing model	Correlations	**0.0%**	**100.0%**
			Pricing model	Bond yields	**(2.2%)**	**4.8%**
Total	**1,708**	**786**				
						AS AT 31 MAR 21
Equity and equity-linked products	161	–	Market comparability	Price in %[1]		
Commodities	596	278	Pricing model	Commodity margin curves	(121.4)	1,458
			Pricing model	Correlations	(43.0%)	100.0%
			Pricing model	Volatility and related variables	8.3%	290.5%
Interest rate and other products	656	–	Pricing model	Correlations	0.0%	100.0%
			Pricing model	Bond yields	(2.3%)	2.9%
Total	1,413	278				
						AS AT 30 SEP 20
Equity and equity-linked products	148	–	Market comparability	Price in %[1]		
Commodities	452	263	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	433	5	Pricing model	Correlations	0.0%	100.0%
			Pricing model	Bond yields	0.0%	4.5%
Total	1,033	268				

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

Note 20
Fair values of assets and liabilities continued

Correlation

Correlation is a measure of the relationship between the movements of input variables (i.e., how the change in one input 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 the amount a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

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 by referencing market transactions for comparable companies adjusted as appropriate for current economic conditions. Other significant unobservable inputs may include discount rates determined using inputs specific to the underlying investment, and forecast cash flows and the earnings or revenue 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.

Note 21
Financial risk management – derivatives

Derivative instruments, which include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity, credit and equity markets, are entered into by the Consolidated Entity for client trading purposes and for hedging of financial risks inherent in other recognised financial instruments as well as forecasted transactions.

The Consolidated Entity's approach to financial risk management, as set out in its financial statements for the year ended 31 March 2021 in Note 35 *Financial risk management*, remained unchanged during the period. This included entering into margining and collateralisation arrangements and enforceable master netting arrangements (MNA) with counterparties, particularly in respect of derivatives. The MNAs allow for net settlement with counterparties in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's financial position in that circumstance is to settle these contracts as one arrangement.

Derivative assets of $77.1 billion as at 30 September 2021 increased significantly from $20.6 billion as at 31 March 2021. Derivative liabilities of $77.8 billion as at 30 September 2021 also increased significantly from $17.5 billion as at March 2021. These increases were primarily due to an increase in client trade volumes and mark-to-market movements resulting from elevated commodity prices, particularly in EMEA.

These derivative balances are presented in the statement of financial position after offsetting balances where the Consolidated entity has both a legal right of set off and the intention to settle on a net basis. After taking into account $56.3 billion (31 March 2021: $11.0 billion) of derivatives held with counterparties that are governed by the MNAs(1) and cash and other financial collateral(1) relating to derivative assets of $8.3 billion (31 March 2021: $4.4 billion) and derivative liabilities of $7.8 billion (31 March 2021: $2.8 billion), there are residual derivative assets of $12.6 billion (31 March 2021: $5.1 billion) and derivative liabilities of $13.8 billion (31 March 2021: $3.8 billion).

(1) Includes offsetting exposures the Consolidated Entity has with counterparties under MNAs with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.

Note 22

Acquisitions and disposals of subsidiaries and businesses

Acquisition of businesses

In November 2020, the MGL and MBL Boards approved the transfer of Macquarie's service entities from the Non-Bank Group to the Consolidated Entity. The transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity acquired a 100% interest in Macquarie Group Services Australia Pty Ltd. (MGSA), and its subsidiaries from MGL and a 100% interest in Macquarie Global Services Private Limited from Macquarie Global Finance Services (Mauritius) Limited (an indirect subsidiary of MGL).

The acquisition of the service entities, together with the acquisition of Bond Street Custodians Limited from the Non-Bank Group was accounted for by the Consolidated Entity as a business combination under common control by recognising the net assets acquired at the original carrying values at the MGL consolidated group level at the date of acquisition with the excess of the consideration paid being recognised as a restructure reserve within retained earnings.

There were no other businesses which were acquired during the current and prior comparative reporting periods.

Aggregate details of net assets acquired or consolidated due to the above mentioned acquisitions are as follows:

	Half year to 31 Mar 21 $m
Carrying value of net assets acquired	
Cash and bank balances	318
Loan assets and other assets[1]	534
Property, plant and equipment and right-of-use assets	590
Deferred tax assets	231
Other liabilities[2]	(1,209)
Deferred tax liabilities	(38)
Total carrying value of net assets recognised	**426**
Cash consideration	**615**
Difference between consideration and net assets recognised within equity	**189**
Net cash flow	
Payments for the acquisition of subsidiaries and businesses	615
Less: Cash and cash equivalents acquired	(318)
Net cash outflow	297

Other acquisitions and disposals

Disposal of businesses and subsidiaries

During the half year ended 30 September 2021, the Consolidated Entity realised a gain of $455 million on the partial sale of less than 5% of the UK Meters portfolio of assets comprising the industrial and commercial portfolio.

Note 23

Events after the reporting date

There were no material events subsequent to 30 September 2021 and up until the authorisation of the financial statements for issue, requiring a disclosure in the interim financial report, other than those that have been disclosed elsewhere in the financial statements.

(1) Primarily includes employee stock option related prepayments.
(2) Primarily includes operating lease liabilities and employee related provisions.

Directors' declaration

For the half year ended 30 September 2021

In the Directors' opinion:

(a) the financial statements and notes set out on pages 19 to 71 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 2021 and performance for the half year ended on that date, and

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

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

Stuart Green
Managing Director and Chief Executive Officer

Sydney
29 October 2021

Independent auditor's review report

To the members of Macquarie Bank Limited

Report on the half-year financial report

We have reviewed the half-year financial report of Macquarie Bank Limited (the Company) and the entities it controlled during the half-year (together the Consolidated Entity), which comprises the consolidated statement of financial position as at 30 September 2021, 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, significant accounting policies and explanatory notes and the directors' declaration.

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

- giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2021 and of its performance for the half-year ended on that date
- complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001* (Cth).

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors 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 responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2021 and of 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).

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
29 October 2021

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