

ADDENDUM

IMPORTANT

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Non-collateralised Structured Products Addendum to Base Listing Document relating to Structured Products to be issued by



MACQUARIE BANK LIMITED

(ABN 46 008 583 542)

(incorporated under the laws of Australia)

This addendum (“**Addendum**”) is a supplement to and should be read in conjunction with a base listing document dated 30 May 2023 (“**Base Listing Document**”). This Addendum, for which Macquarie Bank Limited (the “**Issuer**”) accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of giving information with regard to the Issuer and structured products to be issued by the Issuer from time to time generally (“**Structured Products**”). **Potential investors must read this Addendum in conjunction with the Base Listing Document.** This Addendum is available at the website at www.warrants.com.hk.

Each Structured Product issued pursuant to the Base Listing Document is issued by the Issuer. Any other parties distributing any Structured Product are only doing so as a distributor for the Issuer. Macquarie Capital Limited is the Sponsor pursuant to the terms of the Base Listing Document and provides various administrative services to the Issuer.

The Structured Products constitute general unsecured contractual obligations of the Issuer and of no other person and will rank equally among themselves and with all other unsecured obligations of the Issuer (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products you are relying upon the creditworthiness of the Issuer and have no rights under the Structured Products against, as applicable, (a) the company which has issued the underlying securities; (b) the fund which has issued the underlying securities, or its trustee (if applicable) or manager; or (c) the index compiler of any underlying index. If the Issuer becomes insolvent or default on its obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

This Addendum does not constitute or form part of any offer or invitation to subscribe for or to sell or solicitation of any offer to purchase Structured Products or other securities of the Issuer or any other company, nor is it calculated to invite persons to subscribe for, or purchase for cash, or other consideration Structured Products or other securities of the Issuer or any other company.

The Issuer, having made all reasonable enquiries, confirm that to the best of its knowledge and belief the information contained in this Addendum is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Addendum or the Base Listing Document misleading.

The Structured Products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

The Structured Products are complex products. You should exercise caution in relation to them. Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in the Base Listing Document, this Addendum and the relevant launch announcement and supplemental listing document and, where necessary, seek professional advice, before they invest in the Structured Products.

**Sponsor
Macquarie Capital Limited**

1 December 2023

The Issuer has undertaken, in respect of each series of Structured Products, from the Listing Date (as defined in the relevant launch announcement and supplemental listing document) until the Expiry Date (as defined in the relevant launch announcement and supplemental listing document) to make available on the website of the HKEX at www.hkexnews.hk and our website at www.warrants.com.hk, both an English and a Chinese version of this Addendum, both an English and a Chinese version of the Base Listing Document, the relevant launch announcement and supplemental listing document, the Issuer's audited consolidated financial statements for the year ended 31 March 2023 and interim financial statements for the half-year ended 30 September 2023, and the consent letters issued by PricewaterhouseCoopers.

發行人就各系列結構性產品承諾，由上市日(定義見有關之公佈及補充上市文件)至期滿日(定義見有關之公佈及補充上市文件)，可於香港交易所披露易網站 www.hkexnews.hk 及我們的網站 www.warrants.com.hk 查閱本增編之中英文本、基礎上市文件之中英文本、有關之公佈及補充上市文件、發行人截至 2023 年 3 月 31 日止年度的經審核合併財務報表及截至 2023 年 9 月 30 日止半年度的中期財務報表以及 PricewaterhouseCoopers 發出之同意書。

Additional information regarding the Issuer and its controlled entities may be available through the life of the particular series of Structured Products on the Issuer's website www.warrants.com.hk. Holders of Structured Products are cautioned that this information (if available) will be of a general nature and cannot be relied upon as accurate and/or correct and will not have been prepared exclusively for the purposes of any particular financial instrument issued by the Issuer, including Structured Products.

What are the Issuer's credit ratings?

The long term credit ratings of the Issuer as of 30 November 2023 were:

<i>Rating agency</i>	<i>Credit ratings*</i>
S&P Global Ratings	A+ (stable outlook)
Moody's Investors Service, Inc.	A1 (stable outlook)

* Credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to our ratings from time to time.

Rating agencies usually receive a fee from the companies that they rate. When evaluating the creditworthiness of the Issuer, you should not solely rely on the Issuer's credit ratings because:

- (a) a credit rating is not a recommendation to buy, sell or hold the Structured Products;
- (b) ratings of companies may involve difficult-to-quantity factors such as market competition, the success or failure of new products and markets and managerial competence;
- (c) a high credit rating is not necessarily indicative of low risk. The Issuer's credit ratings as of the above date are for reference only. Any downgrading of the Issuer's ratings could result in a reduction in the value of the Structured Products;
- (d) a credit rating is not an indication of the liquidity or volatility of the Structured Products; and
- (e) a credit rating may be downgraded if the credit quality of the Issuer declines or by other events that are not related to Macquarie Bank Limited and/or its controlled entities.

The Structured Products are not rated.

Has the financial position of the Issuer changed since last financial year-end?

There has been no material adverse change in the Issuer's financial or trading position since 31 March 2023.

Is the Issuer subject to any litigation?

There are currently claims against us and some of our subsidiaries and affiliates (the "Group"). Details of these claims or the Group's position in respect of them are confidential. Where necessary, appropriate provisions have been made in the financial statements. Save as disclosed in the Base Listing Document and this Addendum, the Group does not consider that the outcome of any such claims known to exist at this date, either individually or in aggregate, is likely to have a material effect on its operations or financial position.

Is the Issuer regulated by the Hong Kong Monetary Authority as referred to in Rule 15A.13(2) or by the Securities and Futures Commission as referred to in Rule 15A.13(3) of the Listing Rules?

The Issuer is not regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission referred to in Rule 15A.13(3). The Issuer is regulated by, among others, the Australian Prudential

Regulation Authority (“APRA”).

Authorised Representatives

We have appointed Ashley Miles and Kathleen Kan (c/o Macquarie Capital Limited, Level 22, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong) to accept services of process and notices pursuant to the Listing Rules.

Other information

Neither the delivery of the Base Listing Document, this Addendum nor any sale of any Structured Products shall under any circumstances create any implication that there has been no change in the affairs of the Issuer since the date hereof. No person has been authorised to give any information or to make any representations not contained in or not consistent with the Base Listing Document, this Addendum and/or the relevant launch announcement and supplemental listing document in connection with the offering of each series of Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer.

HKEX, the Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the merits of investing in Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this Addendum.

All references herein to “Hong Kong Dollars” and to “HK\$” are to the lawful currency of Hong Kong and to “Australian Dollars” and “A\$” are to the lawful currency of Australia.

All references to times are to Hong Kong time, unless otherwise stated herein or in the relevant launch announcement and supplemental listing document. Capitalised terms not defined shall have the meanings ascribed thereto in the Base Listing Document.

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INFORMATION IN RELATION TO US

Recent developments

On 1 April 2021, APRA announced actions required regarding Macquarie Bank Limited's risk management practices and ability to calculate and report key prudential ratios. APRA increased Macquarie Bank Limited'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 Macquarie Bank Limited Pillar 3 disclosures for the period from March 2018 to June 2021. As at 30 September 2023, Macquarie Bank Limited's CET1 ratio was 13.2% and Leverage ratio was 5.0%, comfortably exceeding APRA's Basel III requirements.

We have been working with APRA on a remediation plan that strengthens Macquarie Bank Limited's governance, culture, structure, and remuneration to ensure full and ongoing compliance with prudential standards and management of Macquarie Bank-specific risks.

SUPPLEMENTAL FINANCIAL INFORMATION OF THE ISSUER

The interim financial report for the half-year ended 30 September 2023

The information set out below has been extracted from the interim financial report for the half-year ended 30 September 2023. Unless otherwise stated, that report has been prepared in accordance with the Issuer's usual accounting policies and procedures. References to page numbers in this section are to pages of such document.

The financial statements of the Issuer for the half-year ended 30 September 2023 included in this Addendum have been reviewed by PricewaterhouseCoopers, Chartered Accountants, as stated in its review report appearing therein. The review report of PricewaterhouseCoopers for these financial statements was provided to the addressees of the report at the date of its issue and is subject to the disclaimers and qualifications contained therein. To the extent permitted by law, PricewaterhouseCoopers expressly disclaims and accepts no responsibility to any party other than the addressees of such report at the date of its issue.

Investors may visit the Issuer's websites at www.warrants.com.hk and/or <https://www.macquarie.com/hk/en/investors/reports.html> to access such report.

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The Financial Report was authorised for issue by the Board of Directors on 3 November 2023.

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

Consolidated income statement

For the half year ended 30 September 2023

	Notes	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
Interest and similar income				
Effective interest rate method	2	6,127	5,127	2,831
Other	2	251	216	65
Interest and similar expense	2	(4,918)	(3,929)	(1,670)
Net interest income		1,460	1,414	1,226
Net trading income	2	2,539	4,776	2,532
Fee and commission income	2	1,308	1,256	1,140
Net credit impairment charges	2	(6)	(48)	(68)
Net other impairment (charges)/reversals	2	(1)	1	1
Net other operating income	2	277	359	202
Net operating income		5,577	7,758	5,033
Employment expenses	2	(2,488)	(2,594)	(2,164)
Brokerage, commission and fee expenses	2	(278)	(276)	(244)
Non-salary technology expenses	2	(475)	(450)	(440)
Other operating expenses	2	(509)	(782)	(430)
Total operating expenses		(3,750)	(4,102)	(3,278)
Operating profit before income tax		1,827	3,656	1,755
Income tax expense	4	(510)	(1,026)	(480)
Profit after income tax		1,317	2,630	1,275
Profit attributable to the ordinary equity holder of Macquarie Bank Limited		1,317	2,630	1,275

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 2023

	Notes	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
Profit after income tax		1,317	2,630	1,275
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	18	(12)	22	(28)
Changes in expected credit losses (ECL) allowance	18	(1)	(5)	7
Cash flow hedges and cost of hedging reserve:				
Revaluation movement	18	7	(48)	80
Transferred to income statement on realisation	18	(22)	1	32
Foreign exchange movements on translation and hedge accounting of foreign operations		266	(227)	789
Other reserves	18	8	(1)	3
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)	18	(4)	—	1
Others		—	3	—
Total other comprehensive income/(loss)		242	(255)	884
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited		1,559	2,375	2,159

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 2023

	Notes	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Assets				
Cash and bank balances		25,542	41,612	49,803
Cash collateralised lending and reverse repurchase agreements		57,811	43,201	65,628
Trading assets	6	19,205	15,792	12,392
Margin money and settlement assets	7	17,137	19,375	25,009
Derivative assets	8	28,909	35,820	111,509
Financial investments		17,440	16,899	18,297
Held for sale and other assets	9	9,114	6,278	6,089
Loan assets	10	149,514	141,760	134,059
Due from other Macquarie Group entities		6,107	4,421	5,759
Property, plant and equipment and right-of-use assets		5,189	4,577	3,580
Deferred tax assets		1,002	1,088	936
Total assets		336,970	330,823	433,061
Liabilities				
Cash collateralised borrowing and repurchase agreements		13,507	18,737	22,410
Trading liabilities	12	8,145	4,754	6,378
Margin money and settlement liabilities	13	20,714	21,913	36,033
Derivative liabilities	14	29,344	32,522	111,260
Deposits		135,892	134,648	122,136
Held for sale and other liabilities	15	9,808	7,627	6,249
Due to other Macquarie Group entities		15,899	14,642	15,178
Issued debt securities and other borrowings	16	74,030	66,082	84,594
Deferred tax liabilities		14	23	23
Total liabilities excluding loan capital		307,353	300,948	404,261
Loan capital		9,461	9,523	8,094
Total liabilities		316,814	310,471	412,355
Net assets		20,156	20,352	20,706
Equity				
Contributed equity	17	10,148	10,161	10,141
Reserves	18	1,303	1,057	1,315
Retained earnings	18	8,705	9,134	9,250
Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited		20,156	20,352	20,706
Total equity		20,156	20,352	20,706

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

Consolidated statement of changes in equity

As at 30 September 2023

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
Balance as at 1 Apr 2022		9,562	432	7,974	17,968
Profit after income tax		—	—	1,275	1,275
Other comprehensive income, net of tax		—	883	1	884
Total comprehensive income		—	883	1,276	2,159
Contribution of ordinary equity by the equity holder	17	600	—	—	600
Other equity movements	17	(21)	—	—	(21)
		579	—	—	579
Balance as at 30 Sep 2022		10,141	1,315	9,250	20,706
Profit after income tax		—	—	2,630	2,630
Other comprehensive (loss)/income, net of tax		—	(258)	3	(255)
Total comprehensive income/(loss)		—	(258)	2,633	2,375
Dividend paid	5	—	—	(2,749)	(2,749)
Other equity movements	17	20	—	—	20
		20	—	(2,749)	(2,729)
Balance as at 31 Mar 2023		10,161	1,057	9,134	20,352
Profit after income tax		—	—	1,317	1,317
Other comprehensive income/(loss), net of tax		—	246	(4)	242
Total comprehensive income		—	246	1,313	1,559
Dividend paid	5	—	—	(1,742)	(1,742)
Other equity movements	17	(13)	—	—	(13)
		(13)	—	(1,742)	(1,755)
Balance as at 30 Sep 2023		10,148	1,303	8,705	20,156

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

Consolidated statement of cash flows

For the half year ended 30 September 2023

	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
Cash flows generated from/(utilised in) operating activities			
Interest income and expense:			
Received	6,140	5,182	2,806
Paid	(4,589)	(3,609)	(1,325)
Fees, commission, other income and charges:			
Received	1,351	1,380	1,185
Paid	(296)	(284)	(274)
Operating lease income received	366	390	341
Dividends and distributions received	12	3	—
Operating expenses paid:			
Employment expenses	(3,361)	(1,739)	(2,618)
Other operating expenses	(963)	(953)	(895)
Income tax paid	(521)	(700)	(370)
Changes in operating assets:			
Loan assets and receivables and balances with Macquarie Group entities	(8,357)	(7,619)	(9,213)
Other assets (net of liabilities)	(9)	(584)	167
Assets under operating lease	(251)	(701)	(166)
Trading and related assets, liquid investments and collateralised lending balances (net of liabilities)	6,408	(7,443)	(1,919)
Changes in operating liabilities:			
Issued debt securities, borrowings and other funding	4,314	(16,049)	(1,427)
Deposits	1,098	12,851	20,111
Net cash flows generated from/(utilised in) operating activities	1,342	(19,875)	6,403
Cash flows (utilised in)/generated from investing activities			
Net proceeds from/(payments for) financial investments	14	2,710	(3,784)
Associates, joint ventures, subsidiaries, and businesses:			
Proceeds from distribution or disposal, net of cash deconsolidated	36	—	4
Payments for additional contribution or acquisitions, net of cash acquired	(22)	(15)	(30)
Property, plant and equipment and intangible assets:			
Proceeds from disposals	—	23	2
Payments for acquisitions	(392)	(265)	(138)
Net cash flows (utilised in)/generated from investing activities	(364)	2,453	(3,946)
Cash flows (utilised in)/generated from financing activities			
Issuance of ordinary shares	—	—	600
Dividends and distributions paid	(1,742)	(2,749)	—
Receipt from issuance of loan capital	—	1,488	850
Net cash flows (utilised in)/generated from financing activities	(1,742)	(1,261)	1,450
Net (decrease)/increase in cash and cash equivalents	(764)	(18,683)	3,907
Cash and cash equivalents at the beginning of the period	61,182	80,368	72,361
Foreign exchange movement on cash and cash equivalents	836	(503)	4,100
Cash and cash equivalents at the end of the period	61,254	61,182	80,368

Notes to the consolidated financial statements

For the half year ended 30 September 2023

Note 1

Basis of preparation

This general purpose interim financial report for the half year reporting period ended 30 September 2023 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 2023 (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 2023 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 2023.

(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 Consolidated Entity's annual financial report for the year ended 31 March 2023.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Consistent with the previous reporting period, an increased level of estimation uncertainty was involved in the preparation of the interim financial report arising from the changing economic environment and market conditions, including the impact of rising interest rates and the current inflationary environment.

Management believes that the estimates and judgements used in preparing the interim financial report, which reflect the aforementioned factors, are reasonable. It is however reasonably possible that future outcomes that are different from the Consolidated Entity's assumptions and estimates at 30 September 2023, 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) New Australian Accounting Standards and amendments to Australian Accounting Standards and interpretations that are effective in the current period

(a) AASB 17 *Insurance Contracts* (AASB 17)

AASB 17 amends the accounting for insurance contracts and replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The adoption of AASB 17, mandatorily effective for the Consolidated Entity's interim financial reporting period beginning on 1 April 2023, did not have a material impact on this interim financial report.

(b) AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* (AASB 2023-2)

The Pillar Two Model Rules are part of the Organisation of Economic Co-operation and Development's inclusive framework designed to address the tax challenges arising from the digitalisation of the economy. The Pillar Two model rules:

- aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate; and
- would achieve that aim by applying a system of top-up taxes that results in the total amount of taxes payable on profit in each jurisdiction representing at least the minimum rate of 15%.

The Consolidated Entity's Pillar Two Project

During 2022, the Consolidated Entity initiated a project to manage the impact of the Pillar Two rules globally. The project's scope is to ensure the Consolidated Entity and its subsidiaries can meet their Pillar Two compliance obligations.

As part of the project, the Consolidated Entity is monitoring the progress of the implementation of the model rules into domestic legislation and certain jurisdictions in which the Entity has operations have started to enact the rules generally with operational effect for accounting periods beginning on or after 1 January 2024.

Impacts on financial reporting

In June 2023, the AASB issued AASB 2023-2 which makes amendments to AASB 112 *Income Taxes* with immediate effect. The standard provides a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The Consolidated Entity has applied this exception in preparing its interim financial report.

Note 1

Basis of preparation continued

(c) Other amendments made to existing standards

The amendments made to existing standards that were mandatorily effective for the annual reporting period beginning on 1 April 2023 did not result in a material impact on this interim financial report.

(iii) Other developments

(a) ISSB sustainability reporting standards

During the period, the International Sustainability Standards Board (ISSB) published the following sustainability reporting standards:

- IFRS S1 *General Requirements of Sustainability-related Financial Information* (IFRS S1), which sets out the overall requirements for sustainability-related financial disclosures, and
- IFRS S2 *Climate-related Disclosures* (IFRS S2), which will require the disclosure of information that enables the users of financial statements to understand the reporting entity's governance, strategy, risk management, and metrics and targets in relation to climate-related risks and opportunities.

The Australian-equivalent standards have not yet been issued. Notwithstanding, the Consolidated Entity acknowledges the growing importance of sustainability-related disclosures and continues to progress its established project to assess and prepare for future sustainability and climate-related reporting obligations.

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

IBOR interest rate benchmarks that are used in a wide variety of financial instruments (such as derivatives and lending arrangements) are undergoing reform. The nature of such reforms varies by benchmark and jurisdiction.

IBOR including the GBP, JPY, EUR, CHF and USD London Inter-bank Offered Rate ('LIBOR'), as well as IBOR for certain other minor currencies (excepting the Canadian Dollar Offer Rate (CDOR)), have ceased publication. The Consolidated Entity's IBOR reform project oversaw the transition of such exposures and the Consolidated Entity ceased the use of LIBOR in new products in accordance with industry and regulatory guidance.

The Consolidated Entity continues to have certain exposures referencing CDOR which will cease publication on 28 June 2024.

Similar to the transition of ceased LIBORs, the transition approach for CDOR will vary by product and nature of the counterparty.

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. The Consolidated Entity's exposure to IBOR transition risk has not materially changed during the period to 30 September 2023, with the exception of exposures to USD LIBOR. Materially all USD LIBOR exposures of the Consolidated Entity have transitioned to ARRs.

(iv) 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 2023 continued

Note 2

Operating profit before income tax

	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
Net interest income			
Interest and similar income: ¹			
Effective interest rate method - Amortised cost	5,092	4,406	2,569
Effective interest rate method - FVOCI	1,035	721	262
Other - FVTPL	251	216	65
Interest and similar expense:			
Effective interest rate method - Amortised cost	(4,878)	(3,914)	(1,650)
Other - FVTPL	(40)	(15)	(20)
Net interest income	1,460	1,414	1,226
Net trading income			
Commodities ²	1,747	4,212	1,863
Credit, interest rate and foreign exchange products	503	310	493
Equities	289	254	176
Net trading income	2,539	4,776	2,532
Fee and commission income			
Service fee from related parties	707	714	598
Brokerage and other trading-related fees	152	144	141
Portfolio administration fees	148	141	131
Lending fees	77	69	74
Other fee and commission income	224	188	196
Total fee and commission income	1,308	1,256	1,140

¹ Prior period comparatives for interest income have been re-presented between Effective interest rate and Other to conform with the presentation in the current period in alignment with the accounting policy.

² Includes \$312 million (half year to 31 March 2023: \$304 million; half year to 30 September 2022: \$225 million) of transportation, storage and certain other trading-related costs and \$5 million (half year to 31 March 2023: \$5 million; half year to 30 September 2022: \$6 million) depreciation on right-of-use (ROU) assets held for trading-related business.

Note 2

Operating profit before income tax continued

	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
Credit and other impairment (charges)/reversals			
Credit impairment (charges)/reversals			
Loan assets	14	(63)	(37)
Margin money and settlement assets	8	39	(6)
Financial investments, other assets and off balance sheet exposures	(28)	(26)	(26)
Recovery of amounts previously written off	—	2	1
Net credit impairment charges	(6)	(48)	(68)
Net other impairment (charges)/reversals	(1)	1	1
Total credit and other impairment charges	(7)	(47)	(67)
Net other operating income			
Investment income			
Net gain on sale of interests in associates and joint ventures	31	28	11
Net (loss)/gain on financial investments and non-financial assets	(5)	51	(43)
Share of net profits from associates and joint ventures	14	12	14
Total investment income/(loss)	40	91	(18)
Net operating lease income			
Rental income	416	387	337
Depreciation	(203)	(184)	(162)
Net operating lease income	213	203	175
Other income	24	65	45
Total net other operating income	277	359	202
Net operating income	5,577	7,758	5,033

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 2

Operating profit before income tax continued

	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
Employment expenses			
Salary and related costs including commissions, superannuation and performance-related profit share	(2,061)	(2,198)	(1,817)
Share-based payments	(246)	(209)	(208)
Provision for long service leave and annual leave	(29)	(25)	(21)
Total compensation expenses	(2,336)	(2,432)	(2,046)
Other employment expenses including on-costs, staff procurement and staff training	(152)	(162)	(118)
Total employment expenses	(2,488)	(2,594)	(2,164)
Brokerage, commission and fee expenses			
Brokerage and other trading-related fee expenses	(234)	(238)	(207)
Other fee and commission expenses	(44)	(38)	(37)
Total brokerage, commission and fee expenses	(278)	(276)	(244)
Non-salary technology expenses			
Information services	(67)	(65)	(62)
Depreciation on own use assets: equipment	(11)	(10)	(9)
Service provider and other non-salary technology expenses	(397)	(375)	(369)
Total non-salary technology expenses	(475)	(450)	(440)
Other operating expenses			
Occupancy expenses			
Lease and other occupancy expenses	(137)	(144)	(89)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements	(21)	(18)	(17)
Total occupancy expenses	(158)	(162)	(106)
Other expenses			
Professional fees	(104)	(158)	(107)
Indirect and other taxes	(67)	(61)	(35)
Travel and entertainment expenses	(40)	(40)	(37)
Advertising and promotional expenses	(20)	(32)	(27)
Fees for audit and other services	(17)	(36)	(15)
Amortisation of intangible assets	(3)	(5)	(6)
Other	(100)	(288)	(97)
Total other expenses	(351)	(620)	(324)
Total other operating expenses	(509)	(782)	(430)
Total operating expenses	(3,750)	(4,102)	(3,278)
Operating profit before income tax	1,827	3,656	1,755

Note 3

Segment reporting

(i) Operating segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into Operating Groups and a Corporate segment (reportable segments).

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

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

- **BFS** which provides a diverse range of personal banking, wealth management, and business banking products and services to retail clients, advisers, brokers and business clients.
- **CGM** which 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, and holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups. Any individually immaterial balance not attributable to an Operating Segment is 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 or valuation of assets, provisions for legacy matters, 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 wholesale funding for the Consolidated Entity, and Operating Groups obtain their required funding from Group Treasury. The Operating Groups are assumed to be fully debt funded for the purposes of internal funding charges. 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, with the exception of deposit funding, Operating Groups may only source funding directly from external sources where the funding is secured by the Operating Group's assets. In such cases, Operating Groups bear the funding costs directly and Group Treasury may levy additional charges where appropriate.

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 economically 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 give rise to income statement volatility unless designated in hedge accounting relationships, in which case the carrying value of the hedged items are adjusted for changes in fair value attributable to the hedged risks to reduce volatility in the income statement. If designated in cash flow hedge accounting relationships, the effective portion of the derivatives' fair value gains or losses are 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 items affect the income statement for the hedged risks. 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.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 *continued*

Note 3

Segment reporting *continued*

(i) Operating segments *continued*

Central Service Groups

The Central Service Groups provide a range of functions supporting MGL's Operating Groups, ensuring they have the appropriate workplace support and systems to operate effectively and the necessary resources to meet their regulatory, compliance, financial, 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.

Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (MEREP) are recognised in the Corporate segment and not allocated to 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, is offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on consolidation.

Presentation of segment income statements

The income statements on the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the Consolidated Entity's financial performance. The financial information disclosed relates to the Consolidated Entity's ordinary activities.

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	Commodities and Global Markets	Corporate	Total
	\$m	\$m	\$m	\$m
HALF YEAR TO 30 SEP 23				
Net interest and trading income	1,360	2,185	454	3,999
Fee and commission income	273	337	698	1,308
Other operating income and charges				
Net credit and other impairment (charges)/reversals	(23)	(1)	17	(7)
Net other operating income and charges	(2)	270	9	277
Internal management revenue/(charges)	1	—	(1)	—
Net operating income	1,609	2,791	1,177	5,577
Total operating expenses	(971)	(1,423)	(1,356)	(3,750)
Operating profit/(loss) before income tax	638	1,368	(179)	1,827
Income tax expense	—	—	(510)	(510)
Net profit/(loss) contribution	638	1,368	(689)	1,317
Reportable segment assets	135,821	138,287	62,862	336,970
HALF YEAR TO 31 MAR 23				
Net interest and trading income	1,323	4,602	265	6,190
Fee and commission income	255	325	676	1,256
Other operating income and charges				
Net credit and other impairment charges	(25)	(19)	(3)	(47)
Net other operating income and charges	(5)	338	26	359
Internal management revenue/(charges)	(11)	29	(18)	—
Net operating income	1,537	5,275	946	7,758
Total operating expenses	(916)	(1,349)	(1,837)	(4,102)
Operating profit/(loss) before income tax	621	3,926	(891)	3,656
Income tax expense	—	—	(1,026)	(1,026)
Net profit/(loss) contribution	621	3,926	(1,917)	2,630
Reportable segment assets	129,049	141,925	59,849	330,823
HALF YEAR TO 30 SEP 22				
Net interest and trading income/(expense)	1,197	2,601	(40)	3,758
Fee and commission income	249	270	621	1,140
Other operating income and charges				
Net credit and other impairment charges	(9)	(34)	(24)	(67)
Net other operating income and charges	(15)	197	20	202
Internal management revenue/(charges)	1	(1)	—	—
Net operating income	1,423	3,033	577	5,033
Total operating expenses	(843)	(1,139)	(1,296)	(3,278)
Operating profit/(loss) before income tax	580	1,894	(719)	1,755
Income tax expense	—	—	(480)	(480)
Net profit/(loss) contribution	580	1,894	(1,199)	1,275
Reportable segment assets	122,243	235,737	75,081	433,061

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

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	Commodities and Global Markets	Corporate	Total
	\$m	\$m	\$m	\$m
Fee and commission income	HALF YEAR TO 30 SEP 23			
Service fee from related parties	—	—	707	707
Brokerage and other trading-related fees	19	133	—	152
Portfolio administration fees	148	—	—	148
Lending fees	74	3	—	77
Other fee and commission income	32	201	(9)	224
Total fee and commission income	273	337	698	1,308
Fee and commission income	HALF YEAR TO 31 MAR 23			
Service fee from related parties	—	—	714	714
Brokerage and other trading-related fees	19	125	—	144
Portfolio administration fees	141	—	—	141
Lending fees	71	—	(2)	69
Other fee and commission income	24	200	(36)	188
Total fee and commission income	255	325	676	1,256
Fee and commission income	HALF YEAR TO 30 SEP 22			
Service fee from related parties	—	—	598	598
Brokerage and other trading-related fees	20	121	—	141
Portfolio administration fees	131	—	—	131
Lending fees	69	5	—	74
Other fee and commission income	29	144	23	196
Total fee and commission income	249	270	621	1,140

Note 4

Income tax expense

	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
(i) Reconciliation of income tax expense to prima facie tax expense			
Prima facie income tax expense on operating profit @30% (31 March 2023: 30%; 30 September 2022: 30%)	(548)	(1,097)	(526)
Tax effect of amounts which are (non-deductible)/non-assessable in calculating taxable income:			
Rate differential on offshore income	51	84	62
Other items	(13)	(13)	(16)
Total income tax expense	(510)	(1,026)	(480)
(ii) Tax benefit/(expense) relating to OCI			
FVOCI reserve	6	(9)	10
Own credit risk	1	(6)	—
Cash flow hedges and cost of hedging	13	6	(5)
Foreign currency translation reserve	(1)	—	—
Share of other comprehensive income of associates and joint ventures	—	—	(1)
Total tax (expense)/benefit relating to OCI	19	(9)	4

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.

Note 5

Dividend

Dividends paid to parent entity (Macquarie B.H. Pty Limited):

- 29 September 2023	623	—	—
- 30 June 2023	1,119	—	—
- 30 March 2023	—	1,449	—
- 29 December 2022	—	1,300	—
Total dividend paid (Note 18)	1,742	2,749	—

Note 6

Trading assets

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Equity securities	10,889	7,699	5,429
Commodity contracts	3,539	3,611	3,398
Debt securities	2,720	2,863	847
Commodity inventory	2,057	1,619	2,718
Total trading assets	19,205	15,792	12,392

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 7

Margin money and settlement assets

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Margin money	14,013	13,969	20,223
Commodity settlement assets	1,735	3,530	3,723
Security settlement assets	1,389	1,876	1,063
Total margin money and settlement assets	17,137	19,375	25,009

Note 8

Derivative assets

Held for trading	27,820	34,759	110,043
Designated in hedge relationships	1,089	1,061	1,466
Total derivative assets	28,909	35,820	111,509

Derivative instruments include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity, credit and equity markets. These are entered into by the Consolidated Entity for client trading purposes and for hedging 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 2023 in Note 33 *Financial risk management*, remained unchanged during the period. This included entering into margining and collateralisation arrangements and enforceable netting arrangements with counterparties, particularly in respect of derivatives. The enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty 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.

These derivative balances are presented in the statement of financial position after offsetting balances where the Consolidated Entity has both a legally enforceable right to set off and the intention to settle on a net basis. After taking into account related financial instruments (primarily derivative liabilities) of \$15,198 million (31 March 2023: \$19,730 million; 30 September 2022: \$77,883 million), and cash collateral of \$6,421 million (31 March 2023: \$6,472 million; 30 September 2022: \$15,038 million) the residual derivative exposure amounts to \$7,290 million (31 March 2023: \$9,618 million; 30 September 2022: \$18,588 million). The majority of the residual derivative exposure is short-term in nature and managed within the Consolidated Entity's market and credit risk frameworks, with the majority of the exposure with investment grade counterparties.

Note 9

Held for sale and other assets

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Held for sale assets			
Assets held for sale	—	6	89
Other financial assets			
Commodity-related receivables	6,174	3,247	3,398
Trade debtors and other receivables	1,361	1,526	1,122
Fee and commission receivables	91	113	150
Total other financial assets	7,626	4,886	4,670
Other non-financial assets			
Interests in associates and joint ventures	451	412	364
Income tax receivables	367	305	259
Prepayments	329	283	329
Indirect tax receivables	110	201	217
Intangible assets	97	97	103
Other	134	88	58
Total other non-financial assets	1,488	1,386	1,330
Total other assets	9,114	6,272	6,000
Total held for sale and other assets	9,114	6,278	6,089

Note 10

Loan assets

	AS AT 30 SEP 2023			AS AT 31 MAR 2023			AS AT 30 SEP 2022		
	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	120,790	(146)	120,644	114,483	(163)	114,320	107,109	(111)	106,998
Corporate, commercial and other lending ²	22,755	(317)	22,438	20,842	(306)	20,536	19,441	(314)	19,127
Asset financing ²	6,566	(134)	6,432	7,059	(155)	6,904	8,119	(185)	7,934
Total loan assets	150,111	(597)	149,514	142,384	(624)	141,760	134,669	(610)	134,059

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 11 *Expected credit losses*.

² Includes \$14,322 million (half year to 31 March 2023: \$15,699 million; half year to 30 September 2022: \$18,832 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 16 *Issued debt securities and other borrowings*.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 11

Expected credit losses

The Consolidated Entity models the Expected Credit Losses (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 estimate 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, material change in internal credit rating, whether an exposure has been identified and placed on CreditWatch, an internal credit monitoring mechanism supervised by the CreditWatch Forum to closely monitor exposures showing signs of stress. All exposures on CreditWatch 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.

Retail exposures

Exposures are assigned a behavioural score which considers the exposures' lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposures' credit behaviour. SICR movement thresholds between origination and reporting date of behavioural score movements have been established that, where exceeded, result in the exposure being categorised as Stage II.

Wholesale exposures

The Consolidated Entity assigns an internal credit rating to each exposure at origination based on information available at that date. These internal ratings are broadly aligned to external credit rating agencies such as Standard & Poor's and Moody's.

Where an exposures' assigned credit rating deteriorates beyond pre-defined thresholds per credit rating at origination, the exposure is categorised as Stage II. The methodology has been calibrated so that a larger change in rating is required for higher quality credit rated exposures than for lower quality credit rated exposures to be classified as Stage II.

For both retail and wholesale portfolios:

- the AASB 9 'low credit risk' exemption is not applied by the Consolidated Entity to material portfolios
- for material retail portfolios, the credit risk for an exposure or portfolio is generally deemed to have increased significantly if the exposure is more than 30 days past due, unless there are product specific characteristics that indicate that this threshold should be rebutted.

Definition of default

The Consolidated Entity's definition of default determines the reference point for the calculation of the ECL components, and in particular the PD. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full, without recourse by the Consolidated Entity to actions such as realisation of available security; or the borrower is 90 days or more past due on an obligation to the Consolidated Entity.

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.

Note 11

Expected credit losses continued

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 \$190 million (31 March 2023: \$225 million, 30 September 2022: \$300 million). These judgements are reviewed by FMG and RMG at each reporting date.

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 generated three alternate scenarios in addition to the baseline scenario, to which the alternate scenarios are anchored on a relative basis.

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

Where there are limited official data sources against which to benchmark key economic indicators on a forward-looking basis, 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 the Consolidated Entity's ECL is derived have been set out on the following pages. Noting the diversity of possible scenarios and macroeconomic outcomes, and the continuing uncertainty regarding the path of monetary policy, inflation and global geopolitical threats, these scenarios represent plausible forward-looking views as at the reporting date.

These scenarios impact the modelled ECL provisioning levels through determination of probabilities of default 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 utilized is generally estimated through property and share price index outlooks.

Future economic conditions may differ to the scenarios outlined, the impact of which will be accounted for in future reporting periods.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 11

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 ~\$750 million ¹	Probable	<p>Global: The baseline scenario assumes 2023 global GDP growth of approximately 2.2% year-on-year, slowing to 1.0% in 2024 as the impact of tight monetary policy feeds through to an expected global slowdown. Interest rates are forecast to remain high in the short term, with decline in interest rates to support growth by mid-2024 possible.</p> <p>Australia: Full-year annual growth of 1.4% is anticipated for 2023, slowing to 0.8% in 2024, with a technical recession expected to be narrowly avoided. Unemployment is forecast to rise steadily, peaking at 4.6% in mid-2025. Policy rate rises from the Reserve Bank of Australia (RBA) are assumed to conclude in 2023, with interest rate decline possible by mid-2024.</p> <p>House prices are expected to rise further as interest rates stabilise as the prospect of monetary easing nears. Equity prices are forecast to remain broadly flat over the next 12 months as inflation concerns ease but growth slows.</p> <p>United States: GDP growth is projected to turn negative in 2023, leading to a full-year contraction in GDP of 1.0% in 2024 and an overall peak-to-trough decline of 1.5% over 12 months. The unemployment rate is projected to increase to 5.5% by the end of 2024. Interest rate cuts to support the economy are anticipated from mid-2024.</p> <p>Europe: The Eurozone economy is projected to contract by 0.5% in 2024 as the effects of tight monetary policy continue.</p>
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 ~\$900 million ¹	Possible	<p>Global: The downside scenario projects annual growth in global GDP that is approximately 1 percentage point lower than the baseline until early 2025.</p> <p>Australia: The scenario projects a recession in late-2023 into early-2024 due to monetary tightening and continued inflation. The unemployment rate is project to rise in the scenario to 5.5% in 2024 and is expected to reduce slowly in a projected low growth environment. The RBA cash rate is forecast to rise further, and house prices are projected to fall by approximately 14% in the two years to June 2025.</p> <p>United States: The scenario projects four consecutive quarters of negative growth beginning in late 2023, resulting in a 3.5% decline in real GDP. Persistent inflation is forecast to result in the US Federal Reserve delaying monetary support until disinflationary trends are clear. Unemployment is projected to rise by 3 percentage points to 6.9% at end-2024.</p> <p>Europe: The scenario projects a 1.3% fall in real GDP in 2024, driving the unemployment rate to approximately 8.8%. Equity markets are projected to fall over 10% and fail to recover to prior peaks in the forecast period to 2027.</p>
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 ~\$1,150 million ¹	Unlikely	<p>Global: The scenario projects a sharp slowdown in annual GDP growth, around 3 to 3.5 percentage points lower than the baseline. The global economy is projected to contract by ~2.6% in the next twelve months and stagnate for the subsequent 12 months.</p> <p>Australia: The scenario projects five consecutive quarters of contraction in real GDP, resulting in a 2.6% decline by end-2024. Unemployment peaks at 7.3% in mid-2025, and house prices fall by over 25%.</p> <p>United States: The scenario projects a 4.7% fall in GDP to the end of 2024, contracting for six straight quarters and failing to recover prior output levels by the end of 2027. Unemployment is projected to reach 8.9% by the end of 2024, and housing and equity prices are expected to fall by 15% and 25% respectively.</p> <p>Europe: The scenario projects a recession that extends until the end of 2024, and GDP falls by 3.5% from current levels. Unemployment rates are projected to peak at 9.8% in early 2025 and recede slowly.</p>
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 ~\$700 million ¹	Unlikely	<p>Global: The upside scenario projects annual growth in global GDP that is approximately 1 percentage point higher than the baseline scenario until late 2024.</p> <p>Australia: The scenario projects a slight slowdown in GDP growth to around 1.5% annually, but growth remains positive throughout. Unemployment rates are forecast to increase only modestly, remaining below 4.5%. Interest rate rises are sufficient to manage inflation without sharply slowing growth, and are gradually eased to maintain growth.</p> <p>United States: The scenario projects slowing GDP growth to 0.7% in 2024, with one modest quarterly contraction in output. The US Federal Reserve pauses monetary tightening as inflation recedes, achieving a 'soft landing' scenario.</p> <p>Europe: The scenario projects GDP to grow only 0.1% in 2023 and 0.6% in 2024, avoiding a technical recession. Thereafter, growth remains around 1.5-2% annually through to 2026, and unemployment stabilises at around 7.4%.</p>

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. Changes in credit ratings may have a material impact on these ECL provisions.

Note 11

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 *Financial Instruments*.

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost	FVOCI	Other	Gross exposure	Amortised cost	FVOCI	Other	Total ECL allowance
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
AS AT 30 SEP 23								
Cash and bank balances	25,544	—	—	25,544	2	—	—	2
Cash collateralised lending and reverse repurchase agreements	12,673	38,734	—	51,407	4	—	—	4
Margin money and settlement assets	16,783	—	—	16,783	43	—	—	43
Financial investments	1,870	15,344	—	17,214	—	2	—	2
Held for sale and other assets	2,234	193	—	2,427	108	—	—	108
Loan assets	149,836	1	—	149,837	596	—	—	596
Due from other Macquarie Group entities	684	—	—	684	—	—	—	—
Off balance sheet exposures	—	—	24,364	24,364	—	—	79	79
Total	209,624	54,272	24,364	288,260	753	2	79	834
AS AT 31 MAR 23								
Cash and bank balances	41,613	—	—	41,613	1	—	—	1
Cash collateralised lending and reverse repurchase agreements	15,903	22,341	—	38,244	6	1	—	7
Margin money and settlement assets	18,850	—	—	18,850	51	—	—	51
Financial investments	1,721	14,870	—	16,591	—	3	—	3
Held for sale and other assets	2,619	4	—	2,623	94	—	—	94
Loan assets	142,200	—	—	142,200	624	—	—	624
Due from other Macquarie Group entities	556	—	—	556	—	—	—	—
Off balance sheet exposures	—	—	22,534	22,534	—	—	65	65
Total	223,462	37,215	22,534	283,211	776	4	65	845
AS AT 30 SEP 22								
Cash and bank balances	49,803	—	—	49,803	—	—	—	—
Cash collateralised lending and reverse repurchase agreements	22,688	34,318	—	57,006	—	—	—	—
Margin money and settlement assets	24,829	—	—	24,829	90	—	—	90
Financial investments	750	14,506	—	15,256	—	11	—	11
Held for sale and other assets	2,209	—	—	2,209	114	—	—	114
Loan assets	134,471	—	—	134,471	610	—	—	610
Due from other Macquarie Group entities	649	—	—	649	—	—	—	—
Off balance sheet exposures	—	—	22,571	22,571	—	—	35	35
Total	235,399	48,824	22,571	306,794	814	11	35	860

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 11

Expected credit losses continued

The table below provides a reconciliation from the opening and closing balance of the ECL allowance:

	Cash and bank balances	Cash collateralised lending and reverse repurchase agreements	Margin money and settlement assets	Financial investments	Held for sale and other assets	Loan assets	Off balance sheet exposures	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance as at 1 Apr 2022	1	4	81	1	153	590	17	847
Credit impairment charges (Note 2)	—	—	6	10	—	37	16	69
Amounts written off, previously provided for	—	—	—	—	(61)	(20)	—	(81)
Reclassifications, foreign exchange and other movements	—	—	3	—	17	3	2	25
Balance as at 30 Sep 2022	1	4	90	11	109	610	35	860
Credit impairment charges/ (reversals) (Note 2)	—	3	(39)	(8)	1	63	30	50
Amounts written off, previously provided for	—	—	—	—	(2)	(52)	—	(54)
Reclassifications, foreign exchange and other movements	—	—	—	—	(14)	3	—	(11)
Balance as at 31 Mar 2023	1	7	51	3	94	624	65	845
Credit impairment charges/ (reversals) (Note 2)	1	(3)	(8)	(1)	21	(14)	10	6
Amounts written off, previously provided for	—	—	—	—	(9)	(15)	—	(24)
Reclassifications, foreign exchange and other movements	—	—	—	—	2	1	4	7
Balance as at 30 Sep 2023	2	4	43	2	108	596	79	834

Note 11

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 *Financial Instruments* are applied.

	Stage I 12 month ECL \$m	LIFETIME ECL		Total \$m
		Stage II Not Credit impaired \$m	Stage III Credit impaired \$m	
Balance as at 1 Apr 2022	214	187	189	590
Transfers during the period	18	(15)	(3)	—
Credit impairment charges/(reversals) (Note 2)	36	(7)	8	37
Amounts written off, previously provided for	—	—	(20)	(20)
Reclassifications, foreign exchange and other movements	3	—	—	3
Balance as at 30 Sep 2022	271	165	174	610
Transfers during the period	8	(2)	(6)	—
Credit impairment charges (Note 2)	24	7	32	63
Amounts written off, previously provided for	—	—	(52)	(52)
Reclassifications, foreign exchange and other movements	(1)	(1)	5	3
Balance as at 31 Mar 2023	302	169	153	624
Transfers during the period	14	(5)	(9)	—
Credit impairment charges/(reversals) (Note 2)	(54)	(7)	47	(14)
Amounts written off, previously provided for	—	—	(15)	(15)
Reclassifications, foreign exchange and other movements	—	—	1	1
Balance as at 30 Sep 2023	262	157	177	596

Note 12

Trading liabilities

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Equity securities	8,077	4,713	6,207
Debt securities	68	41	35
Commodities	—	—	136
Total trading liabilities	8,145	4,754	6,378

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 13

Margin money and settlement liabilities

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Margin money	16,479	17,085	29,991
Commodity settlement liabilities	2,939	2,828	3,771
Security settlement liabilities	1,296	2,000	2,271
Total margin money and settlement liabilities	20,714	21,913	36,033

Note 14

Derivative liabilities

Held for trading	27,950	31,423	109,973
Designated in hedge relationships	1,394	1,099	1,287
Total derivative liabilities	29,344	32,522	111,260

These derivative balances are presented in the statement of financial position after offsetting balances where the Consolidated Entity has both a legally enforceable right to set off and the intention to settle on a net basis. After taking into account related financial instruments (primarily derivative assets) of \$15,122 million (31 March 2023: \$19,605 million; 30 September 2022: \$75,870 million) and cash collateral of \$7,076 million (31 March 2023: \$6,459 million; 30 September 2022: \$12,308 million), the residual derivative exposure amounts to \$7,146 million (31 March 2023: \$6,458 million; 30 September 2022: \$23,082 million). Refer to Note 8 *Derivative assets* for details of the Consolidated Entity's approach to derivative instruments and financial risk management.

Note 15

Held for sale and other liabilities

Held for sale liabilities			
Liabilities held for sale	—	—	9
Other financial liabilities			
Commodity-related payables	4,057	1,158	1,955
Creditors	975	1,064	582
Lease liabilities	747	456	349
Total other financial liabilities	5,779	2,678	2,886
Other non-financial liabilities			
Provisions ¹	1,405	1,383	1,143
Employment-related liabilities	1,078	1,933	1,063
Accrued charges and other payables	727	653	309
Income tax provision ²	393	518	419
Indirect taxes payable	101	83	53
Other	325	379	367
Total other non-financial liabilities	4,029	4,949	3,354
Total held for sale and other liabilities	9,808	7,627	6,249

¹ In the ordinary course of its business, the Consolidated Entity may be subject to actual and potential civil claims and regulatory enforcement actions. During the current period, these include matters in the Commonwealth of Australia, the United States of America, the United Kingdom, and the Federal Republic of Germany. The civil claims may result in settlements or damages awards. The regulatory enforcement actions may result in outcomes such as penalties, fines, disgorgement of profits and non-monetary sanctions. This amount includes provisions for such outcomes. The amount and timing of the outcomes are uncertain and may differ from the provisions recognised. Based on existing information, the range of likely outcomes, and any change in provisions during the current period, did not have and are not currently expected to have a material impact on the Consolidated Entity. The Consolidated Entity consider the risk of there being a material adverse effect in respect of claims and actions that have not been provided for to be remote.

² Revenue authorities undertake risk reviews and audits as part of their normal activities. The Consolidated Entity has assessed these and other taxation claims and litigation, including seeking external advice where appropriate, and considers that it holds appropriate provisions.

Note 16

Issued debt securities and other borrowings

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Commercial paper	31,070	23,466	36,836
Bonds	19,318	19,464	23,693
Securitised notes ¹	10,925	11,424	14,208
Certificates of deposit	3,207	2,274	2,292
Structured notes ^{2,3}	995	1,351	1,260
Total issued debt securities	65,515	57,979	78,289
Other borrowings	8,515	8,103	6,305
Total issued debt securities and other borrowings	74,030	66,082	84,594

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

Reconciliation of issued debt securities and other borrowings by major currency

(In Australian dollar equivalent)

United States dollar	45,877	38,132	53,089
Australian dollar	20,033	20,252	23,742
Euro	4,348	3,491	3,115
Pound sterling	2,395	2,209	2,636
Swiss franc	342	818	1,160
Other	1,035	1,180	852
Total issued debt securities and other borrowings	74,030	66,082	84,594

¹ Represents payable to note holders and debt holders for which loan assets are held by consolidated Structured Entities (SEs) and are available as security. Refer to Note 10 *Loan assets*.

² 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 \$1,350 million (31 March 2023: \$1,660 million; 30 September 2022: \$1,609 million). This amount is based on the final notional amount rather than the fair value. Refer to Note 20 *Measurement categories of financial instruments* for the carrying value of issued debt securities measured at DFVTPL.

³ Includes a cumulative fair value gain of \$10 million (31 March 2023: \$15 million gain; 30 September 2022: \$5 million loss) due to changes in own credit risk on DFVTPL debt securities recognised in OCI. The fair value movement is recognised in OCI.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 17

Contributed equity

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Ordinary share capital	9,879	9,879	9,879
Other equity	269	282	262
Total contributed equity	10,148	10,161	10,141
	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
(i) Ordinary share capital^{1,2}			
Opening balance of 696,603,664 (1 October 2022: 696,603,664; 1 April 2022: 674,817,171) fully paid ordinary shares	9,879	9,879	9,279
Issue of 21,786,493 shares on 30 June 2022 at \$27.54 per share	—	—	600
Closing balance of 696,603,664 (31 March 2023: 696,603,664; 30 September 2022: 696,603,664) fully paid ordinary shares	9,879	9,879	9,879
(ii) Other Equity³			
Equity contribution from ultimate parent entity			
Balance at the beginning of the period	282	262	283
Change attributable to deferred tax on share-based payment expense	(13)	20	(21)
Balance at the end of the period	269	282	262

¹ Ordinary shares have no par value.

² All of the shares are held by parent entity, Macquarie B.H. Pty Limited.

³ Capital contribution by ultimate parent MGL towards MEREP awards issued to employees of the Consolidated Entity, where MGL is not subsequently reimbursed by the Consolidated Entity. If the issued awards expire, the reversal of the original contribution is recognised as a return of capital.

Note 18

Reserves and retained earnings

	Half year to 30 Sep 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
(i) Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	1,000	1,227	438
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax	266	(227)	789
Balance at the end of the period	1,266	1,000	1,227
FVOCI reserve			
Balance at the beginning of the period	—	(17)	4
Revaluation movement, net of tax	(12)	22	(28)
Changes in ECL allowance, net of tax	(1)	(5)	7
Balance at the end of the period	(13)	—	(17)
Cash flow hedge reserve			
Balance at the beginning of the period	92	157	8
Revaluation movement, net of tax	54	(59)	124
Transferred to income statement on realisation, net of tax	(27)	(6)	25
Balance at the end of the period	119	92	157
Cost of hedging and other reserves			
Balance at the beginning of the period	(35)	(52)	(18)
Revaluation movement, net of tax	(47)	11	(44)
Transferred to income statement on realisation, net of tax	13	6	10
Balance at the end of the period	(69)	(35)	(52)
Total reserves at the end of the period	1,303	1,057	1,315
(ii) Retained earnings			
Balance at the beginning of the period	9,134	9,250	7,974
Profit attributable to the ordinary equity holder of MBL	1,317	2,630	1,275
Dividends paid on ordinary share capital (Note 5)	(1,742)	(2,749)	—
Fair value changes attributable to own credit risk on debt classified at DFVTPL, net of tax	(4)	—	1
Remeasurement of defined benefit plans	—	3	—
Balance at the end of the period	8,705	9,134	9,250

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 19

Contingent liabilities and commitments

	As at 30 Sep 23 \$m	As at 31 Mar 23 \$m	As at 30 Sep 22 \$m
Credit risk related exposures:			
Undrawn credit facilities and debt commitments ¹	22,142	20,378	20,411
Letters of credit and guarantees ²	2,222	2,156	2,160
Total credit risk related exposures	24,364	22,534	22,571
Other contingencies and commitments:			
Asset development and purchase commitments	1,010	1,476	1,052
Performance-related contingencies ²	444	677	871
Total other contingencies and commitments	1,454	2,153	1,923
Total contingent liabilities and commitments	25,818	24,687	24,494

¹ Undrawn credit facilities include fully or partially undrawn commitments against which clients can borrow money under defined terms and conditions. Balance includes revocable undrawn commitments for certain retail banking products \$14,973 million (31 March 2023: \$13,723 million; 30 September 2022: \$13,922 million) which are considered to be exposed to credit risk.

² It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities. Certain contingent liabilities are collateralised and any cash collateral (and related liability to return the collateral) is recognised in the Statement of financial position.

Note 20

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 assets and liabilities of the Consolidated Entity. The description of measurement categories are included in Note 41(vii) *Financial Instruments* in the Consolidated Entity's March 2023 Annual Financial Statements.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 21 *Fair values of assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT					Non- financial instruments	Statement of financial position total	FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE				Amortised cost			Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m					
Assets	AS AT 30 SEP 23								
Cash and bank balances	—	—	—	—	25,542	—	25,542	—	25,542
Cash collateralised lending and reverse repurchase agreements	—	—	6,408	38,734	12,669	—	57,811	45,142	12,669
Trading assets ¹	17,148	—	—	—	—	2,057	19,205	19,205	—
Margin money and settlement assets	—	—	397	—	16,740	—	17,137	397	16,740
Derivative assets	27,820	—	1,089	—	—	—	28,909	28,909	—
Financial investments									
Equity	—	—	250	—	—	—	250	250	—
Debt ²	—	—	99	15,221	1,870	—	17,190	15,320	1,870
Held for sale and other assets	—	—	5,306	193	2,126	1,489	9,114	5,499	2,126
Loan assets ²	—	—	341	1	149,172	—	149,514	342	148,633
Due from other Macquarie Group entities ³	4,562	—	—	—	684	861	6,107	4,562	684
Property, plant and equipment and right-of-use assets ²	—	—	—	—	—	5,189	5,189	—	—
Deferred tax assets	—	—	—	—	—	1,002	1,002	—	—
Total assets	49,530	—	13,890	54,149	208,803	10,598	336,970	119,626	208,264
Liabilities									
Cash collateralised borrowing and repurchase agreements	—	144	—	—	13,363	—	13,507	144	13,363
Trading liabilities	8,145	—	—	—	—	—	8,145	8,145	—
Margin money and settlement liabilities	—	—	—	—	20,714	—	20,714	—	20,714
Derivative liabilities	27,950	—	1,394	—	—	—	29,344	29,344	—
Deposits	—	—	—	—	135,892	—	135,892	—	135,831
Held for sale and other liabilities ⁴	—	3,787	—	—	1,992	4,029	9,808	3,787	1,065
Due to other Macquarie Group entities ³	394	—	—	—	15,315	190	15,899	394	15,315
Issued debt securities and other borrowings ²	—	1,338	—	—	72,692	—	74,030	1,338	72,686
Deferred tax liabilities	—	—	—	—	—	14	14	—	—
Loan capital ²	—	—	—	—	9,461	—	9,461	—	9,554
Total liabilities	36,489	5,269	1,394	—	269,429	4,233	316,814	43,152	268,528

¹ Non-financial assets under 'Trading assets' represent commodities inventory carried at fair value less costs to sell.

² Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risks.

³ Due from other Macquarie Group entities and due to other Macquarie Group entities include derivatives and trading positions classified as HFT. All other receivables or intercompany payables are carried at amortised cost except for non-financial assets and liabilities.

⁴ The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 20

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT					Non-financial instruments	Statement of financial position total	FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE				Amortised cost			Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets	AS AT 31 MAR 23								
Cash and bank balances	—	—	—	—	41,612	—	41,612	—	41,612
Cash collateralised lending and reverse repurchase agreements	—	—	4,963	22,341	15,897	—	43,201	27,304	15,897
Trading assets ¹	14,173	—	—	—	—	1,619	15,792	15,792	—
Margin money and settlement assets	—	—	576	—	18,799	—	19,375	576	18,799
Derivative assets	34,759	—	1,061	—	—	—	35,820	35,820	—
Financial investments									
Equity	—	—	265	—	—	—	265	265	—
Debt ²	—	—	45	14,868	1,721	—	16,634	14,913	1,721
Held for sale and other assets	—	—	2,355	4	2,527	1,392	6,278	2,359	2,527
Loan assets ²	—	—	285	—	141,475	—	141,760	285	140,814
Due from other Macquarie Group entities ³	3,379	—	—	—	556	486	4,421	3,379	556
Property, plant and equipment and right-of-use assets ²	—	—	—	—	—	4,577	4,577	—	—
Deferred tax assets	—	—	—	—	—	1,088	1,088	—	—
Total assets	52,311	—	9,550	37,213	222,587	9,162	330,823	100,693	221,926
Liabilities									
Cash collateralised borrowing and repurchase agreements	—	277	—	—	18,460	—	18,737	277	18,460
Trading liabilities	4,754	—	—	—	—	—	4,754	4,754	—
Margin money and settlement liabilities	—	—	—	—	21,913	—	21,913	—	21,913
Derivative liabilities	31,423	—	1,099	—	—	—	32,522	32,522	—
Deposits	—	—	—	—	134,648	—	134,648	—	134,582
Held for sale and other liabilities ⁴	—	1,118	—	—	1,828	4,681	7,627	1,118	1,828
Due to other Macquarie Group entities ³	462	—	—	—	13,943	237	14,642	462	13,943
Issued debt securities and other borrowings ²	—	1,611	—	—	64,471	—	66,082	1,611	64,374
Deferred tax liabilities	—	—	—	—	—	23	23	—	—
Loan capital ²	—	—	—	—	9,523	—	9,523	—	9,355
Total liabilities	36,639	3,006	1,099	—	264,786	4,941	310,471	40,744	264,455

¹ Non-financial assets under 'Trading assets' represent commodities inventory carried at fair value less costs to sell.

² Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risks.

³ Due from other Macquarie Group entities and due to other Macquarie Group entities include derivatives and trading positions classified as HFT. All other receivables or intercompany payables are carried at amortised cost except for non-financial assets and liabilities.

⁴ The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Note 20

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT					Non-financial instruments	Statement of financial position total	FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE				Amortised cost			Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m					
Assets	AS AT 30 SEP 22								
Cash and bank balances	—	—	—	—	49,803	—	49,803	—	49,803
Cash collateralised lending and reverse repurchase agreements	—	—	8,622	34,318	22,688	—	65,628	42,940	22,688
Trading assets ¹	9,674	—	—	—	—	2,718	12,392	12,392	—
Margin money and settlement assets	—	—	270	—	24,739	—	25,009	270	24,739
Derivative assets	110,043	—	1,466	—	—	—	111,509	111,509	—
Financial investments									
Equity	—	—	197	—	—	—	197	197	—
Debt ²	—	—	2,937	14,413	750	—	18,100	17,350	750
Held for sale and other assets	—	2,557	29	—	2,095	1,408	6,089	2,586	2,095
Loan assets ²	—	74	329	—	133,656	—	134,059	403	132,967
Due from other Macquarie Group entities ³	4,540	—	—	—	649	570	5,759	4,540	649
Property, plant and equipment and right-of-use assets ²	—	—	—	—	—	3,580	3,580	—	—
Deferred tax assets	—	—	—	—	—	936	936	—	—
Total assets	124,257	2,631	13,850	48,731	234,380	9,212	433,061	192,187	233,691
Liabilities									
Cash collateralised borrowing and repurchase agreements	—	256	—	—	22,154	—	22,410	256	22,154
Trading liabilities	6,378	—	—	—	—	—	6,378	6,378	—
Margin money and settlement liabilities	—	—	—	—	36,033	—	36,033	—	36,033
Derivative liabilities	109,973	—	1,287	—	—	—	111,260	111,260	—
Deposits	—	—	—	—	122,136	—	122,136	—	122,075
Held for sale and other liabilities ⁴	—	1,905	—	—	981	3,363	6,249	1,905	632
Due to other Macquarie Group entities ³	658	—	—	—	14,381	139	15,178	658	14,381
Issued debt securities and other borrowings ²	—	1,260	—	—	83,334	—	84,594	1,260	83,105
Deferred tax liabilities	—	—	—	—	—	23	23	—	—
Loan capital ²	—	—	—	—	8,094	—	8,094	—	7,992
Total liabilities	117,009	3,421	1,287	—	287,113	3,525	412,355	121,717	286,372

¹ Non-financial assets under 'Trading assets' represent commodities inventory carried at fair value less costs to sell.

² Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risks.

³ Due from other Macquarie Group entities and due to other Macquarie Group entities include derivatives and trading positions classified as HFT. All other receivables or intercompany payables are carried at amortised cost except for non-financial assets and liabilities.

⁴ The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 21

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 and non-financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing at 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 such inputs.

Items 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 item 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.

The following methods and significant assumptions have been applied in determining the fair values of the following items carried at amortised cost in the Statements of financial position (as disclosed in Note 20 *Measurement categories of financial instruments*).

Asset or liability	Valuation techniques, inputs and other significant assumptions
Cash and bank balances, Cash collateralised lending and reverse repurchase agreement, Cash collateralised borrowing and repurchase agreement	The fair values of cash and bank balance, cash collateralised lending and reverse repurchase agreement, cash collateral borrowing and repurchase agreement approximates their carrying amounts as these are highly liquid and short-term in nature.
Loan assets and Deposits	The fair values of fixed rate loan assets and term deposits is determined with reference to changes in interest rates and credit spreads. The fair values of variable rate loan assets and deposits approximates their carrying amounts, subject to any adjustment for changes in the credits spreads. The fair values of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand.
Financial investments	The fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. The fair values of fixed rate debt investments carried at amortised cost is estimated by reference to current market rates offered on similar securities and the creditworthiness of the borrower. The fair values of variable rate investments approximate their carrying amounts, subject to any adjustment for changes in credit spreads.
Issued debt securities and other borrowings and Loan capital	The fair values of issued debt securities, borrowings and loan capital 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.
Margin money, settlement assets and settlement liabilities, Other financial assets and financial liabilities	The fair values of margin money, settlement assets, settlement liabilities, other financial assets and financial liabilities approximate their carrying amounts.

Note 21

Fair values of assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of following items carried at fair value in the Statements of financial position.

Asset or liability	Valuation techniques, inputs and other significant assumptions
Trading assets, Trading liabilities and Derivatives	Trading assets, including commodities and commodity contracts, trading 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 other recognised valuation techniques. The Consolidated Entity has incorporated the market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation.
Repurchase and reverse repurchase agreements	Repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to current market rates and giving considerations to the fair value of securities held or provided as collateral.
Financial investments	Financial investments classified as FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example, listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of other recognised valuation techniques that maximise the use of quoted prices and observable market inputs.
Loan assets and Issued debt securities	Fair values of loans and issued debt securities are measured by reference to quoted prices in active markets where available. If quoted prices are not available in active markets, the fair values are estimated with reference to current market rates.
Other financial assets and financial liabilities	Fair values of other financial assets and financial liabilities are based upon data or valuation techniques, appropriate to the nature and type of the underlying instruments.

For financial assets carried at fair value, in order to measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis, the adjustment is calculated on a counterparty basis for those exposures. For financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, an adjustment is incorporated into the valuations.

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. The output of a valuation technique is always an estimate of a fair value that cannot be measured with complete certainty. All models are reviewed before they are used. Models are calibrated periodically to test the outputs and reflect the prices from observable current market transactions in same instrument or other available observable market data.

To the extent possible, models use only observable market data, 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.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 21

Fair values of assets and liabilities continued

Assets and liabilities measured at fair value

The following table summarises the levels of the fair value hierarchy for assets and liabilities that are recognised and measured at fair value in the financial statements:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
AS AT 30 SEP 2023				
Assets				
Cash collateralised lending and reverse repurchase agreements	—	45,142	—	45,142
Trading assets	11,806	6,242	1,157	19,205
Margin money and settlement assets	—	397	—	397
Derivative assets	11	28,197	701	28,909
Financial investments	2,206	12,990	374	15,570
Held for sale and other assets	—	5,439	60	5,499
Loan assets	—	334	8	342
Due from other Macquarie Group entities	—	4,562	—	4,562
Total assets	14,023	103,303	2,300	119,626
Liabilities				
Cash collateralised borrowing and repurchase agreements	—	144	—	144
Trading liabilities	7,999	146	—	8,145
Derivative liabilities	2	28,430	912	29,344
Held for sale and other liabilities	—	3,787	—	3,787
Due to other Macquarie Group entities	—	394	—	394
Issued debt securities and other borrowings	—	1,338	—	1,338
Total liabilities	8,001	34,239	912	43,152
AS AT 31 MAR 2023				
Assets				
Cash collateralised lending and reverse repurchase agreements	—	27,304	—	27,304
Trading assets	8,207	6,827	758	15,792
Margin money and settlement assets	—	576	—	576
Derivative assets	12	35,056	752	35,820
Financial investments	3,770	11,135	273	15,178
Held for sale and other assets	—	2,311	48	2,359
Loan assets	—	282	3	285
Due from other Macquarie Group entities	—	3,379	—	3,379
Total assets	11,989	86,870	1,834	100,693
Liabilities				
Cash collateralised borrowing and repurchase agreements	—	277	—	277
Trading liabilities	4,641	113	—	4,754
Derivative liabilities	8	31,767	747	32,522
Held for sale and other liabilities	—	1,118	—	1,118
Due to other Macquarie Group entities	—	462	—	462
Issued debt securities and other borrowings	—	1,611	—	1,611
Total liabilities	4,649	35,348	747	40,744

Note 21

Fair values of assets and liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets				AS AT 30 SEP 2022
Cash collateralised lending and reverse repurchase agreements	—	42,940	—	42,940
Trading assets	5,222	6,611	559	12,392
Margin money and settlement assets	—	270	—	270
Derivative assets	20	110,583	906	111,509
Financial investments	7,174	9,702	671	17,547
Held for sale and other assets	—	2,508	78	2,586
Loan assets	—	391	12	403
Due from other Macquarie Group entities	—	4,540	—	4,540
Total assets	12,416	177,545	2,226	192,187
Liabilities				
Cash collateralised borrowing and repurchase agreements	—	256	—	256
Trading liabilities	6,087	291	—	6,378
Derivative liabilities	11	110,093	1,156	111,260
Held for sale and other liabilities	—	1,905	—	1,905
Due to other Macquarie Group entities	—	658	—	658
Issued debt securities and other borrowings	—	1,260	—	1,260
Total liabilities	6,098	114,463	1,156	121,717

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 21

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 assets and liabilities, measured at fair value:

	Trading assets \$m	Financial investments \$m	Held for sale and other assets \$m	Loan assets \$m	Derivative financial instruments (net fair values) ¹ \$m	Total \$m
Balance as at 1 Apr 2022	521	915	60	3	(753)	746
Purchases, originations, issuances and other additions	88	133	48	9	151	429
Sales, settlements and repayments	(73)	(22)	(15)	—	182	72
Transfers into Level 3 ²	59	32	5	—	14	110
Transfers out of Level 3 ²	(76)	(340)	(3)	—	45	(374)
Fair value movements recognised in the income statement:						
Net trading income ³	40	27	2	—	111	180
Other loss	—	(33)	(19)	—	—	(52)
Fair value movements recognised in OCI	—	(41)	—	—	—	(41)
Balance as at 30 Sep 2022	559	671	78	12	(250)	1,070
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period ³	49	7	(6)	—	54	104
Balance as at 1 Oct 2022	559	671	78	12	(250)	1,070
Purchases, originations, issuances and other additions	211	16	—	—	154	381
Sales, settlements and repayments	—	(1)	(83)	(10)	50	(44)
Transfers into Level 3 ²	153	18	34	—	148	353
Transfers out of Level 3 ²	(102)	(496)	(2)	—	39	(561)
Fair value movements recognised in the income statement:						
Net trading (loss)/income ³	(63)	24	(1)	1	(136)	(175)
Other income	—	61	22	—	—	83
Fair value movements recognised in OCI	—	(20)	—	—	—	(20)
Balance as at 31 Mar 2023	758	273	48	3	5	1,087
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period ³	(66)	63	6	—	(83)	(80)
Balance as at 1 Apr 2023	758	273	48	3	5	1,087
Purchases, originations, issuances and other additions	645	45	52	4	47	793
Sales, settlements and repayments	(220)	(2)	(14)	—	9	(227)
Transfers into Level 3 ²	17	86	—	—	10	113
Transfers out of Level 3 ²	(68)	(47)	(32)	—	(111)	(258)
Fair value movements recognised in the income statement:						
Net trading income/(loss) ³	25	8	—	1	(171)	(137)
Other (loss)/income	—	(9)	6	—	—	(3)
Fair value movements recognised in OCI	—	20	—	—	—	20
Balance as at 30 Sep 2023	1,157	374	60	8	(211)	1,388
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period ³	25	3	6	1	(172)	(137)

¹ The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$701 million (31 March 2023: \$752 million; 30 September 2022: \$906 million) and derivative liabilities are \$912 million (31 March 2023: \$747 million; 30 September 2022: \$1,156 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.

Note 21

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 where there have been changes in significant influence or control but some forms of interests in assets are still retained, are also presented as transfers into/out of Level 3.

Unrecognised gains or losses

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 asset or liability 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 23 \$m	Half year to 31 Mar 23 \$m	Half year to 30 Sep 22 \$m
Balance at the beginning of the period	247	141	53
Deferred gain on new transactions and other adjustments	46	142	86
Foreign exchange movements	—	(3)	24
Recognised in net trading income during the period	(51)	(33)	(22)
Balance at the end of the period	242	247	141

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 21

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 2023						
Commodities	1,760	888	Pricing model	Commodity margin curves	(372.2)	2,099.9
			Pricing model	Correlations	(50.0)%	100.0%
			Pricing model	Volatility and related variables	5.9%	415.0%
Interest rate and other products	344	24	Discounted cash flows	Discount rates - Credit spread	5.5%	20.0%
Equity and equity-linked products	196	—	Market comparability	Price in % ¹		
Total	2,300	912				
AS AT 31 MAR 2023						
Commodities	1,482	747	Pricing model	Commodity margin curves	(242.0)	2,243.0
			Pricing model	Correlations	(72.0)%	100.0%
			Pricing model	Volatility and related variables	6.0%	600.0%
Interest rate and other products	153	—	Discounted cash flows	Discount rates - Credit spread	0.0%	10.0%
Equity and equity-linked products	199	—	Market comparability	Price in % ¹		
Total	1,834	747				
AS AT 30 SEP 2022						
Commodities	1,474	1,152	Pricing model	Commodity margin curves	(245.5)	1,255.0
			Pricing model	Correlations	(25.0)%	100.0%
			Pricing model	Volatility and related variables	(20.0)%	300.0%
Interest rate and other products	221	4	Discounted cash flows	Discount rates - Credit spread	1.0%	10.0%
Equity and equity-linked products	531	—	Market comparability	Price in % ¹		
Total	2,226	1,156				

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 21

Fair values of assets and liabilities continued

The following information contains details around the significant unobservable inputs which are utilised to fair value the level 3 assets and liabilities.

Commodities

Commodity margin curves: Certain commodities are valued using related observable products from the market and a margin is applied to the observable market inputs to mitigate the impact of differences in the products. Judgement is involved in the calculation of these margin curves depending on the quality of commodity or delivery location and other economic conditions.

Correlation: Correlation is a measure of the relationship between the movements of input variables (i.e. how the change in one variable influences a change in the other variable). It is expressed as a percentage between -100% and +100%, where 100% represents perfectly correlated variables and -100% represents inversely correlated variables. Correlation is a key input into the valuation of derivatives with more than one underlying (e.g., interest rates, credit spreads, foreign exchanges rates, inflation rates or equity prices) 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 underlying input and is generally expressed as a percentage, which 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 is 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 and historical data adjusted for current conditions.

Interest rates and other products

Discount rate - Credit spreads: 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. Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality which increase the discount factor applied to future cashflows thereby reducing the value of asset. Credit spreads may be implied from the market prices and may not be observable in more illiquid markets.

Price in %: Comparable transactions are leveraged to price the fair value of the assets and liabilities and a percentage is applied to ascertain the proportion of the transaction price that is comparable with the specific asset/liability. This price percentage is unobservable input and judgemental depending on the characteristics of the asset/liability.

Equity and equity-linked products

Unlisted equity securities are generally valued based on earnings or revenue multiples, referencing market transactions which are not directly comparable or quantifiable and are adjusted as appropriate for current economic conditions. Other significant unobservable inputs may include net asset value and discount rates determined using inputs specific to the underlying investment and forecast cash flows and earnings/revenues of investee entities.

Notes to the consolidated financial statements

For the half year ended 30 September 2023 continued

Note 21

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 assets and liabilities whose fair values are determined in whole or in part using unobservable inputs. The impact of the sensitivity of 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	Profit or loss
	\$m	\$m
Product type		AS AT 30 SEP 2023
Commodities	158	(91)
Interest rate and other products	16	(32)
Equity and equity-linked products	15	(15)
Total	189	(138)
Product type		AS AT 31 MAR 2023
Commodities	116	(103)
Interest rate and other products	15	(15)
Equity and equity-linked products	2	(2)
Total	133	(120)
Product type		AS AT 30 SEP 2022
Commodities	147	(128)
Interest rate and other products	16	(20)
Equity and equity-linked products	3	(25)
Total	166	(173)

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 22

Events after the reporting date

There were no material events subsequent to 30 September 2023 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.

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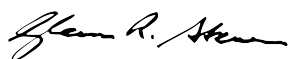
Directors' declaration

For the half year ended 30 September 2023

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 16 to 59 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 2023 and performance for the half year ended on that date, and
- (b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

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.



Glenn Stevens AC
Independent Director and Chairman



Stuart Green
Managing Director and Chief Executive Officer

Sydney
3 November 2023



Independent auditor's review report

To the member of Macquarie Bank Limited

Report on the half year financial report

Conclusion

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 2023, 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, material accounting policy information 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 2023 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* (ASRE 2410). 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 2023 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

Voula Papageorgiou
Partner

Sydney
3 November 2023

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