



# MACQUARIE BANK INTERIM FINANCIAL REPORT

Half year ended 30 September 2020

For personal use only

20



22

22



# Contents

## 01

### Directors' Report

Directors	4
Operating and financial review	5
Auditor's independence declaration	14

## 02

### Financial Report

<b>Financial statements</b>	
Consolidated income statement	19
Consolidated statement of comprehensive income	20
Consolidated statement of financial position	21
Consolidated statement of changes in equity	22
Consolidated statement of cash flows	23
Notes to the consolidated financial statements	24
<b>Statutory statements</b>	
Directors' declaration	71
Independent auditor's review report	72



For personal use only

# Directors' Report

# Directors

For the half year ended 30 September 2020

---

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

## Directors

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

### Independent Directors

P.H. Warne, Chairman

J.R. Broadbent AC

G.M. Cairns

P.M. Coffey

M.J. Coleman

D.J. Grady AO

G.R. Stevens AC

N.M. Wakefield Evans

### Executive Voting Directors

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

S.R. Wikramanayake

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

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

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

### Result

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

The consolidated profit attributable to the ordinary equity holder of Macquarie Bank, in accordance with Australian Accounting Standards, for the period was \$A660 million (half year to 31 March 2020: \$A469 million; half year to 30 September 2019: \$A992 million).

# Operating and financial review

For the half year ended 30 September 2020

## Review of performance and financial position

### Overview

Macquarie Bank's consolidated net profit attributable to the ordinary equity holder of \$A660 million for the half year ended 30 September 2020 decreased 33% from \$A992 million in the prior corresponding period<sup>(1)</sup> and increased 41% from \$A469 million in the prior period<sup>(2)</sup>.

	HALF YEAR TO			MOVEMENT	
	30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am	31 Mar 20 %	30 Sep 19 %
Net operating income	<b>2,943</b>	2,742	3,430	7	(14)
Operating expenses	<b>(2,103)</b>	(2,169)	(2,108)	(3)	(<1)
Income tax expense	<b>(180)</b>	(262)	(324)	(31)	(44)
Profit from discontinued operations after income tax	–	164	–	(100)	*
Distribution paid or provided on Macquarie Income Securities	–	(6)	(6)	(100)	(100)
Profit attributable to the ordinary equity holder	<b>660</b>	469	992	41	(33)

### Prior period discontinued operations

On 10 December 2018, the Consolidated Entity disposed of its Corporate and Asset Finance's Principal Finance and Transportation Finance businesses (the businesses) to a related group entity, Macquarie Financial Holdings Pty Limited (MFHPL) and its subsidiaries.

Under terms of the agreement the Consolidated Entity recognises there is an adjustment to the sales consideration in certain situations following a subsequent sale of the transferred businesses by MFHPL and its subsidiaries. A gain of \$A164 million was recognised in the period ended 31 March 2020 as a consequence of this provision.

### Operating Group update

During the current period, certain activities of CGM's Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The Cash Equities current period result and comparatives have been reclassified into the Corporate segment to reflect the reorganisation from CGM in the Bank Group.

(1) Prior corresponding period (pcp) refers to the six months ended 30 September 2019.

(2) Prior period refers to the six months ended 31 March 2020.

# Operating and financial review

For the half year ended 30 September 2020 continued

## Operating Groups

### Banking and Financial Services (BFS)

**\$A315m**

↓ 18% on pcip

- Increased credit impairment charges driven by portfolio growth as well as a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period as a result of COVID-19
- Higher employment expenses including increased headcount to better support clients through the impacts of COVID-19 as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

Partially offset by:

- higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes.

### Commodities and Global Markets (CGM)

**\$A924m**

↓ 19% on pcip

- Reduced client contribution in the commodities sector on a strong prior corresponding period, predominantly due to lower activity in 2Q21<sup>(1)</sup>
- Increased credit and other impairment charges reflecting a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period due to COVID-19, resulting in overlays for regional and industry specific risks as well as impairments taken on a small number of underperforming positions
- Reduced fee and commission income due to decreased demand for commodity risk premia products.

Partially offset by:

- consistent client and trading activity in foreign exchange, interest rate and credit products
- increased net operating lease income driven by higher secondary income from the asset financing portfolio.

(1) 2Q21 refers to the three months ended 30 September 2020.



## Net operating income

Net operating income of \$A2,943 million for the half year ended 30 September 2020 decreased 14% from \$A3,430 million in the prior corresponding period, mainly driven by lower Other operating income and charges as well as higher Credit and Other impairment charges. This was partially offset by higher Net operating lease income.

### Net interest and trading income

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
<b>2,379</b>	2,240	2,415

**↓ 1%**  
on prior  
corresponding  
period

- Margin compression on deposits and lower vehicle finance portfolio volumes in BFS
- The CGM commodities platform was down on a strong pcp.

Partially offset by:

- growth in average BFS deposits and loan portfolio volumes in BFS
- impact of Cash Equities transfer to Macquarie Capital in the Non-Bank Group in the current period.

### Fee and commission income

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
<b>516</b>	591	594

**↓ 13%**  
on prior  
corresponding  
period

- Reduced demand for commodity risk premia products in CGM
- Reduction in income by supporting clients through COVID-19 in BFS
- Reduction in Cash Equities due to the transfer to Macquarie Capital in the Non-Bank Group in the current period.

### Net operating lease income

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
<b>206</b>	211	160

**↑ 29%**  
on prior  
corresponding  
period

- Higher secondary income from the asset financing portfolio in CGM.

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

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
<b>12</b>	21	6

**↑**  
significantly  
on prior  
corresponding  
period

- Increased overall performance of underlying assets across the Operating Groups.

### Credit and Other impairment charges

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
<b>(262)</b>	(387)	(85)

**↑**  
significantly  
on prior  
corresponding  
period

- Higher credit impairment charges recognised across the Operating Groups primarily reflecting the economic impact of COVID-19 on our clients and customers, and new loans originated during the period
- Higher impairment charges in the prior period reflect the initial impact of COVID-19 on markets and its impact on the forward-looking economic outlook.

### Other operating income and charges

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
<b>92</b>	66	340

**↓ 73%**  
on prior  
corresponding  
period

- Recognition of a gain in Corporate on the sale of Macquarie Specialised Investment Solutions (MSIS) fiduciary businesses to Macquarie Asset Management Holdings Pty Limited (MAMHPL), a related party of MBL, owned 100% by MGL, in the prior corresponding period.

# Operating and financial review

For the half year ended 30 September 2020 continued

## Operating expenses

Total operating expenses of \$A2,103 million for the half year ended 30 September 2020 was broadly in line with \$A2,108 million in the prior corresponding period, mainly driven by decreases across Employment expenses and Brokerage, commission and trading-related expenses, predominantly offset by Other operating expenses and Occupancy.

Key drivers included:

### Employment expenses

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
643	612	735

↓ **13%**  
on prior  
corresponding  
period

- Decrease in performance-related profit share expense mainly as a result of lower performance in the Bank Group
- Lower share-based payments expense mainly driven by the non-recurrence of accelerated amortisation of equity awards relating to retiring Key Management Personnel recognised in the prior corresponding period.

Partially offset by:

- higher leave provisions due to less holiday entitlements being taken by staff driven by COVID-19.

### Brokerage, commission and trading-related expenses

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
296	289	307

↓ **4%**  
on prior  
corresponding  
period

- The sale of an investment in Macquarie Pacific Funding in the prior corresponding period in BFS.

### Non-salary technology expenses

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
88	85	85

↑ **4%**  
on prior  
corresponding  
period

- Higher technology expenses to support business growth and to meet regulatory requirements in BFS.

### Other operating expenses and Occupancy

#### HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
1,076	1,183	981

↑ **10%**  
on prior  
corresponding  
period

- Increased support services due to increasing compliance and regulatory requirements and higher business activity in the Bank Group
- The recognition of certain transaction related charges in Corporate.

Partially offset by:

- reduced travel and entertainment expenses across the Bank Group driven by COVID-19.

## Income tax expense

Income tax expense for the half year ended 30 September 2020 was \$A180 million, a 44% decrease from \$A324 million in the prior corresponding period. The effective tax rate for the half year ended 30 September 2020 was 21.4%, down from 24.5% in the prior corresponding period and 45.7% in the prior period.

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

## Statement of financial position

The Consolidated Entity's statement of financial position has been impacted during the period ended 30 September 2020 by changes resulting from business activities, Group Treasury management initiatives, developments with respect to COVID-19 and macroeconomic factors including the appreciation of the Australian dollar against major currencies.

### Total assets

#### AS AT

30 Sep 20 \$Am	31 Mar 20 \$Am
<b>205,854</b>	226,136

↓ **9%**  
on 31 Mar 20

In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total assets, the principal drivers for the decrease in the Consolidated Entity's total assets were as follows:

- derivative assets of \$A21.6 billion as at 30 September 2020 decreased 52% from \$A44.8 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM
- margin money and settlement assets of \$A9.2 billion as at 30 September 2020 decreased 25% from \$A12.2 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in margins placed with financial institutions by CGM.

These decreases were partially offset by:

- cash collateral on securities borrowed and reverse repurchase agreements of \$A42.9 billion as at 30 September 2020 increased 14% from \$A37.7 billion as at 31 March 2020, primarily driven by an increase in reverse repurchase agreements in CGM and an increase in Group Treasury reverse repurchase agreements following lower Operating Group funding requirements
- trading assets of \$A18.5 billion as at 30 September 2020 increased 13% from \$A16.3 billion as at 31 March 2020 primarily due to an increase in oil and precious metals inventories, and trading and equity positions held as hedges in CGM, partially offset by a decrease in certain bond and treasury bills.

### Total liabilities

#### AS AT

30 Sep 20 \$Am	31 Mar 20 \$Am
<b>192,011</b>	211,909

↓ **9%**  
on 31 Mar 20

In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total liabilities, the principal drivers for the decrease in the Consolidated Entity's total liabilities were as follows:

- derivative liabilities of \$A16.1 billion as at 30 September 2020 decreased 57% from \$A37.8 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM
- debt issued of \$A40.6 billion as at 30 September 2020 decreased 13% from \$A46.9 billion as at 31 March 2020 driven by maturity of debt positions and repayment of notes
- margin money and settlement liabilities of \$A16.7 billion as at 30 September 2020 decreased 13% from \$A19.1 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in call margins placed by financial institutions with CGM.

These decreases were partially offset by:

- deposits of \$A77.2 billion as at 30 September 2020 increased 15% from \$A67.3 billion as at 31 March 2020 primarily due to an increase in retail and business banking deposits in BFS
- cash collateral on securities lent and repurchase agreements of \$A5 billion as at 30 September 2020 increased significantly from \$A2.3 billion as at 31 March 2020 primarily due to the initial draw down of the new Term Funding Facility from the Reserve Bank of Australia by Group Treasury and increased stock lending agreements in CGM.

### Total equity

#### AS AT

30 Sep 20 \$Am	31 Mar 20 \$Am
<b>13,843</b>	14,227

↓ **3%**  
on 31 Mar 20

- The decrease in the Consolidated Entity's equity was attributable to the decrease in the foreign currency translation and net investment hedge reserve of \$A0.6 billion following the appreciation of the Australian dollar against major currencies and redemption of the Macquarie Income Securities of \$A0.4 billion, partially offset by an increase in retained earnings of \$A0.7 billion during the period.

# Operating and financial review

For the half year ended 30 September 2020 continued

## Funding

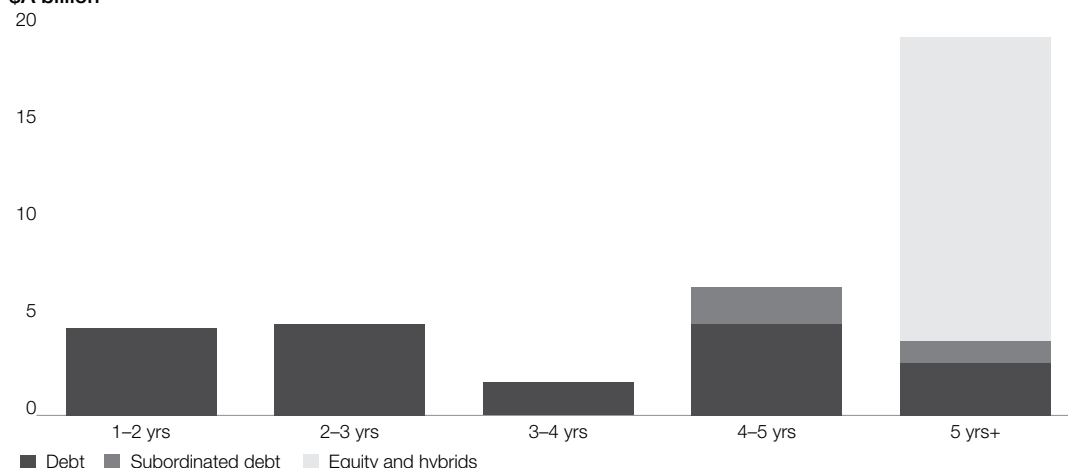
Macquarie Bank's liquidity risk management framework is designed to ensure that it is able to meet its funding requirements as they fall due under a range of market conditions.

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year<sup>(1)</sup> was 4.1 years as at 30 September 2020.

### Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion



# 4.1

years

The weighted average term to maturity of term funding maturing beyond one year at 30 September 2020

Macquarie Bank has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2020, Macquarie Bank has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2020 and 30 September 2020:

		Total \$Ab
Issued paper	– Senior and subordinated	1.9
Secured funding	– Term securitisation and other secured finance	1.9
	– RBA Term Funding Facility <sup>(2)</sup>	1.7
Hybrids	– Hybrid instruments	0.6
Total <sup>(3)</sup>		6.1

Macquarie Bank has continued to develop its major funding markets and products during the half year ended 30 September 2020.

(1) Including drawn RBA Term Funding Facility (TFF), excluding equity which is a permanent source of funding, and securitisations.

(2) Initial Allowance drawn as at 30 September 2020. MBL has \$A1.3 billion of undrawn TFF Supplementary Allowance. MBL has access to the TFF Additional Allowance, the volume of which will be determined by business lending growth to April 2021.

(3) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance and include undrawn facilities (does not include undrawn accessible TFF Allowances).

## Capital

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

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 30 September 2020.

Macquarie Bank Basel III ratios as at 30 September 2020	Harmonised Basel III <sup>(3)</sup>	APRA Basel III
Common Equity Tier 1 Capital Ratio	16.8%	13.5%
Tier 1 Capital Ratio	18.9%	15.4%
Leverage Ratio	6.5%	5.9%



For further information relating to the capital adequacy of Macquarie Bank, refer to section 6.0 *Capital* of the Management Discussion and Analysis available at [macquarie.com/results](https://www.macquarie.com/results)

(1) Based on materiality, the countercyclical capital buffer (CCyB) of ~1bps has not been included.

(2) APRA has released draft prudential standards on its implementation of a minimum requirement for the leverage ratio of 3.5% expected to be effective from January 2023.

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

# Operating and financial review

Our strategy

## Our purpose

Empowering people to innovate and invest for a better future.

# What We Stand For



## Opportunity



## Accountability



## Integrity

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

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

## Our business strategy

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

### Risk management approach

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

### Strong balance sheet

Maintaining a strong and conservative balance sheet.

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

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

### Business mix

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

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

### Diversification

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

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

### Proven expertise

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

### Adjacencies

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

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

### Pursuit of growth opportunities

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

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



The *Code of Conduct* is available at [macquarie.com/what-we-stand-for](https://www.macquarie.com/what-we-stand-for)

## Events after the reporting date

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

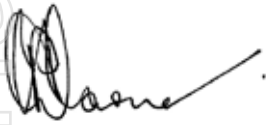
## Interim dividend

No dividends were paid during the current period. On 29 October 2020 the directors resolved to pay a dividend of \$A500 million on 2 November 2020.

## Rounding of amounts

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

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



**Peter Warne**  
*Independent Director and Chairman*



**Mary Reemst**  
*Managing Director and Chief Executive Officer*

Sydney  
6 November 2020



## Auditor's independence declaration

For the half year ended 30 September 2020

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

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

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

*K. Stubbins*

Kristin Stubbins  
Partner  
PricewaterhouseCoopers

Sydney  
6 November 2020

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

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



This page has been intentionally left blank.



For personal use only

# Financial Report

# Contents

For the half year ended 30 September 2020

## Financial statements

<b>Consolidated income statement</b>	<b>19</b>
<b>Consolidated statement of comprehensive income</b>	<b>20</b>
<b>Consolidated statement of financial position</b>	<b>21</b>
<b>Consolidated statement of changes in equity</b>	<b>22</b>
<b>Consolidated statement of cash flows</b>	<b>23</b>
<b>Notes to the consolidated financial statements</b>	<b>24</b>
1. Summary of significant accounting policies	24
2. Operating profit from continuing operations before income tax	28
3. Segment reporting	31
4. Income tax expense	37
5. Dividends	38
6. Trading assets	39
7. Margin money and settlement assets	39
8. Financial investments	39
9. Held for sale and other assets	40
10. Loan assets	40
11. Expected credit losses	41
12. Property, plant and equipment, right-of-use assets and intangible assets	49
13. Trading liabilities	50
14. Margin money and settlement liabilities	50
15. Held for sale and other liabilities	50
16. Debt issued	51
17. Contributed equity	52
18. Reserves, retained earnings and non-controlling interests	53
19. Notes to the consolidated statement of cash flows	55
20. Contingent liabilities and commitments	57
21. Measurement categories of financial instruments	58
22. Fair values of financial assets and liabilities	61
23. Discontinued operations	70
24. Acquisitions and disposals of subsidiaries and businesses	70
25. Events after the reporting date	70

## Statutory statements

<b>Directors' declaration</b>	<b>71</b>
<b>Independent auditor's review report</b>	<b>72</b>

# Consolidated income statement

For the half year ended 30 September 2020

	Notes	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
Interest and similar income				
Effective interest rate method	2	1,559	1,867	1,910
Other	2	144	328	358
Interest and similar expense	2	(698)	(1,136)	(1,287)
<b>Net interest income</b>		<b>1,005</b>	<b>1,059</b>	<b>981</b>
Fee and commission income	2	516	591	594
Net trading income	2	1,374	1,181	1,434
Net operating lease income	2	206	211	160
Share of net profits of associates and joint ventures	2	12	21	6
Net credit impairment charges	2	(241)	(370)	(81)
Other impairment charges	2	(21)	(17)	(4)
Other operating income and charges	2	92	66	340
<b>Net operating income</b>		<b>2,943</b>	<b>2,742</b>	<b>3,430</b>
Employment expenses	2	(643)	(612)	(735)
Brokerage, commission and trading-related fee expenses	2	(296)	(289)	(307)
Occupancy expenses	2	(57)	(52)	(52)
Non-salary technology expenses	2	(88)	(85)	(85)
Other operating expenses	2	(1,019)	(1,131)	(929)
<b>Total operating expenses</b>		<b>(2,103)</b>	<b>(2,169)</b>	<b>(2,108)</b>
<b>Operating profit from continuing operations before income tax</b>		<b>840</b>	<b>573</b>	<b>1,322</b>
Income tax expense	4	(180)	(262)	(324)
<b>Profit from continuing operations after income tax</b>		<b>660</b>	<b>311</b>	<b>998</b>
<b>Profit from discontinued operations after income tax</b>	23	<b>–</b>	<b>164</b>	<b>–</b>
<b>Profit from continuing and discontinued operations after income tax</b>		<b>660</b>	<b>475</b>	<b>998</b>
<b>Profit attributable to the equity holders of Macquarie Bank Limited</b>		<b>660</b>	<b>475</b>	<b>998</b>
Distribution paid or provided for on:				
Macquarie Income Securities	5	–	(6)	(6)
<b>Profit attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>660</b>	<b>469</b>	<b>992</b>
From continuing operations		<b>660</b>	<b>305</b>	<b>992</b>
From discontinued operations		<b>–</b>	<b>164</b>	<b>–</b>

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

# Consolidated statement of comprehensive income

For the half year ended 30 September 2020

	Notes	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
<b>Profit from continuing and discontinued operations after income tax</b>		<b>660</b>	475	998
Other comprehensive income/(loss) <sup>(1)</sup> :				
Movements in items that may be subsequently reclassified to the income statement:				
Fair value through other comprehensive income (FVOCI) reserve:				
Revaluation movement	18	69	(50)	4
Change in allowance for expected credit losses	18	–	5	1
Cash flow hedges:				
Revaluation movement	18	(48)	(26)	(67)
Transferred to income statement	18	29	15	29
Share of other comprehensive losses of associates and joint ventures	18	–	(1)	(1)
Exchange differences on translation and hedge accounting of foreign operations		(618)	411	155
Movements in item that will not be subsequently reclassified to the income statement:				
Fair value (loss)/gain attributable to own credit risk on debt that is designated as fair value through profit or loss (DFVTPL)	18	(78)	68	(18)
Total other comprehensive (loss)/income from continuing operations		(646)	422	103
<b>Total comprehensive income</b>		<b>14</b>	897	1,101
Total comprehensive loss attributable to non-controlling interests		1	–	–
Total comprehensive income attributable to Macquarie Income Securities holders		–	(6)	(6)
<b>Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>15</b>	891	1,095
From continuing operations		15	727	1,095
From discontinued operations	23	–	164	–

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

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

# Consolidated statement of financial position

As at 30 September 2020

	Notes	As at 30 Sep 20 \$m	As at 31 Mar 20 \$m	As at 30 Sep 19 <sup>(1)</sup> \$m
<b>Assets</b>				
Cash and bank balances		6,869	7,847	6,551
Cash collateral on securities borrowed and reverse repurchase agreements		42,933	37,708	29,910
Trading assets	6	18,518	16,251	21,981
Margin money and settlement assets	7	9,162	12,183	9,935
Derivative assets		21,618	44,845	17,606
Financial investments	8	7,575	7,484	6,360
Held for sale and other assets	9	3,712	3,267	3,763
Due from related body corporate entities		4,525	5,278	1,259
Loan assets	10	87,737	87,719	78,472
Interests in associates and joint ventures		227	251	219
Property, plant and equipment and right-of-use assets	12	2,239	2,598	2,668
Intangible assets	12	162	185	179
Deferred tax assets		577	520	460
<b>Total assets</b>		<b>205,854</b>	<b>226,136</b>	<b>179,363</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements		4,954	2,322	5,494
Trading liabilities	13	5,971	5,363	6,514
Margin money and settlement liabilities	14	16,746	19,052	15,145
Derivative liabilities		16,139	37,823	14,057
Deposits		77,186	67,253	58,965
Held for sale and other liabilities	15	2,464	2,946	2,725
Due to related body corporate entities		19,647	22,115	16,266
Borrowings		2,256	3,047	2,611
Debt issued	16	40,618	46,922	40,411
Deferred tax liabilities		45	69	10
<b>Total liabilities excluding loan capital</b>		<b>186,026</b>	<b>206,912</b>	<b>162,198</b>
<b>Loan capital</b>		<b>5,985</b>	<b>4,997</b>	<b>4,828</b>
<b>Total liabilities</b>		<b>192,011</b>	<b>211,909</b>	<b>167,026</b>
<b>Net assets</b>		<b>13,843</b>	<b>14,227</b>	<b>12,337</b>
<b>Equity</b>				
Contributed equity	17	8,501	8,899	7,900
Reserves	18	424	991	637
Retained earnings	18	4,918	4,336	3,799
<b>Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>13,843</b>	<b>14,226</b>	<b>12,336</b>
Non-controlling interests	18	–	1	1
<b>Total equity</b>		<b>13,843</b>	<b>14,227</b>	<b>12,337</b>

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

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

# Consolidated statement of changes in equity

For the half year ended 30 September 2020

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
<b>Balance as at 1 Apr 2019</b>		7,898	516	2,824	11,238	2	11,240
Profit from continuing and discontinued operations after income tax		–	–	998	998	–	998
Other comprehensive income/(loss), net of tax		–	121	(18)	103	–	103
Total comprehensive income		–	121	980	1,101	–	1,101
Transactions with equity holders:							
Dividends and distributions paid or provided for	18	–	–	(6)	(6)	–	(6)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	1	1	(1)	–
Other equity movements:							
Contributions from ultimate parent entity <sup>(1)</sup> in relation to share-based payments	17	2	–	–	2	–	2
		2	–	(5)	(3)	(1)	(4)
<b>Balance as at 30 Sep 2019</b>		7,900	637	3,799	12,336	1	12,337
Profit from continuing and discontinued operations after income tax		–	–	475	475	–	475
Other comprehensive income, net of tax		–	354	68	422	–	422
Total comprehensive income		–	354	543	897	–	897
Transactions with equity holders:							
Contributions of ordinary equity	17	1,000	–	–	1,000	–	1,000
Dividends and distributions paid or provided for	18	–	–	(6)	(6)	–	(6)
Other equity movements:							
Contributions from ultimate parent entity <sup>(1)</sup> in relation to share-based payments	17	(1)	–	–	(1)	–	(1)
		999	–	(6)	993	–	993
<b>Balance as at 31 Mar 2020</b>		8,899	991	4,336	14,226	1	14,227
Profit from continuing and discontinued operations after income tax		–	–	660	660	–	660
Other comprehensive loss, net of tax		–	(567)	(78)	(645)	(1)	(646)
Total comprehensive (loss)/income		–	(567)	582	15	(1)	14
Transactions with equity holders:							
Redemption of Macquarie Income Securities		(400)	–	–	(400)	–	(400)
Other equity movements:							
Contributions from ultimate parent entity <sup>(1)</sup> in relation to share-based payments	17	2	–	–	2	–	2
		(398)	–	–	(398)	–	(398)
<b>Balance as at 30 Sep 2020</b>		8,501	424	4,918	13,843	–	13,843

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

(1) Macquarie Group Limited.



# Consolidated statement of cash flows

For the half year ended 30 September 2020

	Notes	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 <sup>(1)</sup> \$m
<b>Cash flows (utilised in)/generated from operating activities</b>				
Interest income and expense:				
Received		1,720	2,196	2,286
Paid		(773)	(1,120)	(1,347)
Fees, commissions, other income and charges:				
Received		549	570	682
Paid		(305)	(312)	(318)
Operating lease income received		507	679	517
Dividends and distributions received		3	3	1
Operating expenses paid:				
Employment expenses		(837)	(586)	(799)
Other operating expenses		(1,139)	(1,483)	(1,061)
Income tax paid		(93)	(98)	(180)
Changes in operating assets:				
Trading assets, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities) and trading income		(7,912)	8,930	(5,185)
Loan assets and balances with related body corporate entities		(2,171)	(6,932)	(6,870)
Other assets		(414)	(420)	(34)
Assets under operating lease		(84)	(167)	(349)
Changes in operating liabilities:				
Deposits		10,165	8,116	2,800
Debt issued		(3,055)	3,836	4,737
Borrowings		(479)	581	935
Other liabilities		(34)	50	(62)
Life business:				
Life investment linked contract premiums received, disposal of investment assets and unitholder contributions		62	252	174
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		(60)	(249)	(173)
Net cash flows (utilised in)/generated from operating activities	19	(4,350)	13,846	(4,246)
<b>Cash flows utilised in investing activities</b>				
Net proceeds from/(payments for) financial investments		17	(690)	(673)
Associates, subsidiaries and businesses:				
Proceeds from/(payments for) the disposal or capital return, net of cash deconsolidated		4	(29)	302
Payments for the acquisition of or additional capital contribution, net of cash acquired		(10)	(21)	(8)
Payment for the acquisition of property, plant and equipment and intangible assets		(65)	(59)	(12)
Net cash flows utilised in investing activities		(54)	(799)	(391)
<b>Cash flows generated from/(utilised in) financing activities</b>				
Loan Capital:				
Issuance	19	2,474	—	—
Redemption		(740)	(429)	—
Issuance of ordinary shares to entity		—	1,000	—
Redemption of Macquarie Income Securities		(400)	—	—
Distributions paid		(3)	(6)	(7)
Payment to non-controlling interests		—	(1)	—
Net cash flows generated from/(utilised in) financing activities		1,331	564	(7)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,073)</b>	<b>13,611</b>	<b>(4,644)</b>
Cash and cash equivalents at the beginning of the period		27,290	12,463	16,744
Effect of exchange rate movements on cash and cash equivalents		(2,158)	1,216	363
<b>Cash and cash equivalents at the end of the period</b>	19	<b>22,059</b>	<b>27,290</b>	<b>12,463</b>

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

(1) Refer to Note 19 Notes to the consolidated statement of cash flows for an explanation of the re-presentation of certain comparative financial information.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020

## Note 1

### Summary of significant accounting policies

#### (i) Basis of preparation

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

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

This interim set of financial statements does not include all the disclosures of the type that are normally included in the Consolidated Entity's annual financial report. Accordingly, this report is to be read in conjunction with the Consolidated Entity's annual financial report for the year ended 31 March 2020 and any public announcements made by the Consolidated Entity during the half year ended 30 September 2020 in accordance with the continuous disclosure requirements.

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

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

#### Critical accounting estimates and significant judgements

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

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes that the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and it is therefore reasonably possible, on the basis of existing knowledge, that outcomes within the next financial period that are different from the Consolidated Entity's assumptions and estimates could require an adjustment to the carrying amounts of the reported assets and liabilities.

## Coronavirus (COVID-19) impact

### Background

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

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

### Impact of COVID-19 on the macroeconomic outlook

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

Forward-looking information (FLI), including a detailed explanation of the scenarios and related probabilities considered in determining the Consolidated Entity's forward-looking assumptions for the purposes of its expected credit loss (ECL), has been provided in Note 11 *Expected credit losses*.

### Processes applied

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

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

## Note 1

### Summary of significant accounting policies

#### continued

#### (i) Basis of preparation continued

##### Consideration of the impact on the financial statements and related disclosures

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

##### Trading assets and liabilities

Refer to Note 6, Note 13 and Note 22.

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

##### Financial investments

Refer to Note 8.

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

##### Derivative assets and liabilities

Refer to Note 21.

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

##### Held for sale assets and liabilities

Refer to Note 9 and Note 15.

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

##### Loan and other assets

Refer to Note 10 and Note 11.

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

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

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

##### Debt issued, loan capital, borrowings and repurchase arrangements

Refer to Note 16 and Note 19(iii).

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

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

##### Hedge accounting

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

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

##### Deferred tax assets

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

##### Off balance sheet exposures

Refer to Note 20.

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

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

##### Revised AASB *Conceptual Framework* for Financial Reporting

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

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

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

##### Other amendments made to existing standards

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

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

#### (i) AASB 17 *Insurance Contracts*

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

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

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

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

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

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

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



## Note 1

### Summary of significant accounting policies

continued

#### (i) Basis of preparation continued

##### The Consolidated Entity's IBOR project

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

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

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

##### Impacts on financial reporting

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

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

Where modifications to a contract, or changes in the basis for determining the contractual cash flows under a contract, are necessitated as a result of IBOR reform and the new basis for determining the contractual cash flows is economically

equivalent to the previous basis, the relief allows an entity to reset the yield applied to such an exposure on a prospective basis. Thus, at the time of modification, where the relief applies, there is no impact to the income statement. The relief requires continuation of hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the IBOR reform.

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

##### Other amendments made to existing standards

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

#### (ii) Comparatives

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

- margin money and settlement assets of (\$5,163 million)
- cash and bank balances of (\$1,222 million)
- due from related body corporate entities of \$43 million
- margin money and settlement liabilities of (\$6,313 million)
- due to related body corporate entities of (\$29 million).

The amendment to these balances impacted the Consolidated Entity's presentation of cash and cash equivalents for the purposes of the statement of cash flows. In addition to re-presenting for this change, and in order to more closely align with the Consolidated Entity's cash and liquid assets portfolio, the Consolidated Entity extended its review of the balances included in the determination of cash and cash equivalents. The impact on the Consolidated Entity's cash and cash equivalents and statement of cash flows for the period ended 30 September 2019 is explained in Note 19 *Notes to the consolidated statement of cash flows*.

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

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

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
<b>Note 2</b>			
<b>Operating profit from continuing operations before income tax</b>			
<b>Net interest income</b>			
Interest and similar income			
Effective interest rate method <sup>(1)</sup>	1,559	1,867	1,910
Other	144	328	358
Interest and similar expense <sup>(2)</sup>	(698)	(1,136)	(1,287)
Net interest income	1,005	1,059	981
<b>Fee and commission income</b>			
Brokerage and other trading-related fee income	227	264	237
Portfolio administration fees	107	112	121
Lending fees	62	70	79
Other fee and commission income	120	145	157
Total fee and commission income	516	591	594
<b>Net trading income<sup>(3)</sup></b>			
Commodities <sup>(4)</sup>	953	799	1,058
Credit, interest rate, foreign exchange and other products	228	201	147
Equities	193	181	229
Net trading income	1,374	1,181	1,434
<b>Net operating lease income</b>			
Rental income	483	583	614
Depreciation and other operating lease-related charges	(277)	(372)	(454)
Net operating lease income	206	211	160
<b>Share of net profits of associates and joint ventures</b>	<b>12</b>	<b>21</b>	<b>6</b>

(1) Includes interest income calculated using the effective interest rate method of \$1,519 million (half year to 31 March 2020: \$1,799 million; half year to 30 September 2019: \$1,875 million) on financial assets that are measured at amortised cost and \$40 million (half year to 31 March 2020: \$68 million; half year to 30 September 2019: \$35 million) on financial assets measured at FVOCI.

(2) Includes interest expense calculated using the effective interest rate method of \$671 million (half year to 31 March 2020: \$1,056 million; half year to 30 September 2019: \$1,193 million) on financial liabilities measured at amortised cost.

(3) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate and foreign currency risk.

(4) Includes \$228 million (half year to 31 March 2020: \$259 million; half year to 30 September 2019: \$233 million) of transportation, storage and certain other trading related costs.

	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
--	----------------------------------	----------------------------------	----------------------------------

**Note 2****Operating profit from continuing operations before income tax continued****Credit and other impairment (charges)/reversal****Credit impairment (charges)/reversal**

Loan assets	(193)	(231)	(94)
Margin money and settlement assets	(24)	(66)	–
Financial investments, other assets, undrawn credit commitments and financial guarantees	(26)	(71)	(1)
Gross credit impairment charges	(243)	(368)	(95)
Recovery of loans previously written off	2	(2)	14
Net credit impairment charges	(241)	(370)	(81)

**Other impairment charges**

Interests in associates and joint ventures	(10)	(7)	–
Intangible and other non-financial assets	(11)	(10)	(4)
Total other impairment charges	(21)	(17)	(4)
<b>Total credit and other impairment charges</b>	<b>(262)</b>	<b>(387)</b>	<b>(85)</b>

**Other operating income and charges****Investment income**

Net gain/(loss) on:			
Equity and debt investments	52	(2)	11
Interests in associates and joint ventures	–	9	9
Net (loss)/gain on disposal of businesses and subsidiaries held for sale <sup>(1)</sup>	–	(1)	242
Total investment income	52	6	262
Other income and charges	40	60	78
<b>Total other operating income and charges</b>	<b>92</b>	<b>66</b>	<b>340</b>
<b>Net operating income</b>	<b>2,943</b>	<b>2,742</b>	<b>3,430</b>

(1) Half year to 30 September 2019 included \$241 million of gain on the sale of Macquarie Specialised Investment Solutions fiduciary businesses to Macquarie Asset Management Holdings Pty Limited, a wholly owned subsidiary of MGL and a related party of MBL.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
<b>Note 2</b>			
<b>Operating profit from continuing operations before income tax continued</b>			
<b>Employment expenses</b>			
Salary and related costs including commissions, superannuation and performance-related profit share	(551)	(532)	(622)
Share-based payments	(73)	(81)	(111)
(Provision for)/reversal of long service and annual leave	(19)	1	(2)
Total employment expenses	(643)	(612)	(735)
<b>Brokerage, commission and trading-related fee expenses</b>			
Brokerage and other trading-related fee expenses	(253)	(257)	(273)
Other fee and commission expenses	(43)	(32)	(34)
Total brokerage, commission and trading-related fee expenses	(296)	(289)	(307)
<b>Occupancy expenses</b>			
Lease and other occupancy expenses	(55)	(50)	(50)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements	(2)	(2)	(2)
Total occupancy expenses	(57)	(52)	(52)
<b>Non-salary technology expenses</b>			
Information services	(41)	(39)	(44)
Depreciation on own use assets: equipment	(3)	(2)	(2)
Service provider and other non-salary technology expenses	(44)	(44)	(39)
Total non-salary technology expenses	(88)	(85)	(85)
<b>Other operating expenses</b>			
Service cost recoveries by related entities	(825)	(885)	(758)
Professional fees	(67)	(76)	(69)
Indirect and other taxes	(44)	(67)	(11)
Auditor's remuneration	(15)	(12)	(10)
Amortisation of intangible assets	(11)	(11)	(9)
Advertising and promotional expenses	(10)	(9)	(10)
Communication expenses	(6)	(6)	(5)
Travel and entertainment expenses	(2)	(19)	(22)
Other expenses	(39)	(46)	(35)
Total other operating expenses	(1,019)	(1,131)	(929)
<b>Total operating expenses</b>	<b>(2,103)</b>	<b>(2,169)</b>	<b>(2,108)</b>
<b>Operating profit from continuing operations before income tax</b>	<b>840</b>	<b>573</b>	<b>1,322</b>



## Note 3 Segment reporting

### (i) Operating Segments

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

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

During the current period, certain activities of CGM's Cash Equities business which operated within the Bank Group were transferred to Macquarie Capital in the Non-Bank Group. Comparatives have been reclassified to reflect this reorganisation.

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

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

- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance<sup>(1)</sup> products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms, as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a range of tailored specialised asset finance solutions across a variety of industries and asset classes.

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

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

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

Below is a selection of key policies applied in determining the Operating Segment results.

#### Internal funding arrangements

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

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

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

#### Transactions between Operating Segments

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

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

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

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

(1) Includes general plant and equipment.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

---

## Note 3

### Segment reporting continued

#### (i) Operating Segments continued

##### Central service groups

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

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

##### Performance-related profit share and share-based payments

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

##### Income tax

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

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

##### Reportable segment assets

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

**Note 3****Segment reporting continued****(i) Operating Segments continued**

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

	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate <sup>(1)</sup> \$m	Total \$m
<b>HALF YEAR TO 30 SEP 20</b>				
Net interest and trading income/(expense)	844	1,546	(11)	2,379
Fee and commission income	201	225	90	516
Net operating lease income	–	198	8	206
Share of net (losses)/profits of associates and joint ventures	(1)	13	–	12
Credit and other impairment charges	(78)	(173)	(11)	(262)
Other operating income and charges	16	57	19	92
Internal management revenue/(charge)	1	1	(2)	–
Net operating income	983	1,867	93	2,943
Total operating expenses	(668)	(943)	(492)	(2,103)
Operating profit/(loss) before income tax	315	924	(399)	840
Income tax expense	–	–	(180)	(180)
<b>Net profit/(loss) attributable to the ordinary equity holder from continuing operations</b>	<b>315</b>	<b>924</b>	<b>(579)</b>	<b>660</b>
<b>Reportable segment assets</b>	<b>80,041</b>	<b>103,079</b>	<b>22,734</b>	<b>205,854</b>
<b>HALF YEAR TO 31 MAR 20</b>				
Net interest and trading income	890	1,316	34	2,240
Fee and commission income	217	257	117	591
Net operating lease income	–	203	8	211
Share of net profits/(losses) of associates and joint ventures	6	16	(1)	21
Credit and other impairment charges	(108)	(207)	(72)	(387)
Other operating income and charges	9	34	23	66
Internal management revenue/(charge)	–	22	(22)	–
Net operating income	1,014	1,641	87	2,742
Total operating expenses	(631)	(961)	(577)	(2,169)
Operating profit/(loss) before income tax	383	680	(490)	573
Income tax expense	–	–	(262)	(262)
Operating profit/(loss) after income tax	383	680	(752)	311
Distributions paid or provided for on Macquarie Income Securities (MIS)	–	–	(6)	(6)
<b>Net profit/(loss) attributable to the ordinary equity holder from continuing operations</b>	<b>383</b>	<b>680</b>	<b>(758)</b>	<b>305</b>
<b>Reportable segment assets</b>	<b>76,776</b>	<b>126,224</b>	<b>23,136</b>	<b>226,136</b>

(1) The corporate segment in the current and prior comparative periods includes certain balances relating to the Cash Equities business – primarily being margin money and settlements assets amounting to \$3,871 million (March 2020: \$5,150 million and September 2019: \$3,134 million). Following the transfer of the business from the CGM segment to the Macquarie Capital segment in the Non-Bank Group during the period, certain balances will remain on the Consolidated Entity's balance sheet for an interim transition period.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate <sup>(1)</sup> \$m	Total \$m
<b>Note 3</b>				
<b>Segment reporting continued</b>				
<b>(i) Operating Segments continued</b>				
	HALF YEAR TO 30 SEP 19			
Net interest and trading income/(expense)	838	1,617	(40)	2,415
Fee and commission income	224	254	116	594
Net operating lease income	–	157	3	160
Share of net (losses)/profits of associates and joint ventures	(3)	9	–	6
Credit and other impairment charges	(41)	(31)	(13)	(85)
Other operating income and charges	–	41	299	340
Internal management revenue/(charge)	2	2	(4)	–
Net operating income	1,020	2,049	361	3,430
Total operating expenses	(636)	(909)	(563)	(2,108)
Operating profit/(loss) before income tax	384	1,140	(202)	1,322
Income tax expense	–	–	(324)	(324)
Operating profit/(loss) after income tax	384	1,140	(526)	998
Distributions paid or provided for on MIS	–	–	(6)	(6)
<b>Net profit/(loss) attributable to the ordinary equity holder from continuing operations</b>	<b>384</b>	<b>1,140</b>	<b>(532)</b>	<b>992</b>
<b>Reportable segment assets</b>	<b>68,869</b>	<b>97,523</b>	<b>12,971</b>	<b>179,363</b>

(1) The corporate segment in the current and prior comparative periods includes certain balances relating to the Cash Equities business – primarily being margin money and settlements assets amounting to \$3,781 million (March 2020: \$5,150 million and September 2019: \$3,134 million). Following the transfer of the business from the CGM segment to the Macquarie Capital segment in the Non-Bank Group during the period, certain balances will remain on the Consolidated Entity's balance sheet for an interim transition period.

**Note 3****Segment reporting continued****(ii) Fee and commission income/(expense) relating to contracts with customers**

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

	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate \$m	Total \$m
<b>Fee and commission income/(expense)</b>	<b>HALF YEAR TO 30 SEP 20</b>			
Brokerage and other trading-related fee income	24	108	95	227
Portfolio administration fees	105	2	–	107
Lending fees	56	6	–	62
Other fee and commission income/(expense)	16	109	(5)	120
<b>Total</b>	<b>201</b>	<b>225</b>	<b>90</b>	<b>516</b>
<b>Fee and commission income</b>	<b>HALF YEAR TO 31 MAR 20</b>			
Brokerage and other trading-related fee income	24	135	105	264
Portfolio administration fees	109	2	1	112
Lending fees	65	5	–	70
Other fee and commission income	19	115	11	145
<b>Total</b>	<b>217</b>	<b>257</b>	<b>117</b>	<b>591</b>
<b>Fee and commission income</b>	<b>HALF YEAR TO 30 SEP 19</b>			
Brokerage and other trading-related fee income	25	109	103	237
Portfolio administration fees	110	3	8	121
Lending fees	65	14	–	79
Other fee and commission income	24	128	5	157
<b>Total</b>	<b>224</b>	<b>254</b>	<b>116</b>	<b>594</b>

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 3

### Segment reporting continued

#### (iii) Products and services

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

- **Financial markets:** trading in fixed income, equities, foreign exchange and commodities and broking services,
- **Lending:** corporate and structured finance, banking activities, home loans, asset financing and leasing, and
- **Asset and wealth management:** distribution and management of wealth management products.

	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
<b>Revenue from external customers</b>			
Financial markets	2,216	2,430	2,730
Lending	2,049	2,324	2,366
Asset and wealth management	151	153	402
<b>Total revenue from external customers<sup>(1)</sup></b>	<b>4,416</b>	<b>4,907</b>	<b>5,498</b>

#### (iv) Geographical areas

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

#### Revenue from external customers

Australia	2,183	2,564	2,925
Americas <sup>(2)</sup>	916	915	1,212
Europe, Middle East and Africa <sup>(3)</sup>	864	1,093	973
Asia Pacific	453	335	388
<b>Total</b>	<b>4,416</b>	<b>4,907</b>	<b>5,498</b>

#### (v) Major customers

The Consolidated Entity does not rely on any major customer.

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, investment income and other income.

(2) Includes external revenue generated in the United States of America of \$855 million (half year to 31 March 2020: \$833 million; half year to 30 September 2019: \$1,101 million).

(3) Includes external revenue generated in the United Kingdom of \$836 million (half year to 31 March 2020: \$1,057 million; half year to 30 September 2019: \$957 million).

Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
----------------------------------	----------------------------------	----------------------------------

**Note 4****Income tax expense****(i) Reconciliation of income tax expense to *prima facie* tax expense**

<i>Prima facie</i> income tax expense on operating profit <sup>(1)</sup>	(252)	(202)	(397)
--	-------	-------	-------

Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:

Rate differential on offshore income	75	(68)	87
--------------------------------------	----	------	----

Gain on sale of discontinued operations	–	93	–
---	---	----	---

Other items	(3)	(23)	(14)
-------------	-----	------	------

<b>Total income tax expense</b>	<b>(180)</b>	<b>(200)</b>	<b>(324)</b>
---------------------------------	--------------	--------------	--------------

**Income tax expense is attributable to:**

Profit from continuing operations	(180)	(262)	(324)
-----------------------------------	-------	-------	-------

Profit from discontinued operations	–	62	–
-------------------------------------	---	----	---

**(ii) Tax benefit/(expense) relating to OCI items**

FVOCI reserve	(16)	5	(2)
---------------	------	---	-----

Own credit risk	33	(29)	8
-----------------	----	------	---

Cash flow hedges and cost of hedging	–	(5)	(2)
--------------------------------------	---	-----	-----

<b>Total tax benefit/(expense) relating to OCI items</b>	<b>17</b>	<b>(29)</b>	<b>4</b>
--	-----------	-------------	----------

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

(1) *Prima facie* income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (half year to 31 March 2020: 30%; half year to 30 September 2019: 30%). *Prima facie* income tax expense from continuing operations for the half year to 31 March 2020 was \$171 million.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
----------------------------------	----------------------------------	----------------------------------

## Note 5 Dividends

### Dividend to Ordinary equity holder

#### (i) Dividends not recognised at the end of the period

No dividends were paid during the current period. On 29 October 2020 the directors resolved to pay a dividend of \$500 million on 2 November 2020 from retained profits.

#### (ii) Distributions on MIS<sup>(1)</sup>

Distributions paid (net of distributions previously provided for)	–	3	4
Distributions provided for	–	3	2
<b>Total distributions paid or provided for (Note 18)</b>	<b>–</b>	<b>6</b>	<b>6</b>

(1) The MIS are stapled arrangements, which include perpetual preference shares. Refer to Note 17 *Contributed equity* for further details on these instruments.



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

**Note 6****Trading assets**

Equities			
Listed	5,256	4,405	8,715
Unlisted	–	–	1
Debt securities			
Commonwealth and foreign government securities	4,995	6,763	7,580
Corporate loans and securities	317	281	602
Treasury notes	21	318	100
Other debt securities	1	1	1
Commodity contracts	1,745	943	2,648
Commodities	6,183	3,540	2,334
<b>Total trading assets</b>	<b>18,518</b>	<b>16,251</b>	<b>21,981</b>

**Note 7****Margin money and settlement assets**

Security settlements	3,453	3,207	3,970
Margin money	4,191	6,842	3,321
Commodity settlements	1,518	2,134	2,644
<b>Total margin money and settlement assets</b>	<b>9,162</b>	<b>12,183</b>	<b>9,935</b>

**Note 8****Financial investments**

Equities			
Listed	66	39	62
Unlisted	126	115	102
Debt securities			
Bonds and Negotiable Certificate of Deposits (NCDs)	7,252	7,163	5,892
Corporate loans and securities	33	39	39
Money market securities	–	55	176
Other debt securities	98	73	89
<b>Total financial investments</b>	<b>7,575</b>	<b>7,484</b>	<b>6,360</b>

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

	As at 30 Sep 20 \$m	As at 31 Mar 20 \$m	As at 30 Sep 19 \$m
<b>Note 9</b>			
<b>Held for sale and other assets</b>			
<b>Held for sale assets</b>			
Assets of disposal groups and interests in associates and joint ventures classified as held for sale	454	–	–
<b>Other assets</b>			
Debtors and prepayments <sup>(1)</sup>	858	1,077	1,093
Commodity-related receivables	2,132	1,525	2,024
Income tax receivable	237	330	228
Life investment linked contracts and other unitholder assets <sup>(2)</sup>	11	308	376
Other	20	27	42
<b>Total held for sale and other assets</b>	<b>3,712</b>	<b>3,267</b>	<b>3,763</b>

## Note 10 Loan assets

	AS AT 30 SEP 20			AS AT 31 MAR 20			AS AT 30 SEP 19		
	Gross \$m	ECL allowance <sup>(3)</sup> \$m	Net \$m	Gross \$m	ECL allowance <sup>(3)</sup> \$m	Net \$m	Gross \$m	ECL allowance <sup>(3)</sup> \$m	Net \$m
Home loans <sup>(4)</sup>	61,673	(76)	61,597	56,106	(62)	56,044	47,337	(53)	47,284
Asset financing <sup>(4)</sup>	14,205	(328)	13,877	16,453	(294)	16,159	17,436	(235)	17,201
Corporate, commercial and other lending	10,804	(415)	10,389	13,288	(331)	12,957	11,922	(237)	11,685
Investment lending	1,875	(1)	1,874	2,560	(1)	2,559	2,303	(1)	2,302
<b>Total loan assets</b>	<b>88,557</b>	<b>(820)</b>	<b>87,737</b>	<b>88,407</b>	<b>(688)</b>	<b>87,719</b>	<b>78,998</b>	<b>(526)</b>	<b>78,472</b>

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

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

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

(1) Includes \$159 million (31 March 2020: \$182 million, 30 September 2019: \$121 million) of fee and commission receivables.

(2) Certain assets were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

(3) The ECL allowance carried against loan assets measured at FVOCI is not represented in the table as the allowance is included in reserves.

(4) Includes \$14,810 million (31 March 2020: \$16,402 million; 30 September 2019: \$11,975 million) held by consolidated Structured Entities (SEs), which are available as security to note holders and debt providers.

## Note 11

### Expected credit losses

#### Presentation

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

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

#### Determination of expected credit losses

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

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

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

For the period ended 30 September 2020, overlays were made to address the risk that defaults may emerge over longer periods than historically assumed, models may be overly sensitive to certain economic variables, and to incorporate client and customer information received by the Consolidated Entity in its dealings with retail customers who had elected to participate in certain payment pause arrangements as a consequence of COVID-19. At the reporting date, these overlays supported approximately \$150 million of the ECL provision.

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

#### Significant increase in credit risk

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

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

#### Definition of default

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

The Consolidated Entity periodically monitors its exposures for potential indicators of default such as significant financial difficulty of the borrower including breaches of lending covenants; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

---

## Note 11

### Expected credit losses continued

#### Forward Looking Information

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

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

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

## Note 11

### Expected credit losses continued

Scenario	Weighting	Expectation
<b>Baseline</b> A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~\$950 million <sup>(1)</sup>	Probable	<p><b>Global:</b> The baseline assumes the economic recovery continues through the second half of 2020 helped by targeted localised health policies replacing broader 'lockdown' containment measures utilised in the early stages of the COVID-19 pandemic. Job retention schemes and other policy measures are expected to ease gradually through the remainder of 2020, leading to increases in official unemployment rates but coinciding with private sector activity returning gradually towards normalised levels. In most developed markets GDP is expected to return to pre-COVID-19 levels by mid-2022.</p> <p><b>Australia:</b> The Australian economy is expected to recover ahead of other economies having experienced a relatively smaller contraction in the first half of 2020. Equity markets are expected to continue to stabilise and return to modest growth but remaining below pre-COVID-19 peaks in 2020.</p> <p>With business activity continuing to be impacted, unemployment rates peak at ~9% in early 2021 with a recovery occurring to broadly pre-COVID-19 levels over the next three years. House prices decline ~4% during 2020, before recovering to pre-COVID-19 levels in mid-2022. The RBA maintains the cash rate at its historic lows until 2023.</p> <p><b>United States (US):</b> The unemployment rate is expected to decline after reaching a high of ~13% in the first half of 2020, but remain above pre-COVID-19 levels, reaching ~6% in early 2023. US GDP contracted by ~10% in the first half of the year and is expected to return to pre-COVID-19 levels by the end of 2022. 10-year government bond yields are expected to recover slightly in late 2020 but remain at historical lows.</p> <p><b>Europe:</b> The GDP is expected to recover to pre-COVID-19 levels by mid-2023, after contracting by ~16%. The unemployment rate is expected to peak at ~9% by the end of 2020 and return to pre-COVID-19 levels of ~7% by 2024. The European Central Bank (ECB) is expected to maintain its policy rate in slightly negative territory.</p>
<b>Downside</b> A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~\$1,100 million <sup>(1)</sup>	Possible	<p><b>Global:</b> The downside assumes COVID-19 takes longer to contain leading to movement restrictions being maintained and delaying the expected recovery above the baseline scenario. The economic recovery is restrained during the second half of 2020 as rolling lockdowns, more localised than at national levels, are imposed to address rising infections. Weak growth and the length of mobility restrictions are expected to hamper the effectiveness of fiscal support, having an adverse impact on businesses and employment, with developed market unemployment rates peaking in early 2021. In developed markets activity returns to pre-COVID-19 levels in late 2023. Equity markets fall further in late 2020 as it becomes clear that recovery will be shallower and more prolonged.</p> <p><b>Australia:</b> With business activity impacted more severely, unemployment rates rise to ~9.5% in early 2021 before declining to ~6.5% (~1% above pre-COVID-19 levels) over the next three years. By the end of 2020, Australian GDP is expected to contract by ~7% from pre-COVID-19 levels and continues to be slightly below pre-COVID-19 levels until the middle of 2023. House prices decline ~20% from pre-COVID-19 levels by late 2021. The RBA maintains the cash rate at historic lows throughout the forecast period.</p> <p><b>United States:</b> The unemployment rate remains around ~13% through to early 2021 before gradually declining to ~6.5% (~3% above the pre-COVID-19 levels) by 2024. After US GDP contracted by ~10% from pre-COVID-19 levels, the economy commences a very gradual recovery during the 2H20, only returning to pre-COVID-19 levels by end of 2023. 10-year government bond yields remain below 1% for the forecast period.</p> <p><b>Europe:</b> After the GDP contracts by ~16% from pre-COVID-19 levels the economy has a delayed but gradual recovery, with GDP still ~4% below pre-COVID-19 levels at the end of 2021. The unemployment rate rises to ~10% by the end of 2020 and remains slightly above pre-COVID-19 levels at ~8% through to 2025. The ECB maintains interest rates in negative territory for the forecast period.</p>

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

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 11

### Expected credit losses continued

Scenario	Weighting	Expectation
<b>Upside</b>  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 <sup>(1)</sup>	Unlikely	<p><b>Global:</b> The scenario assumes governments are able to ease restrictions quickly and without reversal. Improved treatments that greatly reduce the virus mortality rate allow a return to pre-COVID lifestyles. In this scenario economic activity is able to recover quickly to pre-pandemic levels.</p> <p>The growth trajectory is steeper and maintained, requiring less active stimulus from governments and central banks. Global GDP surpasses pre COVID-19 levels in early 2021 facilitating higher employment and stimulating commodity prices. Equity markets reflect the broader economic recovery, varying internationally but generally reaching new highs in late 2020 or early 2021.</p> <p>In Australia, GDP surpasses pre COVID-19 levels by mid-2021 and continues to grow at 3–4% annually through to 2024. The uptick in economic activity segues with the withdrawal of job retention schemes, preventing a sharp rise in unemployment levels. House prices respond to this improved outlook and steadily increase.</p>

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

**Note 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<sup>(1)</sup>.

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT <sup>(1)</sup>				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost \$m	FVOCI \$m	Other <sup>(2)</sup> \$m	Total exposure \$m	Amortised cost \$m	FVOCI \$m	Other \$m	Total ECL allowance \$m
<b>AS AT 30 SEP 20</b>								
Cash and bank balances	6,869	–	–	6,869	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	11,448	17,921	–	29,369	–	–	–	–
Margin money and settlement assets	9,128	–	–	9,128	55	–	–	55
Financial investments	31	7,250	–	7,281	–	9	–	9
Held for sale and other assets	1,527	–	–	1,527	81	–	–	81
Loan assets	88,445	–	–	88,445	820	–	–	820
Due from related body corporate entities	3,928	–	–	3,928	2	–	–	2
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Undrawn credit commitments, letters of credit and financial guarantee <sup>(3)</sup>	–	–	4,891	4,891	–	–	9	9
<b>Total</b>	<b>121,381</b>	<b>25,171</b>	<b>4,891</b>	<b>151,443</b>	<b>962</b>	<b>9</b>	<b>9</b>	<b>980</b>
<b>AS AT 31 MAR 20</b>								
Cash and bank balances	7,847	–	–	7,847	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	6,687	23,064	–	29,751	–	–	–	–
Margin money and settlement assets	11,694	–	–	11,694	66	–	–	66
Financial investments	–	7,256	–	7,256	–	10	–	10
Other assets	1,454	–	–	1,454	73	–	–	73
Loan assets	88,158	–	–	88,158	688	–	–	688
Due from related body corporate entities	4,347	–	–	4,347	1	–	–	1
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Undrawn credit commitments, letters of credit and financial guarantee <sup>(3)</sup>	–	–	4,885	4,885	–	–	10	10
<b>Total</b>	<b>120,192</b>	<b>30,320</b>	<b>4,885</b>	<b>155,397</b>	<b>832</b>	<b>10</b>	<b>10</b>	<b>852</b>

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance. The gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

(2) Other represents undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL).

(3) Gross exposure for undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL) represents the notional values of these contracts.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 11

### Expected credit losses continued

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT <sup>(1)</sup>			Total exposure \$m	ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			Total ECL allowance \$m
	Amortised cost \$m	FVOCI \$m	Other <sup>(2)</sup> \$m		Amortised cost \$m	FVOCI \$m	Other \$m	
	AS AT 30 SEP 19							
Cash and bank balances	6,551	–	–	6,551	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	10,763	8,861	–	19,624	–	–	–	–
Margin money and settlement assets	9,082	–	–	9,082	–	–	–	–
Financial investments	–	5,936	–	5,936	–	–	–	–
Other assets	1,508	–	–	1,508	19	–	–	19
Loan assets	78,740	–	–	78,740	526	–	–	526
Due from related body corporate entities	1,260	–	–	1,260	1	–	–	1
Loans to associates and joint ventures	6	–	–	6	1	–	–	1
Undrawn credit commitments, letters of credit and financial guarantee <sup>(3)</sup>	–	–	7,734	7,734	–	–	6	6
Total	107,910	14,797	7,734	130,441	547	–	6	553

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance. The gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

(2) Other represents undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL).

(3) Gross exposure for undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL) represents the notional values of these contracts.



**Note 11****Expected credit losses continued**

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

	Margin money and settlement assets \$m	Financial investments \$m	Other assets \$m	Loan assets \$m	Due from related body corporate entities \$m	Loans to associates and joint ventures \$m	Undrawn credit commitments, letters of credit and financial guarantees \$m	Total \$m
Balance as at 1 Apr 2019	–	–	21	511	1	1	6	540
Impairment charge (Note 2)	–	–	1	94	–	–	–	95
Amounts written off, previously provided for	–	–	–	(74)	–	–	–	(74)
Foreign exchange, reclassifications and other movements	–	–	(3)	(5)	–	–	–	(8)
<b>Balance as at 30 Sep 2019</b>	–	–	19	526	1	1	6	553
Impairment charge (Note 2)	66	10	58	231	–	–	3	368
Amounts written off, previously provided for	–	–	(5)	(76)	–	–	–	(81)
Foreign exchange, reclassifications and other movements	–	–	1	7	–	3	1	12
<b>Balance as at 31 Mar 2020</b>	66	10	73	688	1	4	10	852
Impairment charge/(reversal) (Note 2)	<b>24</b>	<b>4</b>	<b>21</b>	<b>193</b>	<b>2</b>	<b>–</b>	<b>(1)</b>	<b>243</b>
Amounts written off, previously provided for	<b>(33)</b>	<b>–</b>	<b>(3)</b>	<b>(27)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(63)</b>
Foreign exchange, reclassifications and other movements	<b>(2)</b>	<b>(5)</b>	<b>(10)</b>	<b>(34)</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>(52)</b>
<b>Balance as at 30 Sep 2020</b>	<b>55</b>	<b>9</b>	<b>81</b>	<b>820</b>	<b>2</b>	<b>4</b>	<b>9</b>	<b>980</b>

The \$128 million increase in ECL provisions during the half year ended 30 September 2020 was predominantly driven by an impairment charge of \$243 million, reflecting portfolio and specific impairments for counterparties who have experienced a deterioration in relative credit quality together with changes in FLI. This impairment charge was partially offset by the write-off of impairment provisions and the appreciation of the Australian dollar during the period.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## 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 are applied.

	LIFETIME ECL			Total ECL Allowance \$m
	Stage I 12-month ECL \$m	Stage II Not credit impaired \$m	Stage III Credit impaired \$m	
<b>Balance as at 1 Apr 2019</b>	135	173	203	511
Transfers during the period	17	(11)	(6)	–
Impairment (reversal)/charge (Note 2)	(16)	3	107	94
Amounts written off, previously provided for	–	–	(74)	(74)
Foreign exchange, reclassifications and other movements	1	3	(9)	(5)
<b>Balance as at 30 Sep 2019</b>	137	168	221	526
Transfers during the period	14	(6)	(8)	–
Impairment charge (Note 2)	19	127	85	231
Amounts written off, previously provided for	–	–	(76)	(76)
Foreign exchange, reclassifications and other movements	3	(1)	5	7
<b>Balance as at 31 Mar 2020</b>	173	288	227	688
Transfers during the period	2	(20)	18	–
Impairment charge (Note 2)	86	54	53	193
Amounts written off, previously provided for	–	–	(27)	(27)
Foreign exchange, reclassifications and other movements	(10)	(10)	(14)	(34)
<b>Balance as at 30 Sep 2020</b>	251	312	257	820

**Note 12****Property, plant and equipment, right-of-use assets and intangible assets****Property, plant and equipment and right-of-use assets**

	AS AT 30 SEP 20			AS AT 31 MAR 20			AS AT 30 SEP 19		
	Cost \$m	Accumulated depreciation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated depreciation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated depreciation and impairment \$m	Carrying value \$m
Assets under operating lease	3,753	(1,745)	2,008	4,216	(1,812)	2,404	4,166	(1,657)	2,509
Assets for own use	243	(45)	198	205	(48)	157	167	(44)	123
Right-of-use assets	59	(26)	33	57	(20)	37	45	(9)	36
<b>Total property, plant and equipment and right-of-use assets</b>	<b>4,055</b>	<b>(1,816)</b>	<b>2,239</b>	<b>4,478</b>	<b>(1,880)</b>	<b>2,598</b>	<b>4,378</b>	<b>(1,710)</b>	<b>2,668</b>

Included within property, plant and equipment and right-of-use (ROU) assets is land and buildings for own use, a portfolio of meters and telecommunication assets under operating lease. No material impairment charge was recognised during the current period.

**Intangible assets**

	AS AT 30 SEP 20			AS AT 31 MAR 20			AS AT 30 SEP 19		
	Cost \$m	Accumulated amortisation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated amortisation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated amortisation and impairment \$m	Carrying value \$m
Goodwill	101	(35)	66	115	(40)	75	104	(34)	70
Other identifiable intangible assets	357	(261)	96	367	(257)	110	348	(239)	109
<b>Total intangible assets</b>	<b>458</b>	<b>(296)</b>	<b>162</b>	<b>482</b>	<b>(297)</b>	<b>185</b>	<b>452</b>	<b>(273)</b>	<b>179</b>

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

	As at 30 Sep 20 \$m	As at 31 Mar 20 \$m	As at 30 Sep 19 \$m
<b>Note 13</b>			
<b>Trading liabilities</b>			
Equities			
Listed	5,971	5,358	5,810
Debt securities			
Foreign government securities	–	–	677
Corporate loans and securities	–	2	8
Commodities	–	3	19
<b>Total trading liabilities</b>	<b>5,971</b>	<b>5,363</b>	<b>6,514</b>

## Note 14 Margin money and settlement liabilities

Margin money	13,225	13,871	9,303
Security settlements	2,395	3,200	3,598
Commodity settlements	1,126	1,981	2,244
<b>Total margin money and settlement liabilities</b>	<b>16,746</b>	<b>19,052</b>	<b>15,145</b>

## Note 15 Held for sale and other liabilities

### Held for sale liabilities

Liabilities of disposal groups classified as held for sale	39	–	–
--	----	---	---

### Other liabilities

Accrued charges, employment-related liabilities and provisions <sup>(1)</sup>	944	1,188	982
Creditors	628	812	823
Income tax payable	187	262	265
Commodity-related payables	595	314	177
Life investment linked contracts and other unitholder liabilities <sup>(2)</sup>	13	307	368
Other	58	63	110
<b>Total held for sale and other liabilities</b>	<b>2,464</b>	<b>2,946</b>	<b>2,725</b>

(1) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current period in each of these matters did not have and is not currently expected to have a material impact on the Consolidated Entity.

(2) Certain liabilities were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

	As at 30 Sep 20 \$m	As at 31 Mar 20 \$m	As at 30 Sep 19 \$m
<b>Note 16</b>			
<b>Debt issued</b>			
Bonds, NCDs and commercial paper <sup>(1)</sup>	38,132	44,088	37,252
Structured notes <sup>(2)</sup>	2,486	2,834	3,159
<b>Total debt issued<sup>(3),(4)</sup></b>	<b>40,618</b>	<b>46,922</b>	<b>40,411</b>

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

#### Reconciliation of debt issued by major currency

(In Australian dollar equivalent)

Australian dollar	17,839	20,023	14,746
United States dollar	15,883	19,009	18,082
Euro	4,253	4,906	4,455
Swiss franc	1,133	1,260	1,122
British pound	897	1,028	834
Japanese yen	187	214	625
Norwegian krone	160	164	166
Korean won	110	123	113
Chinese renminbi	92	120	150
Hong Kong dollar	52	61	118
Other	12	14	–
<b>Total debt issued</b>	<b>40,618</b>	<b>46,922</b>	<b>40,411</b>

(1) Includes \$12,264 million (31 March 2020: \$13,665 million; 30 September 2019: \$9,360 million) payable to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security.

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

(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued which are measured at DFVTPL (refer to Note 21 *Measurement categories of financial instruments*) for the Consolidated Entity is \$2,614 million (31 March 2020: \$3,333 million, 30 September 2019: \$2,327 million). This amount is based on the final notional amount.

(4) Includes a cumulative fair value loss of \$8 million (31 March 2020: \$103 million gain, 30 September 2019: \$8 million gain) due to changes in own credit risk on DFVTPL debt securities recognised directly in retained earnings through OCI.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

	As at 30 Sep 20 \$m	As at 31 Mar 20 \$m	As at 30 Sep 19 \$m
<b>Note 17</b>			
<b>Contributed equity</b>			
Ordinary share capital	8,288	8,288	7,288
Other equity	213	220	221
MIS	–	391	391
<b>Total contributed equity</b>	<b>8,501</b>	<b>8,899</b>	<b>7,900</b>
<b>(i) Ordinary share capital<sup>(1)</sup></b>			
Opening balance of 634,361,966 (1 October 2019: 589,276,303; 1 April 2019: 589,276,303) fully paid ordinary shares	8,288	7,288	7,288
Issue of 45,085,663 shares to parent entity <sup>(2)</sup> on 23 March 2020 at \$22.18 per share	–	1,000	–
<b>Closing balance of 634,361,966 (31 March 2020: 634,361,966; 30 September 2019: 589,276,303) fully paid ordinary shares</b>	<b>8,288</b>	<b>8,288</b>	<b>7,288</b>
<b>(ii) Other equity</b>			
<b>(a) Equity contribution from ultimate parent entity</b>			
Balance at the beginning of the period	220	221	219
Additional paid in/(return of) capital	2	(1)	2
<b>Balance at the end of the period</b>	<b>222</b>	<b>220</b>	<b>221</b>
MEREP awards are primarily settled in MGL ordinary shares. Where MEREP awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If the issued awards expire, the reversal of the original contribution is recognised as a return of capital.			
<b>(b) Other</b>			
Balance at the beginning of the period	–	–	–
Transaction cost relating to MIS <sup>(3)</sup>	(9)	–	–
<b>Balance at the end of the period</b>	<b>(9)</b>	<b>–</b>	<b>–</b>
<b>(iii) MIS<sup>(3)</sup></b>			
4,000,000 MIS of \$100 each	–	400	400
Less: transaction costs for original placement	–	(9)	(9)
<b>Total MIS</b>	<b>–</b>	<b>391</b>	<b>391</b>

(1) Ordinary shares have no par value.

(2) Macquarie B.H. Pty Limited.

(3) Balance represents transaction cost relating to original issuance of MIS which was transferred to other equity on redemption of MIS during current period. The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020. Distributions on the MIS have been presented in Note 5 Dividends.

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

**Note 18****Reserves, retained earnings and non-controlling interests****(i) Reserves****Foreign currency translation and net investment hedge reserve**

Balance at the beginning of the period	1,197	786	631
Exchange differences on translation and hedge accounting of foreign operations, net of tax <sup>(1)</sup>	(617)	411	155
<b>Balance at the end of the period</b>	<b>580</b>	<b>1,197</b>	<b>786</b>

**FVOCI reserve**

Balance at the beginning of the period	(33)	12	7
Revaluation movement for the period, net of tax	69	(50)	4
Changes in ECL allowance, net of tax	–	5	1
<b>Balance at the end of the period</b>	<b>36</b>	<b>(33)</b>	<b>12</b>

**Cash flow hedge reserve**

Balance at the beginning of the period	(157)	(154)	(113)
Revaluation movement for the period, net of tax	(48)	(18)	(70)
Transferred to income statement on realisation, net of tax <sup>(2)</sup>	29	15	29
<b>Balance at the end of the period</b>	<b>(176)</b>	<b>(157)</b>	<b>(154)</b>

**Cost of hedging reserve**

Balance at the beginning of the period	(10)	(2)	(5)
Revaluation movement for the period, net of tax	–	(8)	3
<b>Balance at the end of the period</b>	<b>(10)</b>	<b>(10)</b>	<b>(2)</b>

**Share of reserves of interest in associates and joint ventures**

Balance at the beginning of the period	(6)	(5)	(4)
Share of other comprehensive losses of associates and joint ventures during the period, net of tax	–	(1)	(1)
<b>Balance at the end of the period</b>	<b>(6)</b>	<b>(6)</b>	<b>(5)</b>

<b>Total reserves at the end of the period</b>	<b>424</b>	<b>991</b>	<b>637</b>
--	------------	------------	------------

(1) The current period movement represents the revaluation of the Group's unhedged investments in foreign operations primarily driven by the appreciation of the Australian dollar against the United States dollar. It excludes foreign exchange movements of \$1 million attributable to non-controlling interest. Refer to Note 33.3 *Market Risk* in the annual financial report for the year ended 31 March 2020 for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.

(2) Half year to 31 March 2020 includes \$12 million related to a previously designated hedge relationship for which the hedged future cash flows are no longer highly probable to occur.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

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

## Note 18

### Reserves, retained earnings and non-controlling interests continued

#### (ii) Retained earnings

Balance at the beginning of the period	4,336	3,799	2,824
Profit attributable to the equity holders of MBL	660	475	998
Distributions paid or provided for on the MIS (Note 5)	–	(6)	(6)
Gain on change in non-controlling ownership interest	–	–	1
Fair value changes attributable to own credit risk on debt classified at DFVTPL, net of tax	(78)	68	(18)
<b>Balance at the end of the period</b>	<b>4,918</b>	<b>4,336</b>	<b>3,799</b>

#### (iii) Non-controlling interests<sup>(1)</sup>

Share capital and partnership interests	47	47	49
Reserves	3	4	4
Accumulated losses	(50)	(50)	(52)
<b>Total non-controlling interests</b>	<b>–</b>	<b>1</b>	<b>1</b>

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



## Note 19

### Notes to the consolidated statement of cash flows

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

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

- certain reverse repurchase agreements held for liquidity management purposes of \$8,131 million have now been included in cash and cash equivalents
- certain trading assets of \$100 million, margin money balances of \$2,654 million, funds received from clients which are segregated from the Consolidated Entity's own funds of \$3,070 million<sup>(1)</sup> and other balances of \$326 million have been excluded from cash and cash equivalents as these balances are not available to meet the Consolidated Entity's short term cash commitments or does not qualify as cash equivalents
- the effect of exchange rate movements of \$363 million on cash and cash equivalents has been disclosed together with other exchange rate movements in the statement of cash flows.

As a result of these changes, cash flows from operating activities decreased by \$3,313 million and the opening and closing cash and cash equivalents increased by \$4,931 million and \$1,981 million respectively for the period ended 30 September 2019. This revision had no impact on the Consolidated Entity's statements of financial position, income statements or reserves.

#### (i) Reconciliation of cash and cash equivalents

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

	As at 30 Sep 20 \$m	As at 31 Mar 20 \$m	As at 30 Sep 19 \$m
Cash and bank balances <sup>(2),(3)</sup>	3,948	5,308	4,089
Cash collateral on securities borrowed and reverse repurchase agreements	17,651	21,469	8,131
Financial investments	460	513	243
<b>Cash and cash equivalents at the end of the period</b>	<b>22,059</b>	<b>27,290</b>	<b>12,463</b>

(1) The amount shown as the impact of the revision includes amounts now removed from the statement of financial position which do not meet the definition of an asset. Refer to Note 1(ii) *Comparatives*.

(2) Amounts excluded from cash and cash equivalents but presented in the statement of financial position as cash and bank balances primarily relates to \$2,524 million (31 March 2020: \$2,257 million; 30 September 2019: \$1,848 million) of funds received from clients which are segregated from the Consolidated Entity's own funds are not available to meet the Consolidated Entity's short-term cash commitments.

(3) Cash and bank balances includes \$648 million (31 March 2020: \$682 million; 30 September 2019: \$685 million) of balances, held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is restricted.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
----------------------------------	----------------------------------	----------------------------------

## Note 19

### Notes to the consolidated statement of cash flows continued

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

Profit after income tax	660	475	998
Adjustments to profit after income tax:			
Depreciation and amortisation	301	386	467
Expected credit losses and other impairment charges	262	372	100
Investment income and gain on sale of operating lease assets and other non-financial assets	(62)	32	(267)
Profit from discontinued operations	–	(164)	–
Share of net profits of associates and joint ventures	(12)	(26)	(1)
Changes in assets and liabilities:			
Trading assets, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities)	(9,288)	7,776	(6,627)
Debt issued	(3,055)	3,836	4,737
Loan assets and related body corporate entities	(2,171)	(6,932)	(6,870)
Borrowings	(479)	581	935
Other assets and liabilities	(449)	(368)	(96)
Debtors, prepayments, accrued charges and creditors	(162)	(109)	(170)
Operating lease assets	(84)	(167)	(349)
Interest, fee and commission receivable and payable	(63)	(65)	(47)
Tax balances	87	103	144
Deposits	10,165	8,116	2,800
<b>Net cash flows (utilised in)/generated from operating activities</b>	<b>(4,350)</b>	<b>13,846</b>	<b>(4,246)</b>

#### (iii) Reconciliation of loan capital:

Balance at the beginning of the period	4,997	4,828	4,550
Cash flows:			
Issuance <sup>(1),(2)</sup>	2,474	–	–
Redemption <sup>(2)</sup>	(740)	(429)	–
Non-cash changes:			
Foreign currency translation and other movements	(746)	598	278
<b>Balance at the end of the period</b>	<b>5,985</b>	<b>4,997</b>	<b>4,828</b>

(1) On 2 June 2020, the Consolidated entity issued Macquarie Bank Capital Notes (BCN2) amounting to \$641 million. BCN2 is a perpetual security which is eligible for conversion into a variable number of Consolidated Entity's ordinary shares on the scheduled mandatory exchange date (being 21 December 2028), provided the exchange conditions are satisfied, unless redeemed, resold or written off earlier.

(2) During the half year ended 30 September 2020, the Consolidated Entity raised \$1,833 million through the issue of Tier 2 Loan capital and redeemed \$740 million of Loan Capital under fixed repayment obligation.

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

**Note 20****Contingent liabilities and commitments****Contingent liabilities exist in respect of:**

Letters of credit	1,075	1,206	1,414
Performance-related contingent liabilities <sup>(1)</sup>	1,047	1,076	1,091
Indemnities	217	336	527
Guarantees	67	144	195
<b>Total contingent liabilities<sup>(2)</sup></b>	<b>2,406</b>	<b>2,762</b>	<b>3,227</b>

**Commitments exist in respect of:**

Undrawn credit facilities and securities commitments <sup>(3),(4)</sup>	4,813	4,665	7,206
Asset developments	831	891	923
<b>Total commitments</b>	<b>5,644</b>	<b>5,556</b>	<b>8,129</b>
<b>Total contingent liabilities and commitments</b>	<b>8,050</b>	<b>8,318</b>	<b>11,356</b>

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

(1) Includes \$737 million (31 March 2020: \$763 million; 30 September 2019: \$795 million) in favour of related party for which collateral of a similar amount has been received.

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

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

(4) Half year ended 30 September 2019 includes a \$2,519 million credit facility granted to MFHPL.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 21

### Measurement categories of financial instruments

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

The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 22 *Fair values of financial assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE				Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets	AS AT 30 SEP 20								
Cash and bank balances	–	–	–	–	6,869	–	6,869	–	6,869
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	13,564	17,921	11,448	–	42,933	31,485	11,448
Trading assets <sup>(1)</sup>	18,518	–	–	–	–	–	18,518	18,518	–
Margin money and settlement assets	–	–	89	–	9,073	–	9,162	89	9,082
Derivative assets <sup>(2)</sup>	21,618	–	–	–	–	–	21,618	21,618	–
Financial investments									
Equity	–	–	192	–	–	–	192	192	–
Debt	–	–	53	7,299	31	–	7,383	7,352	31
Held for sale and other assets <sup>(3)</sup>	–	1,733	11	–	1,446	522	3,712	1,744	1,446
Loan assets <sup>(4)</sup>	–	33	79	–	87,625	–	87,737	112	88,025
Due from related body corporate entities <sup>(5)</sup>	364	–	–	–	3,926	235	4,525	364	3,926
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	226	226	–	–
Loans to associates and joint ventures	–	–	–	–	1	–	1	–	1
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,239	2,239	–	–
Intangible assets	–	–	–	–	–	162	162	–	–
Deferred tax assets	–	–	–	–	–	577	577	–	–
Total assets	40,500	1,766	13,988	25,220	120,419	3,961	205,854	81,474	120,828
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,079	–	–	3,875	–	4,954	1,079	3,875
Trading liabilities	5,971	–	–	–	–	–	5,971	5,971	–
Margin money and settlement liabilities	–	–	–	–	16,746	–	16,746	–	16,746
Derivative liabilities <sup>(2)</sup>	16,139	–	–	–	–	–	16,139	16,139	–
Deposits	–	–	–	–	77,186	–	77,186	–	77,218
Held for sale and other liabilities <sup>(6),(7)</sup>	–	608	–	–	571	1,285	2,464	608	534
Due to related body corporate entities <sup>(8)</sup>	1,515	–	–	–	18,080	52	19,647	1,515	18,080
Borrowings	–	–	–	–	2,256	–	2,256	–	2,270
Debt issued <sup>(4)</sup>	–	2,486	–	–	38,132	–	40,618	2,486	38,433
Deferred tax liabilities	–	–	–	–	–	45	45	–	–
Loan capital <sup>(4)</sup>	–	–	–	–	5,985	–	5,985	–	6,078
Total liabilities	23,625	4,173	–	–	162,831	1,382	192,011	27,798	163,234

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

(2) Derivatives designated in effective hedge accounting relationships are presented as HFT.

(3) Non-financial assets primarily represents prepayments and tax receivables.

(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risk.

(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT, non-financial instruments include prepaid contributions and all other intercompany receivables are carried at amortised cost.

(6) Non-financial liabilities primarily represents accrued charges, employee-related provisions and tax payables.

(7) Fair value of other liabilities excludes the fair value of lease liabilities.

(8) Due to related body corporate entities include derivatives and trading positions classified as HFT, internal repurchase transactions, non-financial payables which include income tax liabilities and all other intercompany payables are carried at amortised cost.

## Note 21

## Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE				Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets	AS AT 31 MAR 20								
Cash and bank balances	–	–	–	–	7,847	–	7,847	–	7,847
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,957	23,064	6,687	–	37,708	31,021	6,687
Trading assets <sup>(1)</sup>	16,251	–	–	–	–	–	16,251	16,251	–
Margin money and settlement assets	–	–	555	–	11,628	–	12,183	555	11,628
Derivative assets <sup>(2)</sup>	44,845	–	–	–	–	–	44,845	44,845	–
Financial investments									
Equity	–	–	154	–	–	–	154	154	–
Debt	–	–	112	7,218	–	–	7,330	7,330	–
Held for sale and other assets <sup>(3)</sup>	–	947	308	–	1,381	631	3,267	1,255	1,381
Loan assets <sup>(4)</sup>	–	83	166	–	87,470	–	87,719	249	87,690
Due from related body corporate entities <sup>(5)</sup>	804	–	–	–	4,346	128	5,278	804	4,346
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	250	250	–	–
Loans to associates and joint ventures	–	–	–	–	1	–	1	–	1
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,598	2,598	–	–
Intangible assets	–	–	–	–	–	185	185	–	–
Deferred tax assets	–	–	–	–	–	520	520	–	–
Total assets	61,900	1,030	9,252	30,282	119,360	4,312	226,136	102,464	119,580
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,030	–	2,322	1,292	1,030
Trading liabilities <sup>(1)</sup>	5,363	–	–	–	–	–	5,363	5,363	–
Margin money and settlement liabilities	–	–	–	–	19,052	–	19,052	–	19,052
Derivative liabilities <sup>(2)</sup>	37,823	–	–	–	–	–	37,823	37,823	–
Deposits	–	–	–	–	67,253	–	67,253	–	67,324
Held for sale and other liabilities <sup>(6),(7)</sup>	–	622	–	–	692	1,632	2,946	622	649
Due to other related body corporate entities <sup>(8)</sup>	1,811	3,500	–	–	16,793	11	22,115	5,311	16,793
Borrowings	–	–	–	–	3,047	–	3,047	–	3,065
Debt issued <sup>(4)</sup>	–	2,810	–	–	44,112	–	46,922	2,810	43,592
Deferred tax liabilities	–	–	–	–	–	69	69	–	–
Loan capital <sup>(4)</sup>	–	–	–	–	4,997	–	4,997	–	4,730
Total liabilities	44,997	8,224	–	–	156,976	1,712	211,909	53,221	156,235

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

(2) Derivatives designated in effective hedge accounting relationships are presented as HFT.

(3) Non-financial assets primarily represents prepayments and tax receivables.

(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT, non-financial instruments include prepaid contributions and all other intercompany receivables are carried at amortised cost.

(6) Non-financial liabilities primarily represent accrued charges, employee-related provisions and tax payables.

(7) Fair value of other liabilities excludes the fair value of lease liabilities.

(8) Due to related body corporate entities includes derivatives and trading positions classified as HFT, internal repurchase transactions, non-financial payables which include income tax liabilities, and all other intercompany payable are carried at amortised cost.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 21

### Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE				Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								AS AT 30 SEP 19	
Cash and bank balances	–	–	–	–	6,551	–	6,551	–	6,551
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	10,286	8,861	10,763	–	29,910	19,147	10,763
Trading assets <sup>(1)</sup>	21,981	–	–	–	–	–	21,981	21,981	–
Margin money and settlement assets	–	–	853	–	9,082	–	9,935	853	9,082
Derivative assets <sup>(2)</sup>	17,606	–	–	–	–	–	17,606	17,606	–
Financial investments									
Equity	–	–	164	–	–	–	164	164	–
Debt	–	–	238	5,958	–	–	6,196	6,196	–
Held for sale and other assets <sup>(3)</sup>	–	1,310	376	–	1,489	588	3,763	1,686	1,489
Loan assets <sup>(4)</sup>	–	11	247	–	78,214	–	78,472	258	78,680
Due from related body corporate entities	–	–	–	–	1,259	–	1,259	–	1,259
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,668	2,668	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	214	214	–	–
Loans to associates and joint ventures	–	–	–	–	5	–	5	–	5
Intangible assets	–	–	–	–	–	179	179	–	–
Deferred tax assets	–	–	–	–	–	460	460	–	–
Total assets	39,587	1,321	12,164	14,819	107,363	4,109	179,363	67,891	107,829
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	3,030	–	–	2,464	–	5,494	3,030	2,464
Trading liabilities <sup>(1)</sup>	6,514	–	–	–	–	–	6,514	6,514	–
Margin money and settlement liabilities	–	–	–	–	15,145	–	15,145	–	15,145
Derivative liabilities <sup>(2)</sup>	14,057	–	–	–	–	–	14,057	14,057	–
Deposits	–	–	–	–	58,965	–	58,965	–	59,019
Held for sale and other liabilities <sup>(5),(6)</sup>	–	545	–	–	753	1,427	2,725	545	715
Borrowings	–	–	–	–	2,611	–	2,611	–	2,639
Due to related body corporate entities	–	–	–	–	16,266	–	16,266	–	16,266
Debt issued <sup>(4)</sup>	–	3,011	–	–	37,400	–	40,411	3,011	37,595
Deferred tax liabilities	–	–	–	–	–	10	10	–	–
Loan capital <sup>(4)</sup>	–	–	–	–	4,828	–	4,828	–	4,896
Total liabilities	20,571	6,586	–	–	138,432	1,437	167,026	27,157	138,739

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

(2) Derivatives designated in effective hedge accounting relationships are presented as HFT.

(3) Non-financial assets primarily represents prepayments and tax receivables.

(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(5) Non-financial liabilities primarily represents accrued charges, employee-related provisions and tax payables.

(6) Fair value of other liabilities excludes the fair value of lease liabilities.

## Note 22

### Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

The fair values calculated for financial instruments which are carried in the statements of financial position at amortised cost (as disclosed in Note 21 *Measurement categories of financial instruments*) are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold for or a liability repurchased in a market-based transaction:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates to their carrying amount as they are short-term in nature or are payable on demand

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

The following methods and significant assumptions have been applied in determining the fair values of financial instruments including balances with related body corporate entities measured at fair value:

- trading assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified at FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of market price and observable market inputs. Unrealised gains and losses on FVOCI debt assets, excluding changes in ECL on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 22

### Fair values of financial assets and liabilities

#### continued

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

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

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



**Note 22****Fair values of financial assets and liabilities continued**

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Assets</b>				
<b>AS AT 30 SEP 20</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	31,485	–	31,485
Trading assets <sup>(1)</sup>	9,272	9,062	184	18,518
Margin money and settlement assets	–	89	–	89
Derivative assets	183	21,055	380	21,618
Financial investments	417	6,662	465	7,544
Held for sale and other assets	–	1,744	–	1,744
Loan assets	–	108	4	112
Due from related body corporate entities <sup>(2)</sup>	–	364	–	364
<b>Total assets</b>	<b>9,872</b>	<b>70,569</b>	<b>1,033</b>	<b>81,474</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	1,079	–	1,079
Trading liabilities <sup>(1)</sup>	5,851	120	–	5,971
Derivative liabilities	566	15,305	268	16,139
Held for sale and other liabilities	–	608	–	608
Due to related body corporate entities <sup>(2)</sup>	–	1,515	–	1,515
Debt issued	–	2,486	–	2,486
<b>Total liabilities</b>	<b>6,417</b>	<b>21,113</b>	<b>268</b>	<b>27,798</b>
<b>Assets</b>				
<b>AS AT 31 MAR 20</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	31,021	–	31,021
Trading assets <sup>(1)</sup>	10,334	5,607	310	16,251
Margin money and settlement assets	–	555	–	555
Derivative assets	958	43,066	821	44,845
Financial investments	493	6,464	527	7,484
Held for sale and other assets	5	1,250	–	1,255
Loan assets	–	185	64	249
Due from related body corporate entities <sup>(2)</sup>	–	804	–	804
<b>Total assets</b>	<b>11,790</b>	<b>88,952</b>	<b>1,722</b>	<b>102,464</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	1,292	–	1,292
Trading liabilities <sup>(1)</sup>	4,988	375	–	5,363
Derivative liabilities	1,040	36,420	363	37,823
Held for sale and other liabilities	3	619	–	622
Due to related body corporate entities <sup>(2)</sup>	–	5,311	–	5,311
Debt issued	–	2,810	–	2,810
<b>Total liabilities</b>	<b>6,031</b>	<b>46,827</b>	<b>363</b>	<b>53,221</b>

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

(2) Includes balances with related body corporates. Refer to Note 21 *Measurement categories of financial instruments*.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 22

### Fair values of financial assets and liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Assets</b>				AS AT 30 SEP 19
Cash collateral on securities borrowed and reverse repurchase agreements	–	19,147	–	19,147
Trading assets <sup>(1)</sup>	15,394	6,384	203	21,981
Margin money and settlement assets	87	766	–	853
Derivative assets	204	16,837	565	17,606
Financial investments	467	5,509	384	6,360
Held for sale and other assets	10	1,674	2	1,686
Loan assets	–	194	64	258
<b>Total assets</b>	16,162	50,511	1,218	67,891
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	3,030	–	3,030
Trading liabilities <sup>(1)</sup>	6,271	243	–	6,514
Derivative liabilities	368	13,433	256	14,057
Held for sale and other liabilities	3	539	3	545
Debt issued	–	3,011	–	3,011
<b>Total liabilities</b>	6,642	20,256	259	27,157

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

This page has been intentionally left blank.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 22

### Fair values of financial assets and liabilities continued

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

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

	Trading assets \$m	Financial investments \$m	Other assets \$m
Balance as at 1 Apr 2019	172	576	–
Purchases and other additions	13	20	–
Sales and settlements	(15)	(177)	–
Transfers into Level 3 <sup>(2)</sup>	48	31	–
Transfers out of Level 3 <sup>(2)</sup>	(31)	(57)	–
Fair value movements recognised in the income statement <sup>(3)</sup>	16	(9)	2
<b>Balance as at 30 Sep 2019</b>	<b>203</b>	<b>384</b>	<b>2</b>
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period <sup>(3)</sup>	16	(8)	2
Balance as at 1 Oct 2019	203	384	2
Purchases and other additions	104	157	3
Sales and settlements	(3)	(21)	–
Transfers into Level 3 <sup>(2)</sup>	11	5	–
Transfers out of Level 3 <sup>(2)</sup>	–	(1)	(3)
Fair value movements recognised in the income statement <sup>(3)</sup>	(5)	11	(2)
Fair value movements recognised in OCI <sup>(3)</sup>	–	(8)	–
<b>Balance as at 31 Mar 2020</b>	<b>310</b>	<b>527</b>	<b>–</b>
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period <sup>(3)</sup>	(5)	7	(2)
Balance as at 1 Apr 2020	<b>310</b>	<b>527</b>	<b>–</b>
Purchases and other additions	<b>66</b>	<b>212</b>	<b>1</b>
Sales and settlements	<b>(73)</b>	<b>(209)</b>	<b>(1)</b>
Transfers into Level 3 <sup>(2)</sup>	<b>–</b>	<b>81</b>	<b>–</b>
Transfers out of Level 3 <sup>(2)</sup>	<b>(96)</b>	<b>(146)</b>	<b>–</b>
Fair value movements recognised in the income statement <sup>(3)</sup>	<b>(23)</b>	<b>3</b>	<b>–</b>
Fair value movements recognised in OCI <sup>(3)</sup>	<b>–</b>	<b>(3)</b>	<b>–</b>
<b>Balance as at 30 Sep 2020</b>	<b>184</b>	<b>465</b>	<b>–</b>
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period <sup>(3)</sup>	<b>(23)</b>	<b>3</b>	<b>–</b>

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$380 million (31 March 2020: \$821 million; 30 September 2019: \$565 million) and derivative liabilities are \$268 million (31 March 2020: \$363 million; 30 September 2019: \$256 million).

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

(3) The Consolidated Entity employs various hedging techniques in order to manage risks including foreign exchange risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency financial instruments measured at amortised cost. The fair value movements recognised in the income statement for assets and liabilities in Level 3 presented in the table above also includes foreign exchange differences on such assets and liabilities and do not include the related gains and losses arising on hedging instruments.

Loan assets \$m	Loans to associates and joint ventures \$m	Other liabilities \$m	Debt issued \$m	Derivative financial instruments (net replacement values) <sup>(1)</sup> \$m	Total \$m
50	3	–	–	228	1,029
21	–	(3)	–	46	97
(11)	(3)	–	–	(23)	(229)
–	–	–	–	6	85
–	–	–	–	(51)	(139)
4	–	–	–	103	116
64	–	(3)	–	309	959
4	–	–	–	103	117
64	–	(3)	–	309	959
–	–	3	–	173	440
(5)	–	–	–	(87)	(116)
–	–	–	–	8	24
–	–	–	–	49	45
5	–	–	–	6	15
–	–	–	–	–	(8)
64	–	–	–	458	1,359
5	–	–	–	6	11
64	–	–	–	458	1,359
–	–	(2)	–	22	299
(15)	–	2	–	(81)	(377)
–	–	–	–	12	93
(28)	–	–	–	(58)	(328)
(17)	–	–	–	(241)	(278)
–	–	–	–	–	(3)
4	–	–	–	112	765
(17)	–	–	–	(241)	(278)

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 22

### Fair values of financial assets and liabilities continued

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

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

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

#### Unrecognised gains

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

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

	Half year to 30 Sep 20 \$m	Half year to 31 Mar 20 \$m	Half year to 30 Sep 19 \$m
Balance at the beginning of the period	168	219	183
Deferral on new transactions	18	9	86
Amounts recognised in the income statement and other changes	(76)	(60)	(50)
<b>Balance at the end of the period</b>	<b>110</b>	<b>168</b>	<b>219</b>

#### Sensitivity analysis of valuations using unobservable inputs

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

	FAVOURABLE CHANGES	UNFAVOURABLE CHANGES
	Profit or loss \$m	Profit or loss \$m
<b>Product type</b>	<b>AS AT 30 SEP 20</b>	
Commodities	107	(60)
Equity and equity-linked products	18	(27)
Interest rate and other products	11	(10)
<b>Total</b>	<b>136</b>	<b>(97)</b>
<b>Product type</b>	<b>AS AT 31 MAR 20</b>	
Commodities	162	(129)
Equity and equity-linked products	7	(20)
Interest rate and other products	16	(19)
<b>Total</b>	<b>185</b>	<b>(168)</b>
<b>Product type</b>	<b>AS AT 30 SEP 19</b>	
Commodities	108	(106)
Equity and equity-linked products	5	(13)
Interest rate and other products	11	(11)
<b>Total</b>	<b>124</b>	<b>(130)</b>

**Note 22****Fair values of financial assets and liabilities continued**

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

**Significant unobservable inputs**

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

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS	
					Minimum value	Maximum value
AS AT 30 SEP 20						
Equity and equity-linked products	148	–	Market comparability	Price in % <sup>(1)</sup>		
Commodities	452	263	Pricing model	Commodity margin curves	(334.0)	913.0
			Pricing model	Correlations	(55.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	400.0%
Interest rate and other products	433	5	Pricing model	Correlations	0.0%	100.0%
			Pricing model	Model parameter	0.5%	40.8%
Total	1,033	268				
AS AT 31 MAR 20						
Equity and equity-linked products	281	–	Market comparability	Price in % <sup>(1)</sup>		
Commodities	955	363	Pricing model	Commodity margin curves	(126.3)	967.5
			Pricing model	Correlations	(55.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	293.4%
Interest rate and other products	486	–	Pricing model	Correlations	(36.0%)	100.0%
			Pricing model	Model parameter	0.0%	52.3%
Total	1,722	363				
AS AT 30 SEP 19						
Equity and equity-linked products	109	–	Market comparability	Price in % <sup>(1)</sup>		
Commodities	656	253	Pricing model	Commodity margin curves	(364.0)	990.0
			Pricing model	Correlations	(45.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	264.6%
Interest rate and other products	453	6	Pricing model	Correlations	0.0%	100.0%
			Pricing model	Model parameter	0.5%	100.0%
Total	1,218	259				

(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.

# Notes to the consolidated financial statements

For the half year ended 30 September 2020 continued

## Note 22

### Fair values of financial assets and liabilities continued

#### Correlation

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

#### Volatility

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

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

#### Inputs for unlisted equity securities

Unlisted equity instruments are generally valued by referencing market transactions for comparable companies adjusted as appropriate for current economic conditions. Other significant unobservable inputs may include discount rates, determined using inputs specific to the underlying investment, and forecast cash flows and earning or revenue of investee entities.

#### Inputs for interest rate products (discount rate)

Loans are generally valued by referencing market transactions for comparable products adjusted as appropriate for current economic conditions. Significant unobservable inputs may include interest rates and credit spreads of counterparties and original issue discounts on primary debt issuances.

## Note 23

### Discontinued operations

On 10 December 2018, the Consolidated Entity disposed of its Corporate and Asset Finance's Principal Finance and Transportation Finance businesses to a related group entity, Macquarie Financial Holding Pty Limited (MFHPL) and its subsidiaries.

In accordance with the sale agreement, a gain of \$164 million was presented in discontinued operations for the period ended 31 March 2020. The gain consisted of the following:

- \$102 million subsequent adjustment to the sales consideration following the disposal of certain assets by MFHPL to a third party, and
- \$62 million tax benefit transferred by MFHPL to the Consolidated Entity following the subsequent remeasurement of certain tax balances related to the above-mentioned disposal.

## Note 24

### Acquisitions and disposals of subsidiaries and businesses

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

There were no individually significant entities or businesses where control was acquired during the current and previous period.

#### Significant disposal of entities or businesses

There were no individually significant entities or businesses where control was lost during the current and previous period.

## Note 25

### Events after the reporting date

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



## Directors' declaration

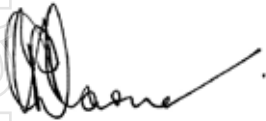
For the half year ended 30 September 2020

---

In the Directors' opinion:

- the financial statements and notes set out on pages 18 to 70 are in accordance with the *Corporations Act 2001* (Cth) including:
  - i. complying with the Australian Accounting Standards, and
  - ii. giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2020 and performance for the half year ended on that date, and
- there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth). This declaration is made in accordance with a resolution of the Directors.



**Peter Warne**  
*Independent Director and Chairman*



**Mary Reemst**  
*Managing Director and Chief Executive Officer*

Sydney  
6 November 2020

# Independent auditor's review report

To the members of Macquarie Bank Limited



## Report on the half-year financial report

We have reviewed the accompanying 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 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

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

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

### Auditor's responsibility

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

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

### Independence

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

### Conclusion

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins  
Partner

Sydney  
6 November 2020

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

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

For personal use only

## **Contact details**

### **Macquarie Bank Limited Principal Administrative Office**

50 Martin Place  
Sydney NSW 2000  
Australia

Tel: +61 2 8232 3333

### **Registered Office Macquarie Bank Limited**

Level 6, 50 Martin Place  
Sydney NSW 2000  
Australia

Tel: +61 2 8232 3333

For personal use only

**macquarie.com**