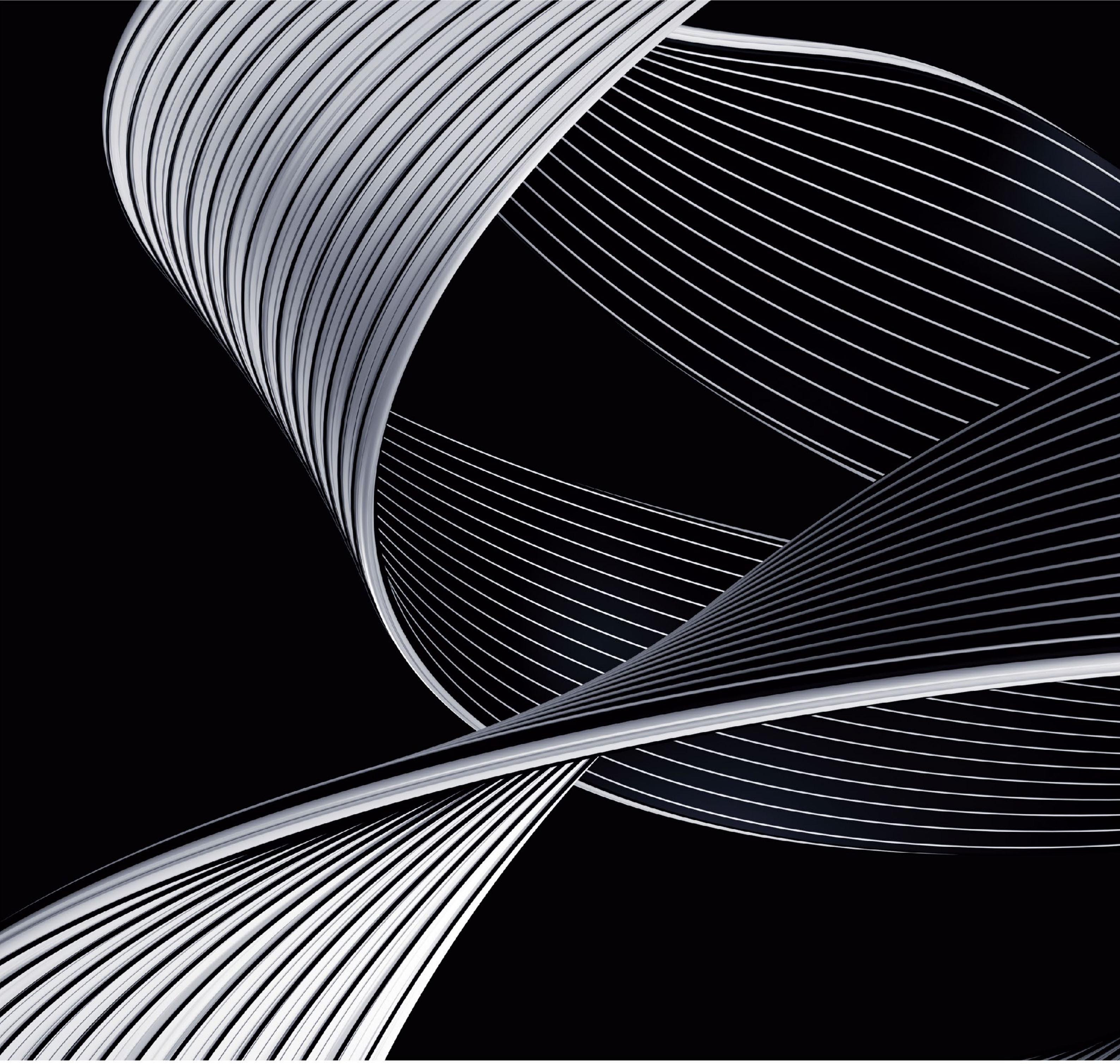


Macquarie International Finance Limited and Its Subsidiaries

30 September 2022

Directors' Report and Financial Report
ACN 092 985 263

MACQUARIE

Content

The Financial Report was authorised for issue by the Board of Directors on 27 January 2023.

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

Directors' Report

For the financial year ended 31 March 2022

In accordance with a resolution of the Directors of Macquarie International Finance Limited (the Company or MIFL), the Directors submit herewith the financial report of the Company and its subsidiaries (the Consolidated Entity) for the half year ended 30 September 2022.

Directors

The following persons were the Directors of the Company at any time during or since the end of the financial year to the date of this report:

Name of Director	Appointed on
B.N. Milson	19 February 2014
D. Saad	8 April 2021
R. Dixon	26 October 2021

Principal activities

The principal activity of the Company is to act as the holding company for the majority of the Non-Extended Licensed Entities ("Non-ELE Group") within the Macquarie Bank Group ("the Bank Group" [1]), relating to Commodities & Global Markets (CGM), Banking & Financial Services (BFS) businesses and to act as the rated entity which provides guarantees to external counterparties for the obligations of the Non-ELE Group within the Bank Group.

Result

The consolidated profit after income tax attributable to the ordinary equity holder of the Company for the half year ended 30 September 2022 was $A441 million (half year ended 30 September 2021: $A3 million).

Dividends and distributions

No dividend was paid or declared by the Company during the current half year.

State of affairs

During August 2022, the Consolidated Entity acquired Macquarie Corona Energy Holdings Limited and Macquarie Bermuda Limited from Macquarie Bank Limited (MBL) and another Bank Group holding company for a consideration of $A94 million through business combination under common control.

There were no other significant changes in the state of affairs of the Consolidated Entity that occurred during the financial year under review not otherwise disclosed in this report.

Review of operations

The profit attributable to the ordinary equity holder of the Consolidated Entity for the half year ended 30 September 2022 was $441 million (half year ended 30 September 2021: $3 million).

Net operating income for the half year ended 30 September 2022 was $1,514 million (half year ended 30 September 2021: $5million), which primarily represents net trading income & fee and commission income.

Total operating expenses for the half year ended 30 September 2022 was $875 million (half year ended 30 September 2021: $1 million), which primarily comprise of fee and commission expenses, employment expenses and other expenses.

Events subsequent to balance sheet date

At the date of this report, the Directors are not aware of any matter or circumstances that have significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 30 September 2022.

Likely developments, business strategies and prospects

Disclosure of information relating to the future developments in the operations, business strategies and prospects for future financial years of the Consolidated Entity have not been included in the report because the Directors believe it may result in unreasonable prejudice to the Consolidated Entity.

(1) Macquarie Bank Group ("Bank Group") refers to Macquarie Bank Limited ("MBL") and its subsidiaries. The Bank Group further comprises of the Extended Licensed Entities ("ELE") Group and the Non-ELE Group (comprising of the Consolidated Entity and other non ELEs retained by MBL being their parent entity due to regulatory reasons or which are intended for dissolution).

Directors' indemnification

Under the Company's Constitution, the Company indemnifies all the past and present Directors of the Company (including at this time the Directors named in this report) against certain liabilities, and costs incurred by them in their respective capacities. The Indemnity covers the following liabilities and legal costs (subject to the exclusions described as follows):

- every liability incurred by that person in their respective capacity;
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of, their respective capacity;
- legal costs incurred by the person in good faith obtaining advice on issues relevant to the performance and discharge of their duties as an officer of the Company and its wholly-owned subsidiaries, if any, that have been approved in accordance with the Company's policy;

The indemnity does not apply to the extent that:

- the Company is forbidden by law to indemnify the person against the liability or legal costs; or
- an indemnity by the Company of the person against the liability or legal costs would, if given, be made void by law.

In addition, the ultimate parent entity Macquarie Group Limited ("MGL") made an Indemnity and Insurance Deed Poll on 12 September 2007 (Deed Poll). The benefit of the undertakings made by MGL under the Deed Poll have been given to each of the directors, secretaries, persons involved in the management and certain other persons, of MGL and its wholly-owned subsidiaries (which includes the Company) and other companies where the person is acting as such at the specific request of MGL and its wholly-owned subsidiaries.

Under the Deed Poll, MGL, inter alia, agrees to:

- indemnify the Director upon terms broadly consistent with the indemnity contained in MGL's Constitution (which are broadly consistent with the Company's constitution).
- take out and maintain an insurance policy (or procure that an insurance policy is taken out and maintained) against liabilities incurred by the Director acting as an officer of MGL or its wholly owned subsidiaries. The insurance policy must be for an amount and on terms and conditions appropriate for a reasonably prudent company in MGL's position. Insurance must be maintained for seven years after the Director ceases to be a Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings).

A Directors' and Officers' insurance policy, taken out by MGL, is in place that provides cover for each person in favour of whom such insurance is required to be taken out under the Deed Poll. Relevant individuals pay the premium attributable to the direct coverage under the policy and MGL and its wholly-owned subsidiaries pay the premium attributable to the reimbursement coverage under the policy. The Directors' and Officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

Environmental regulations

The Consolidated Entity has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, those obligations are identified and appropriately addressed.

The Directors have determined that there has not been any material breach of those obligations during the half year.

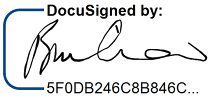
Interim dividend

No dividends were paid during the current period.

Rounding of amounts

In accordance with Australian Securities & Investments Commission (Rounding in Financial/Directors' Report) Instruments 2016/191, amounts in the Directors' Report and Financial Report have been rounded off to the nearest million dollars unless otherwise indicated.

Brad Milson
Director



Sydney
27 January 2023

Consolidated income statement

For the half year ended 30 September 2022

	Notes	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
Net trading income	2	1,049	3
Fee and commission income	2	400	-
Net interest income	2	20	2
Interest and similar income			
Effective interest rate method		183	2
Other		7	-
Interest and similar expense		(170)	-
Net operating lease income		33	-
Net credit impairment (charges)/reversals	2	(14)	-
Net other impairment (charges)/reversals	2	(21)	-
Net other operating income	2	47	-
Net operating income		1,514	5
Employment expenses	2	(349)	-
Brokerage, commission and fee expenses	2	(69)	-
Non-salary technology expenses	2	(18)	-
Other operating expenses	2	(439)	(1)
Total operating expenses		(875)	(1)
Operating profit before income tax		639	4
Income tax expense	3	(198)	(1)
Profit after income tax		441	3
Profit attributable to the ordinary equity holder of Macquarie International Finance Limited		441	3

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 2022

	Notes	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
Profit after income tax		**441**	3
Other comprehensive income/(loss)[1]			
Movements in items that may be subsequently reclassified to the income statement:			
Foreign exchange movements on translation and hedge accounting of foreign operations		**7**	-
Total other comprehensive income		**448**	3
Total comprehensive income attributable to the ordinary equity holder of Macquarie International Finance Limited		**448**	3

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 2022

	Notes	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Assets			
Cash and bank balances		**2,438**	1,594
Cash collateralised lending and reverse repurchase agreements		**502**	441
Trading assets	4	**1,721**	1,585
Margin money and settlement assets	5	**2,688**	1,801
Derivative assets	6	**2,471**	2,159
Financial investments	7	**3,634**	11
Other financial assets	8	**932**	957
Other assets	9	**544**	201
Loan assets	10	**585**	459
Due from related body corporate entities	21	**15,980**	11,176
Interests in associates and joint ventures		**231**	283
Property, plant and equipment and right-of-use assets		**419**	397
Deferred tax assets		**151**	146
Total assets		**32,296**	21,210
Liabilities			
Cash collateralised borrowing and repurchase agreements		**11**	-
Trading Liabilities	12	**135**	-
Margin money and settlement liabilities	13	**5,022**	2,197
Derivative liabilities	14	**6,409**	2,763
Other financial liabilities	16	**985**	371
Other liabilities	17	**902**	632
Borrowings	15	**4,312**	2,902
Due to related body corporate entities	21	**12,538**	10,794
Deferred tax liabilities		**4**	8
Total liabilities		**30,318**	19,667
Net assets		**1,978**	1,543
Equity			
Contributed equity	18	**2,190**	2,203
Reserves	19	**(760)**	(766)
Retained earnings	19	**542**	101
Total capital and reserves attributable to the ordinary equity holder of Macquarie International Finance Limited		**1,972**	1538
Non Controlling Interest		**6**	5
Total equity		**1,978**	1,543

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

Consolidated statement of changes in equity

For the half year ended 30 September 2022

	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 1 Apr 2021	400	-	3	403	-	403
Profit after income tax	-	-	3	3	-	3
Other comprehensive income/(loss), net of tax	-	-	-	-	-	-
Total comprehensive income	-	-	3	3	-	3
Transactions with equity holder in their capacity as ordinary equity holder:						
Dividends paid	-	-	-	-	-	-
	-	-	-	-	-	-
Balance as at 30 Sep 2021	400	-	6	406	-	406
Profit after Income tax	-	-	95	95	-	95
Other comprehensive income/(loss), net of tax	-	(6)	-	(6)	-	(6)
Total comprehensive income	-	(6)	95	89	-	89
Transactions with equity holder in their capacity as ordinary equity holder:						
Issue of shares	1,709	-	-	1,709	-	1,709
Restructure reserve attributable to group restructure	-	(760)	-	(760)	5	(755)
Other equity movements:						
Contribution from ultimate parent entity under Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses	66	-	-	66	-	66
Contribution from the ultimate parent entity in relation to share based payments	28	-	-	28	-	28
	1,803	(760)	-	1,043	5	1,048
Balance as 31 Mar 2022	**2,203**	**(766)**	**101**	**1,538**	**5**	**1,543**
Profit after income tax	**-**	**-**	**441**	**441**	**-**	**441**
Other comprehensive income, net of tax	**-**	**6**	**-**	**6**	**1**	**7**
Total comprehensive income	**-**	**6**	**441**	**447**	**1**	**448**
Transactions with equity holder in their capacity as ordinary equity holder:						
Restructure reserve attributable to group restructure	**-**	**-**	**-**	**-**	**-**	**-**
Other equity movements:						
Contribution from ultimate parent entity under Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses	**-**	**-**	**-**	**-**	**-**	**-**
Contribution from the ultimate parent entity in relation to share based payments	**(13)**	**-**	**-**	**(13)**	**-**	**(13)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**
	(13)	**-**	**-**	**(13)**	**-**	**(13)**
Balance as at 30 Sep 2022	**2,190**	**(760)**	**542**	**1,972**	**6**	**1,978**

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

Consolidated statement of cash flows

For the half year ended 30 September 2022

	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
Cash flows generated from operating activities		
Interest income and expense:		
Received	**183**	2
Paid	**(162)**	-
Fee, commission, other income and charges:		
Received	**400**	-
Paid	**(70)**	-
Operating lease income received	**89**	-
Operating expenses paid:		
Employment expenses	**(480)**	-
Other operating expenses including brokerage, commission and fee	**(510)**	(1)
Income tax paid	**(287)**	-
Changes in operating assets		
Loan assets, receivables and balances with related parties	**1,127**	160
Movement in other financial assets and other non-financial assets	**593**	-
Assets under operating lease	**(12)**	-
Trading and related assets, liquid investments and collateralised lending balances (net of liabilities)	**2,519**	3
Changes in operating liabilities:		
Borrowings and other funding	**875**	-
Movement in other financial liabilities and other non financial liabilities	**33**	-
Net cash flows generated from operating activities	**4,298**	164
Cash flows utilised in investing activities		
Net (payments for)/proceeds from financial investments	**(3,301)**	-
Associates, joint ventures, subsidiaries, and businesses:		
Payments for acquisitions, net of cash acquired	**(32)**	(1)
Property, plant and equipment and intangible assets:		
Payments for acquisitions	**(2)**	-
Net cash flows utilised in investing activities	**(3,335)**	(1)
Cash flows generated from financing activities		
Net cash flows generated from financing activities	**-**	-
Net increase in cash and cash equivalents	**963**	163
Cash and cash equivalents at the beginning of the period	**4,430**	-
Effect of exchange rate movements on cash and cash equivalents	**225**	(1)
Cash and cash equivalents at the end of the period	**5,618**	162

Notes to the consolidated financial statements

For the half year ended 30 September 2022

Note 1
Basis of preparation

This general purpose interim financial report for the half year reporting period ended 30 September 2022 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 financial report comprises the consolidated financial report of Macquarie International Finance Limited (MIFL or the Company) and the entities it controlled at the end of, or during the half year ended 30 September 2022 (the Consolidated Entity).

This interim financial report does not include all the disclosures of the type that are normally included in the Consolidated Entity's annual financial report. Accordingly, this report is to be read in conjunction with the Consolidated Entity's annual financial report for the year ended 31 March 2022.

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

The accounting policies adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Consolidated Entity's annual financial report for the year ended 31 March 2022.

(i) Critical accounting estimates and significant judgements

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

Areas of estimation uncertainty and the basis of key judgements applied by management in preparing the interim financial report are consistent with those that were applied and disclosed in the Consolidated Entity's annual financial report for the year ended 31 March 2022.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. During the period, an increased level of estimation uncertainty was involved in the preparation of the Interim Report arising from emerging risks such as geopolitical tensions, the energy security crisis and changing economic environment and market conditions.

Management believes that the estimates used in preparing the interim financial report are reasonable. It is however reasonably possible that future outcomes that are different from the Consolidated Entity's assumptions and estimates at 30 September 2022, other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

(ii) Coronavirus (COVID-19)

The impact of COVID-19 has been incorporated into the determination of the Consolidated Entity's results of operations and measurement of its assets and liabilities at the reporting date.

The Consolidated Entity's processes to determine the impact of COVID-19 for this interim financial report are consistent with the processes disclosed and applied in the Consolidated Entity's annual financial report for the year ended 31 March 2022. Those processes identified that *Expected credit losses* (Note 11) required continued judgement as a result of the impact of COVID-19.

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

The amendments made to existing standards that were mandatorily effective or have been early adopted for the annual reporting period beginning on 1 April 2022 did not result in a material impact on this interim financial report.

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

(iv) Other developments

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

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

IBOR including the GBP, JPY, EUR and CHF London Inter-bank Offered Rate ('LIBOR'), and the 1-week and 2-month tenors for USD LIBOR ceased publication on 31 December 2021. The Consolidated Entity's IBOR reform project oversaw the transition of such exposures and ceased the use of LIBOR in new products in accordance with industry and regulatory guidance.

Notes to the consolidated financial statements

For the half year ended 30 September 2022

Note 1
Basis of preparation continued

(iv) Other developments continued

The remaining USD LIBOR tenors and IBOR for other minor currencies, other than Canadian Dollar Offered Rate will cease publication on 30 June 2023. CDOR will cease publication on 28 June 2024. Similar to the transition of LIBORs ceasing in 2021, the transition approach will vary by product and nature of the counterparty. The Consolidated Entity will utilise active conversion of exposures or the inclusion of fallback provisions where necessary to support the transition of bilateral products. For products cleared through Central Clearing Counterparties ('CCPs'), the transition will align to the CCP requirements and market-wide approach to reform. The Consolidated Entity has actively begun to engage with clients to support them through the transition from USD LIBOR to SOFR. USD LIBOR transition activity is expected to increase during the second half of FY23, broadly in line with markets as the cessation date approaches. New products must not reference USD LIBOR, other than a few exceptional cases that are permitted regulatory exceptions.

Whilst IBOR reforms are important changes for the Consolidated Entity, the risks associated with the transition are managed within the Consolidated Entity's existing risk management framework. The Consolidated Entity's exposure to IBOR transition risk has not changed materially during the period to 30 September 2022.

(v) Comparatives

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

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

Note 2
Operating profit before income tax

	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
Commodities trading[1]	**1,022**	3
Credit, interest rate, foreign exchange and other products	**(49)**	-
Equities trading	**76**	-
Net trading income	**1,049**	3
Service fee from related parties	**181**	-
Brokerage and other trading-related fees	**38**	-
Portfolio administration fees	**92**	-
Trust management fees	**80**	-
Other fee and commission income	**9**	-
Total fee and commission income	**400**	-
Net interest income		
Interest and similar income		
Effective interest rate method[2]	**183**	2
Other	**7**	-
Interest and similar expense[3]	**(170)**	-
Net interest income	**20**	2
Net operating lease Income		
Rental income	87	-
Depreciation	(54)	-
Net operating lease income	**33**	-

(1) Includes $179 million (half year to 30 September 2021: $Nil) of transportation, storage and certain other trading-related costs.
(2) Includes interest income of $183 million (half year to 30 September 2021: $2 million) on financial assets measured at amortised cost.
(3) Includes interest expense on financial liabilities measured at amortised cost calculated using the effective interest rate method of $149 million (half year to 30 September 2021: $Nil).

Note 2
Operating profit before income tax continued

	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
Credit and other impairment (charges)/reversals		
Credit impairment (charges)/reversals		
Loan assets	**(2)**	-
Margin money and settlement assets	**(12)**	-
Financial investments, other assets, off balance sheet exposures	**-**	-
Gross credit impairment (charges)/reversals	**(14)**	-
Recovery of amounts previously written off	**-**	-
Net credit impairment (charges)/reversals	**(14)**	-
Interests in associates and joint ventures	**(21)**	-
Net other impairment (charges)/reversals	**(21)**	-
Total credit and other impairment (charges)/reversals	**(35)**	-
Net other operating income		
Investment (loss)/income		
Net gain from:		
Financial investments and other assets	**14**	-
Total investment (loss)/income	**14**	-
Share of net profits from associates and joint ventures	**14**	-
Other income	**19**	-
Total Other income and charges	**33**	
Total net other operating income	**47**	-
Net operating income	**1,514**	5

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

Note 2

Operating profit before income tax continued

	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
Employment expenses		
Salary and related costs including commissions, superannuation and performance-related profit share	**(285)**	-
Share-based payments	**(64)**	-
Total employment expenses	**(349)**	-
Brokerage, commission and fee expenses		
Brokerage and other trading-related fee expenses	**(61)**	-
Other fee and commission expenses	**(8)**	-
Total brokerage, commission and fee expenses	**(69)**	-
Non-salary technology expenses		
Information services	**(13)**	-
Service provider and other non-salary technology expenses	**(5)**	-
Total non-salary technology expenses	**(18)**	-
Other operating expenses		
Service cost recoveries by related entities	**(386)**	(1)
Professional fees	**(18)**	-
Occupancy expenses	**(11)**	-
Indirect and other taxes	**(3)**	-
Audit fees	**(4)**	-
Other	**(17)**	-
Total other operating expenses	**(439)**	(1)
Total operating expenses	**(875)**	(1)
Operating profit before income tax	**639**	4

Note 3
Income tax expense

	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
(i) Reconciliation of income tax expense to *prima facie* income tax expense		
Prima facie income tax expense on operating profit @30% (30 September 2021: 30%)	**(192)**	(1)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	**(6)**	-
Other items		
Total income tax expense	**(198)**	(1)

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

Note 4
Trading assets

	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Commodities	**1,113**	1,237
Commodity contracts	**554**	290
Listed equity securities	**54**	58
Total trading assets	**1,721**	1,585

Note 5
Margin money and settlement assets

Commodity settlements	**2,182**	1,367
Margin money	**493**	367
Security settlements	**13**	67
Total margin money and settlement assets	**2,688**	1,801

Note 6
Derivative assets

	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Held for trading	**2,471**	2,159
Total derivative assets	**2,471**	2,159

Note 7
Financial investments

Debt Securities[1]	**3,620**	-
Equity Securities	**14**	11
Total financial investments	**3,634**	11

Note 8
Other financial assets

Commodity-related receivables	**857**	861
Trade debtors and other receivables	**75**	96
Total other financial assets	**932**	957

Note 9
Other assets

Income tax receivables	**162**	66
Assets held for sale	**116**	3
Prepayments	**114**	1
Goodwill and other intangible assets	**71**	49
Indirect tax receivables	**57**	50
Others	**24**	32
Total other assets	**544**	201

Note 10
Loan assets

	AS AT 30 SEP 22			AS AT 31 MAR 22		
	Gross $m	**ECL allowance $m**	**Net $m**	Gross $m	ECL allowance $m	Net $m
Asset financing	**464**	**(4)**	**460**	386	(8)	378
Corporate, commercial, and other lending	**107**	**(8)**	**99**	23	(3)	20
Home loans	**26**	**-**	**26**	61	-	61
Total loan assets	**597**	**(12)**	**585**	470	(11)	459

(1) Includes Money Market Securities amounting to $2,917m and US Treasury bills amounting to $701m.

Note 11
Expected credit losses

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

Model Inputs

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

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

For retail portfolios, behavioural variables are also considered in the determination of inputs for ECL modelling.

The key model components used in measuring the ECL include:

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

Significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Qualitative factors include, but are not limited to, whether an exposure has been identified and placed on Credit Watch, an internal credit monitoring mechanism supervised by the Credit Watch Management Committee to closely monitor exposures showing signs of stress. All exposures on Credit Watch are classified as stage II or, if defaulted, as stage III.

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

Retail exposures

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

Wholesale exposures

The Consolidated Entity assigns an internal credit rating to each exposure at origination based on information available at that date. These internal ratings are broadly aligned to external credit rating agencies such as Standard & Poor's and Moody's. Where an exposures' assigned credit rating deteriorates beyond pre-defined thresholds per credit rating at origination, the exposure is categorised as stage II. The methodology has been calibrated so that a larger change in rating is required for higher quality credit rated exposures than for lower quality credit rated exposures to be classified as stage II.

For both retail and wholesale portfolios:

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

Definition of default

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

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

Note 11
Expected credit losses continued

Forward-looking information (FLI)

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

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. The overlays primarily reflect management's assessment of the current economic and credit environment relative to the FLI credit cycle model. These overlays account for the risk that underlying credit risk events have occurred, but observable modelled inputs are yet to reflect those events, as well as risks that are specific to regions, counterparties or industries which are difficult to account for within the modelled outcomes. Overtime the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately $20 million (31 March 2022: $6 million). These judgements are reviewed by FMG and RMG at each reporting date.

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

The scenarios have been developed using a combination of publicly available data, internal forecasts, and third-party information to form the initial baseline. Internal specialists within the Consolidated Entity are consulted to assist in refining and challenging the baseline and the alternate scenarios. For the current reporting period, the Consolidated Entity has generated three alternate scenarios in addition to the baseline scenario, to which the alternate scenarios are anchored on a relative basis.

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

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

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

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

The scenarios for each of the key regions where the Consolidated Entity's ECL is derived have been set out on the following pages. Noting the diversity of possible scenarios and macroeconomic outcomes, and the continuing uncertainty regarding implications of events in Ukraine, broader inflationary pressures, and the path of monetary policy, these scenarios represent plausible forward-looking views as at the reporting date.

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

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

Forward-looking information continued

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~$60 million[1]	Probable	**Global:** The baseline scenario assumes a slowing economy due to expected impacts from inflation, monetary tightening, and a slowdown in China. Uncertainty remains significant regarding the trajectory of commodity prices and the pace of global interest rate hikes two key sources of uncertainty. Unemployment rates, currently at recent lows in many countries, are expected to rise as growth slows and many advanced economies enter recessions. **Australia:** Growth in 2022 continues as the economy recovers from the impacts of pandemic-related disruptions, however the pace of this growth will fall significantly over the coming year. A recession is not forecast, but annual growth in 2023 is forecast to be just 1.2%. Tightening from the Reserve Bank of Australia (RBA) is forecast to push the cash rate to 3.35% and result in a fall in house prices of approximately 16.5%. Weak growth is forecast to result in unemployment rising steadily to 4.5% by mid-2025, but remain below pre-pandemic levels. **United States:** A recession is forecast in the baseline scenario, with four consecutive quarters of contraction from mid 2023 as the US Federal Reserve rates increases impacts all aspects of the economy. Interest rate increases are expected to stop when the Federal funds rate reaches 3.75 to 4.0% in the first quarter of 2023. GDP is forecast to contract by 1.5% year-on-year, with unemployment rising to 6% in 2024. **Europe:** Having only just returned output to pre-pandemic levels, Europe has been negatively impacted by the conflict between Russia and Ukraine. Energy prices have surged, and supply concerns have increased as winter approaches. In this scenario price pressures are forecast to weigh on consumer and business activity, and Europe is expected to enter a recession during 2022. The recovery is forecast to be slow, with tighter monetary conditions from the European Central Bank (ECB) necessitated by high inflation, and with weak growth outlooks in much of the rest of the world.
Downside A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~$70 million[1]	Possible	**Global:** The downside scenario forecasts growth in global GDP that is approximately 1 % lower than the baseline scenario through to 2026. **Australia:** The scenario projects that Australia is unable to avoid a recession, with GDP contracting 0.75% during 2023 as a result of slowing global growth and the impact of restrictive monetary policy from the RBA. House prices are forecast to fall 14% but are supported by a reversal in RBA policy as the economy slows. **United States:** The scenario projects a longer and more significant contraction in GDP, falling by 2.2% to the end of 2023, despite Federal Reserve rate cuts beginning in early 2023 as signs emerge of faltering growth. The unemployment rate is forecast to continues to rise, peaking at over 7% in 2024. **Europe:** The scenario projects GDP to fall by slightly more than 2% in 2023, with a prolonged recovery through to 2026. Price pressures are forecast to continue to restrict household and business activity, and unemployment is forecast to exceed 9% in 2024.
More Severe Downside A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~$100 million[1]	Unlikely	**Global:** The scenario projects negative global growth for most of 2023 as a result of persistent inflation, tighter global monetary conditions, and a slowdown in China. Commodity prices remain elevated for the first half of 2023 before global economic weakness leads to significant falls, pushing oil prices below $US50/barrel. Equity markets also falter as the depth of the slowdown becomes clear. **Australia:** The scenario projects GDP to fall by 2.5% in 2023 and recover only slowly at 1% year-on-year in 2024. In spite of RBA loosening as a recession occurs, the economy continues to struggle and house prices stabilise in 2024 after declining 25%. **United States:** The scenario projects a severe downturn starting in late 2022 with output falling by 3.5% to during 2023. The Federal Reserve is forecast to cut rates sharply, but this fails to sufficiently stimulate the economy and unemployment in this scenario rises to 8.4% in early 2024. **Europe:** The scenario projects the Eurozone economy to contract 3.7% to by the end of 2023 as the energy price strain and a global slowdown have a significant impact on Europe. Unemployment is forecast to reach 10% across Europe in late 2024, while equity and housing markets are impacted by material downturns.
Upside A 100% weighting to this scenario would result in an estimated total expected credit loss provision on balance sheet at the reporting date of ~$50 million[1]	Unlikely	**Global:** The upside scenario projects growth in global GDP that is approximately 1% higher than the baseline scenario throughout the forecast period to 2026. **Australia:** The scenario projects growth to continue but slow to around 1.5% year-on-year. RBA rate hikes are forecast to slow the economy sufficiently to ease inflationary pressures but without a sharp increase in unemployment, which slowly rises to 4.3%. **United States:** The scenario projects growth slows sharply in mid 2023 to approximately 0.1% quarterly growth, but a recession is avoided. The Federal Reserve broadly achieves its 'soft landing' goal and is not required to rapidly cut rates to stimulate growth. Equity prices take a decline in the short-term hit due to higher rates but recover as a recession is avoided. **Europe:** The scenario projects recession is narrowly avoided, but growth falls to less than 0.5% year-on-year. Price pressures are forecast to ease as monetary policy is tightened and global commodity prices decline, with unemployment forecast to rise to 7.5%.

(1) This number provides ECL provision information as at the reporting date assuming the scenarios outlined but does not reflect changes in the credit rating of the counterparties that may occur if these scenarios were to occur. Changes in credit ratings may have a material impact on these ECL provisions.

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

Note 11

Expected credit losses continued

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

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI $m	Other $m	Gross exposure $m	Amortised cost $m	FVOCI $m	Other $m	Total ECL allowance $m
								AS AT 30 SEP 22
Cash and bank balances	**2,130**	**-**	**-**	**2,130**	**-**	**-**	**-**	**-**
Cash collateralised lending and reverse repurchase agreements	**502**	**-**	**-**	**502**	**-**	**-**	**-**	**-**
Margin money and settlement assets	**2,440**	**-**	**-**	**2,440**	**20**	**-**	**-**	**20**
Financial investments	**701**	**-**	**-**	**701**	**-**	**-**	**-**	**-**
Other Financial assets	**104**	**3**	**-**	**107**	**31**	**-**	**-**	**31**
Loan assets	**586**	**-**	**-**	**586**	**12**	**-**	**-**	**12**
Due from related body corporate entities	**6,340**	**-**	**-**	**6,340**	**1**	**-**	**-**	**1**
Off balance sheet exposures	**-**	**-**	**89**	**89**	**-**	**-**	**3**	**3**
Total	**12,803**	**3**	**89**	**12,895**	**64**	**-**	**3**	**67**
								AS AT 31 MAR 22
Cash and bank balances	1,594	–	–	1,594	–	–	–	–
Cash collateralised lending and reverse repurchase agreements	441	-	–	441	–	–	–	–
Margin money and settlement assets	1,290	–	–	1,290	7	–	–	7
Financial investments	-	-	–	-	–		–	-
Other Financial assets	158	–	–	158	6	–	–	6
Loan assets	467	–	–	467	11	–	–	11
Due from related body corporate entities	6,643	–	–	6,643	1	–	–	1
Off balance sheet exposures	–	–	71	71	–	–	-	-
Total	10,593	-	71	10,664	25	-	-	25

Note 11

Expected credit losses continued

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

	Margin money and settlement assets $m	Other Financial assets $m	Loan assets $m	Due from related body corporate entities $m	Off balance sheet exposures $m	Total $m
Balance as at 1 Apr 2021	-	-	-	-	-	-
Balance as at 30 Sep 2021	-	-	-	-	-	-
Balance as at 1 Apr 2022	7	6	11	1	-	25
Credit impairment charges/ (reversals) (Note 2)	**12**	**(3)**	**2**	**-**	**3**	**14**
Reclassifications, foreign exchange and other movements	**1**	**28**	**(1)**	**-**	**-**	**28**
Balance as at 30 Sep 2022	**20**	**31**	**12**	**1**	**3**	**67**

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

Note 12
Trading liabilities

	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Commodities	**135**	-
Total trading liabilities	**135**	-

Note 13
Margin money and settlement liabilities

	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Margin money	**2,986**	829
Commodity settlements	**2,031**	1,305
Security settlements	**5**	63
Total margin money and settlement liabilities	**5,022**	2,197

Note 14
Derivative liabilities

Held for trading	**6,409**	2,763
Total derivative liabilities	**6,409**	2,763

Note 15
Borrowings

Committed unsecured syndicated loans	**3,270**	2,799
Secured revolving facility	**893**	-
Other borrowings	**149**	103
Total borrowings	**4,312**	2,902

Note 16
Other financial liabilities

Commodity-related payables	**708**	169
Creditors	**163**	88
Security Deposits	**73**	51
Issued Debt Securities	**22**	52
Others	**19**	11
Total other financial liabilities	**985**	371

Note 17
Other liabilities

	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Accrued charges, employment related liabilities and provisions(1)	544	419
Income tax payable	197	165
Other	161	48
Total other liabilities	**902**	632

Note 18
Contributed equity

	As at 30 Sep 22 Number of shares	As at 31 Mar 22 Number of shares	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Ordinary share capital			2,109	2,109
Additional paid up capital			81	94
Total contributed equity			**2,190**	2,203
(i) Ordinary share capital(2),(3)				
Balance at the beginning of the financial year	2,109,312,580	400,000,001	2,109	400
Issued fully paid shares to MBL on 4 February 2022@ $1 per share	-	1,709,312,579	-	1,709
Closing balance as at 30 September 2022 (30 September 2021: 400,000,001)	**2,109,312,580**	2,109,213,580	**2,109**	2,109
(ii) Additional paid-in capital				
Equity contribution from ultimate parent entity				
Tax contribution for business acquired under group restructure [4]			66	66
Additional/(return of) paid in capital for Macquarie Group Employee Retained Equity Plan (MEREP) [5]			15	28
Balance at the end of the period			**81**	94

(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 change 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) Ordinary shares have no par value.
(3) All of the shares are held by the parent entity, Macquarie Bank Limited.
(4) Represents tax balances funded by MGL under the Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses. Recognition of deferred tax balances on acquisition is precluded under AASB 112 Income Taxes and hence the funded amount is treated as an equity contribution.
(5) Macquarie Group Employee Retained Equity Plan (MEREP) awards are primarily settled in shares of MGL MEREP awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by Consolidated Entity. The Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding terms and conditions of MEREP refer Note 26 Employee Equity Participation in the Consolidated Entity's March 2022 Annual Financial Statements.

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

Note 19

Reserves, retained earnings and non-controlling interest

	Half year to 30 Sep 22 $m	Half year to 31 Mar 22 $m
(i) Reserves		
Foreign currency translation reserve		
Balance at the beginning of the period	**(6)**	-
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax[1]	**6**	(6)
Balance at the end of the period	**-**	(6)
Restructure reserve		
Balance at the beginning of the period	**(760)**	
Restructure reserves attributable to business acquired[2]	**-**	(760)
Balance at the end of the period	**(760)**	(760)
Total reserves at the end of the period	**(760)**	(766)
(ii) Retained earnings		
Balance at the beginning of the period	**101**	3
Profit attributable to the ordinary equity holder of MIFL	**441**	98
Balance at the end of the period	**542**	101
(iii) Non Controlling Interest[3]		
Share capital	**6**	5
Total Non- Controlling Interest	**6**	5

Note 20

Reconciliation of cash and cash equivalents

	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Cash and cash equivalents at the end of the financial year are reflected in the relevant items in the statement of financial position as follows:		
Cash and bank balances[4]	**787**	411
Due from related body corporate entities	**4,831**	4,019
Cash and cash equivalents at the end of the period	**5,618**	4,430

(1) The current period movement represents the revaluation of the Consolidated Entity's unhedged investments in foreign operations primarily driven by the depreciation of the Australian dollar against the foreign currencies.
(2) Represents difference between the acquisition price and the book value of the net assets of the Non-ELE Group subsidiaries acquired during the financial year under common control transactions. For details refer Note 26 *Acquisitions of subsidiaries and businesses*.
(3) Other non-controlling interests represents equity in subsidiaries held by MBL as a minority shareholder and therefore is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.
(4) Amounts excluded from cash and cash equivalents but presented in the Statement of financial position as cash and bank balances primarily relates to $1,578 million (Mar'22: $1,147 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of $73 million (Mar'22: $36 million) that are not readily available to meet the Consolidated Entity's short-term cash commitments.

Note 21
Related party information

Transactions between the Consolidated Entity and the ultimate and immediate parent entities and with other related body corporate entities under common control principally arise from the provision and repayment of funding arrangements, provision of banking and other financial services, provision of management and administration services, facilities and accommodation, the provision of guarantees, restructure of businesses, repayment of capital and distribution of dividends and trading activities including derivative transactions for managing and hedging market risks.

The Master Loan Agreement (MLA) governs the funding and netting arrangements between various subsidiaries and related body corporate entities which are under the common control of MGL and which have acceded to the MLA.

The Tripartite Outsourcing Major Services Agreement (TOMSA) governs the provision of intra-group services between subsidiaries and related body corporate entities other than certain excluded entities.

Transactions under common control

During the current half year, the Consolidated Entity acquired Macquarie Corona Energy Holdings Limited and Macquarie Bermuda Limited from MBL and another Bank Group holding company. For details, refer to Note 26 *Acquisitions and disposals of subsidiaries and businesses*.

Ultimate and immediate parent entities

The Consolidated Entity's ultimate parent entity is Macquarie Group Limited (MGL) and the immediate parent entity is Macquarie Bank Limited (MBL). Both MGL and MBL are incorporated in Australia. Both MGL and MBL produce consolidated financial statements that are available for public use. MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of this agreement are set out in Note 38(v) Taxation in the Consolidated Entity's March 2022 Annual Financial Statements. Amounts receivable from MGL includes amounts receivable by the Company under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL and MBL are included in Due from related body corporate entities or Due to related body corporate entities, as appropriate, in the Statement of financial position except when the parties have the legal right and intention to offset.

All transactions with the ultimate and immediate parent entities were made on normal commercial terms and conditions and at market rates.

Other related body corporate entities

Balances may arise from lending and borrowing activities between the Consolidated Entity and other related body corporate entities which are generally repayable on demand or may be extended on a term basis and where appropriate, maybe either subordinated or collateralised.

Balances outstanding with other related parties are presented in Due from related body corporate entities or Due to related body corporate entities, as appropriate, in the statement of financial position of the Consolidated Entity except when the parties have the legal right and intention to offset.

All transactions with related entities were made on normal commercial terms and conditions and at market rates.

Notable subsidiaries of the Consolidated Entity

- Macquarie Energy LLC (United States)
- Macquarie America Holdings Inc. (United States)
- Macquarie Energy Canada Ltd. (Canada)
- Macquarie Futures USA LLC (United States)

The subsidiaries included in the notable subsidiaries list above are identified on the basis of their ongoing contribution to the Consolidated Entity's external assets and operating profit. The country of incorporation has been stated in brackets. Overseas subsidiaries conduct business predominantly in their place of incorporation.

Notes to the consolidated financial statements

Note 21

Related party information continued

During the period, the following transactions occurred with the ultimate parent and immediate entity and other related entities:

	ULTIMATE PARENT AND IMMEDIATE PARENT ENTITIES		OTHER RELATED ENTITIES	
	Half year to 30 Sep 22 $'000	Half year to 30 Sep 21 $'000	**Half year to 30 Sep 22 $'000**	Half year to 30 Sep 21 $'000
Interest income	**70,491**	-	**9,775**	1,854
Interest expense	**(84,483)**	-	**(24,052)**	-
Net interest income/(expense)	**(13,992)**	-	**(14,277)**	3,245
Net trading income [1]	**1,420,735**	-	**352,526**	-
Fee and commission income	**156,538**	-	**102,043**	-
Other operating expense	**(148,365)**	-	**(298,058)**	(735)

The following represents outstanding balances with the ultimate parent, the immediate parent and other related body corporate entities as at period end:

On Balance Sheet	**As at 30 Sep 22 $'000**	As at 31 Mar 22 '$000	**As at** 30 Sep 22 **$'000**	As at 31 Mar 22 $'000
Due from related body corporates	**15,091,626**	10,036,638	**888,375**	1,139,390
Cash and bank balances [2, 3, 4,]	**4,573,851**	3,667,749	**114,840**	102,766
Cash collateralised lending and reverse repurchase agreements	**79,595**	40,112	**-**	-
Trading assets	**59,310**	56,219	**-**	-
Margin money and settlement assets	**655,293**	1,732,548	**410,110**	485,782
Derivative assets	**9,374,019**	4,324,275	**858**	7,390
Loan Assets	**-**	-	**206,519**	194,188
Other Financial Assets[2]	**150,365**	113,602	**156,048**	311,597
Other Assets	**199,193**	102,133	**-**	37,667
Due to related body corporates	**9,699,933**	8,409,244	**2,838,068**	2,384,997
Cash collateralised borrowing and repurchase agreements[3]	**3,300,746**	2,338,468	**-**	-
Trading liabilities	**80,233**	70,533	**-**	-
Margin money and settlement liabilities	**1,279,960**	1,308,223	**455,383**	499,080
Derivative liabilities	**4,180,573**	3,847,287	**492**	3,193
Other financial liabilities	**588,807**	472,232	**485,368**	715,381
Other Liabilities	**66,276**	127,967	**473**	1,182
Borrowings [5]	**203,338**	244,534	**1,896,352**	1,166,161
Off Balance Sheet:			**-**	
Guarantees provided [6]	**-**	-	**54,000**	35,086
Guarantees and Letters of Credit received[7][8]	**3,494,918**	2,820,826	**87,264**	87,715

(1) Gains and losses relating to trading assets and derivatives with external counterparties offset gains and losses on similar financial instruments with the parent and other related body corporate entities in the net trading income presented in the Consolidated Entity's Income statement. As part of the risk management strategy of the Bank Group, certain related body corporate entities, including MBL, will be specifically utilised to manage MIFL's market risk based upon trading and exchange relationships. These related party transactions may result in material trading gains and losses within MIFL. Such transactions are typically traded under an ISDA agreement or similar type of arrangement which may contain provisions for the exchange of margin or collateral.

(2) Balance includes cash and short-term deposits with MBL ($5,347,973 thousand; 31 March 2022: $3,668,733 thousand) and other related body corporate entities ($244,424 thousand; 31 March 2022: $350,249 thousand). This balance is also disclosed in Note 20 *Notes to the statement of cash flows under* (i) Reconciliation of cash and cash equivalents as Due from related body corporate entities.

(3) The Consolidated Entity borrowed $3,286,804 thousand (31 March 2022: $2,337,713 thousand) of government bonds on an unsecured basis under stock loan agreements from third parties and subsequently entered into a cash collateralised agreement with MBL to generate short-term funding for the Non-ELE group. This amount is included under the category 'Cash and bank balances' and corresponding liability is included under the category 'cash collateralised borrowing and repurchase agreements'.

(4) Includes cash collateral placed of $3,930,526 thousand (31 March 2022: $2,664,914 thousand) with MBL with respect to the Consolidated Entity's guarantees to MBL for MBL's exposures to certain Non-ELE Group subsidiaries.

(5) The majority of the balance represents long-term borrowing from MBL of $193,146 thousand (31 March 2022: $200,556 thousand) and an evergreen loan of $1,894,988 thousand from Macquarie Financial Holdings Pty Limited (MFHPL).

(6) Represents guarantees to related body corporate entities with respect to their exposures to certain related group entities. The guarantee given to counterparties other than related body corporate entities are disclosed in Note 22 Contingent liabilities and commitments.

(7) Represents guarantees provided by MBL ($3,272,919 thousand, 31 March 2022: $2,631,194 thousand) and MGL ($221,999 thousand, 31 March 2022: $189,631 thousand) to third parties as the immediate and ultimate parent respectively in relation to the performance and other obligations of the Consolidated Entity.

(8) Represents guarantees provided by MFHPL ($87,264 thousand) to third parties in relation to the performance and other obligations of the Consolidated Entity

Note 22
Contingent liabilities and commitments

	As at 30 Sep 22 $m	As at 31 Mar 22 $m
Contingent liabilities:		
Guarantees	**54**	35
Letters of Credit	**6**	-
Total contingent liabilities[1]	**60**	35
Commitments:		
Undrawn credit facilities [2]	**35**	51
Other asset development	**56**	6
Total commitments	**91**	57
Total contingent liabilities and commitments	**151**	92

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

(1) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(2) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity.

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

Note 23

Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. Held for Trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of assets and liabilities of the Consolidated Entity. The description of measurement categories are included in Note 38(vi) *Financial Instruments* in the Consolidated Entity's March 2022 Annual Financial Statements.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 23 *Fair values of assets and liabilities* in the Consolidated Entity's March 2022 Annual Financial Statements.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets									**AS AT 30 SEP 22**
Cash and bank balances	–	–	–	–	2,438	–	2,438	–	2,438
Cash collateralised lending and reverse repurchase agreements	–	–	–	–	502	–	502	–	502
Trading assets[1]	608	–	–	–	–	1,113	1,721	1,721	–
Margin money and settlement assets	–	–	268	–	2,420	–	2,688	268	2,420
Derivative assets	2,471	–	–	–	–	–	2,471	2,471	–
Financial investments	–	–	2,933	–	701	–	3,634	2,933	701
Equity	–	–	14	–	–	–	14	14	–
Debt	–	–	2,919	–	701	–	3,620	2,919	701
Other financial assets	–		856	3	73	–	932	859	73
Other assets	–	–	–	–	–	544	544	–	–
Loan assets	–	–	11	-	574	–	585	11	574
Due from related body corporate entities[2]	9,437	–	8	–	6,339	196	15,980	9,445	6,339
Interests in associates and joint ventures	–	–	14	–	–	217	231	14	–
Property, plant and equipment and right-of-use assets	–	–	–	–	–	419	419	–	–
Deferred tax assets	–	–	–	–	–	151	151	–	–
Total assets	**12,516**	**-**	**4,090**	**3**	**13,047**	**2,640**	**32,296**	**17,722**	**13,047**
Liabilities									
Cash collateralised borrowing and repurchase agreements	–	–	–	–	11	–	11	–	11
Trading liabilities	135	–	–	–	–	–	135	135	–
Margin money and settlement liabilities	–	–	–	–	5,022	–	5,022	–	5,022
Derivative liabilities	6,409	–	–	–	–	–	6,409	6,409	–
Other financial liabilities	–	708	-	–	277	–	985	708	277
Other liabilities[3]	–	–	–	–	–	902	902	–	–
Borrowings	–	–	–	–	4,312	–	4,312	–	4,312
Due to related body corporate entities[2]	4,261	174	8	–	8,031	64	12,538	4,443	8,031
Deferred tax liabilities	–	–	–	–	–	4	4	–	–
Total liabilities	**10,805**	**882**	**8**	**–**	**17,653**	**970**	**30,318**	**11,695**	**17,653**

(1) Non-financial assets under 'Trading assets' represent commodities carried at fair value less costs to sell.
(2) Due from related body corporate entities and due to related body corporate entities includes derivatives and trading positions classified as HFT.
(3) The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Note 23

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT						Statement of financial position total	FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE				Amortised cost	Non-financial instruments		Fair value	Amortised cost
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	$m	$m	$m	$m	$m
Assets									AS AT 31 MAR 22
Cash and bank balances	-	-	-	-	1,594	-	1,594	-	1,594
Cash collateralised lending and reverse repurchase agreements	-	-	-	-	441	-	441	-	441
Trading assets[1]	348	-	-	-	-	1,237	1,585	1,585	-
Margin money and settlement assets	-	-	518	-	1,283	-	1,801	518	1,283
Derivative assets	2,159	-	-	-	-	-	2,159	2,159	-
Financial investments	-	-	11	-	-	-	11	11	-
Equity	-	-	11	-	-	-	11	11	-
Debt	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	805	-	152	-	957	805	152
Other assets	-	-	-	-	-	201	201	-	-
Loan assets	-	-	3	-	456	-	459	3	456
Due from related body corporate entities[2]	4,388	-	7	-	6,642	139	11,176	4,395	6,642
Interests in associates and joint ventures	-	-	11	-	-	272	283	11	-
Property, plant and equipment and right-of-use assets	-	-	-	-	-	397	397	-	-
Deferred tax assets	-	-	-	-	-	146	146	-	-
Total assets	6,895	-	1,355	-	10,568	2,392	21,210	9,487	10,568
Liabilities									
Cash collateralised borrowing and repurchase agreements	-	-	-	-	-	-	-	-	-
Trading liabilities	-	-	-	-	-	-	-	-	-
Margin money and settlement liabilities	-	-	-	-	2,197	-	2,197	-	2,197
Derivative liabilities	2,763	-	-	-	-	-	2,763	2,763	-
Other financial liabilities	-	169	-	-	202	-	371	169	202
Other liabilities[3]	-	-	-	-	-	632	632	-	-
Borrowings	-	-	-	-	2,902	-	2,902	-	2,902
Due to related body corporate entities[2]	3,922	236	1	-	6,507	128	10,794	4,158	6,507
Deferred tax liabilities	-	-	-	-	-	8	8	-	-
Total liabilities	6,685	405	1	-	11,808	768	19,667	7,090	11,808

(1) Non-financial assets under 'Trading assets' represent commodities carried at fair value less costs to sell.
(2) Due from related body corporate entities and due to related body corporate entities includes derivatives and trading positions classified as HFT.
(3) The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Note 24
Fair values of assets and liabilities

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

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

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding such inputs.

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

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

The appropriate fair value hierarchy level for an item is determined on the basis of the lowest level input that is significant to the fair value measurement. AASB 13 *Fair Value Measurement* requires the use of the price within the bid-offer spread that is most representative of fair value.

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

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

- the fair values of liquid assets and other instruments maturing within three months approximate 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 and debt liabilities carried at amortised cost, are 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
- 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 from or to subsidiaries and other 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 items including balances with subsidiaries and other 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 as FVTPL are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of other recognised valuation techniques that maximise the use of quoted price and observable market inputs
- fair values of fixed rate loans classified as FVTPL are estimated by reference to current market rates offered on similar loans and issued debt securities
- for financial assets carried at fair value, in order to measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures

Note 24
Fair values of assets and liabilities continued

- the Consolidated Entity has incorporated the market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

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

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

Note 24
Fair values of assets and liabilities continued

Assets and liabilities measured at fair value

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**AS AT 30 SEP 22**
Cash collateralised lending and reverse repurchase agreements	**-**	**-**	**-**	**-**
Trading assets	**32**	**1,254**	**435**	**1,721**
Margin money and settlement assets	**-**	**264**	**3**	**267**
Derivative assets	**-**	**2,087**	**382**	**2,469**
Financial investments	**2,921**	**-**	**12**	**2,933**
Other financial assets	**-**	**793**	**79**	**872**
Loan assets	**-**	**-**	**11**	**11**
Due from related body corporate entities	**-**	**9,445**	**-**	**9,445**
Total assets	**2,953**	**13,843**	**922**	**17,718**
Liabilities				
Cash collateralised borrowing and repurchase agreements	**-**	**-**	**-**	**-**
Trading liabilities	**-**	**135**	**-**	**135**
Derivative liabilities	**-**	**5,586**	**823**	**6,409**
Other financial liabilities	**-**	**679**	**29**	**708**
Due to related body corporate entities	**-**	**4,443**	**-**	**4,443**
Total liabilities	**-**	**10,843**	**852**	**11,695**
Assets				AS AT 31 MAR 22
Cash collateralised lending and reverse repurchase agreements	-	-	-	-
Trading assets	9	1,210	366	1,585
Margin money and settlement assets	-	518	-	518
Derivative assets	-	1,873	286	2,159
Financial investments	2	1	-	3
Other financial assets	-	762	71	833
Loan assets	-	-	3	3
Due from related body corporate entities	-	4,394	-	4,394
Total assets	11	8,758	726	9,495
Liabilities				
Cash collateralised borrowing and repurchase agreements	-	-	-	-
Trading liabilities	-	-	-	-
Derivative liabilities	-	1,913	850	2,763
Other financial liabilities	-	169	-	169
Due to related body corporate entities	-	4,158	-	4,158
Total liabilities	-	6,240	850	7,090

Note 24
Fair values of assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table summarises the movements in Level 3 of the fair value hierarchy for the assets and liabilities, measured at fair value:

	Trading assets $m	Margin money and settlement assets $m	Financial investments $m	Other financial assets $m	Other assets $m	Loan assets $m	Derivative financial instruments (net fair value) $m	Other liabilities $m	Total $m
Balance as at 1 Apr 2021	-	-	-	-	-	-	-	-	-
Purchases, originations, issuances and other additions	-	-	-	-	-	-	-	-	-
Sales, settlements and repayments	-	-	-	-	-	-	-	-	-
Transfers into Level 3[1]	-	-	-	-	-	-	-	-	-
Transfers out of Level 3[1]	-	-	-	-	-	-	-	-	-
Fair value movements recognised in the income statement:	-	-	-	-	-	-	-	-	-
Net trading income/(loss)[2]	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-	-	-
Fair value movements recognised in OCI[2]	-	-	-	-	-	-	-	-	-
Balance as at 30 Sep 2021	-	-	-	-	-	-	-	-	-
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[2]	-	-	-	-	-	-	-	-	-
Balance as at 1 Oct 2021	-	-	-	-	-	-	-	-	-
Purchases, originations, issuances and other additions	187	-	-	35	67	3	19	-	311
Sales, settlements and repayments	(6)	-	-	(17)	(10)	-	14	-	(19)
Transfers into Level 3[1]	18	-	-	-	-	-	18	-	36
Transfers out of Level 3[1]	(32)	-	-	-	-	-	(5)	-	(37)
Fair value movements recognised in the income statement:	199	-	-	(4)	-	-	(610)	-	(415)
Net trading income/(loss)[2]	199	-	-	-	-	-	(610)	-	(411)
Other income/(loss)	-	-	-	(4)	-	-	-	-	(4)
Fair value movements recognised in OCI[2]	-	-	-	-	-	-	-	-	-
Balance as at 31 Mar 2022	366	-	-	14	57	3	(564)	-	(124)
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[1]	197	-	-	1	(1)	-	(564)	-	(367)
Balance as at 1 Apr 2022	**366**	**-**	**-**	**14**	**57**	**3**	**(564)**	**-**	**(124)**
Purchases, originations, issuances and other additions	**33**	**4**	**8**	**-**	**39**	**5**	**79**	**(10)**	**159**
Sales, settlements and repayments	**(7)**	**-**	**-**	**(3)**	**(14)**	**-**	**97**	**1**	**74**
Transfers into Level 3[1]	**59**	**-**	**-**	**-**	**5**	**3**	**(89)**	**(19)**	**(41)**
Transfers out of Level 3[1]	**(46)**	**-**	**-**	**-**	**(6)**	**-**	**26**	**-**	**(26)**
Fair value movements recognised in the income statement	**30**	**(1)**	**4**	**3**	**(16)**	**-**	**10**	**(1)**	**29**
Net trading income/(loss)[2]	**30**	**-**	**2**	**2**	**-**	**-**	**10**	**-**	**44**
Other loss	**-**	**(1)**	**2**	**1**	**(16)**	**-**	**-**	**(1)**	**(15)**

(1) Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the period.
(2) The Consolidated Entity employs various hedging techniques in order to manage risks including foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency financial instruments measured at amortised cost that are not presented in the table above.

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

	Trading assets	Margin money and settlement assets	Financial investments	Other financial assets	Other assets	Loan assets	Derivative financial instruments (net fair value)	Other liabilities	Total
Fair value movements recognised in OCI[2]	-	-	-	-	-	-	-	-	-
Balance as at 30 Sep 2022	**435**	**3**	**12**	**14**	**65**	**11**	**(441)**	**(29)**	**71**
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period[2]	**366**	**-**	**8**	**11**	**53**	**-**	**(563)**	**-**	**(125)**

Note 24

Fair values of assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

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

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

Unrecognised gains or losses

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

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

	Half year to 30 Sep 22 $m	Half year to 30 Sep 21 $m
Balance at the beginning of the period	**(10)**	-
Deferred gains on new transactions and other adjustments	**(51)**	-
Foreign exchange movements	**(2)**	-
Recognised in net trading income during the period	**3**	-
Balance at the end of the period	**(60)**	-

Note 24
Fair values of assets and liabilities continued

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions, for Level 3 assets and liabilities whose fair values are determined in whole or in part using unobservable inputs. The impact of the sensitivity of instruments which hedge the Level 3 positions, but are classified as Level 1 or 2, is not included in the table below:

	FAVOURABLE CHANGES	UNFAVOURABLE CHANGES
	Profit or loss $m	Profit or loss $m
Product type		**AS AT 30 SEP 22**
Commodities	**75**	**(74)**
Equity and equity-linked products	**1**	**(1)**
Interest rate and other products	**-**	**-**
Total	**76**	**(75)**
Product type		AS AT 31 MAR 22
Commodities	74	(82)
Interest rate and other products	2	(2)
Equity and equity-linked products	1	(1)
Total	77	(85)
Product type		AS AT 30 SEP 21
Commodities	-	-
Equity and equity-linked products	-	-
Interest rate and other products	-	-
Total	-	-

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

Note 24
Fair values of assets and liabilities continued

Significant unobservable inputs

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

					RANGE OF INPUTS	
	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Minimum value	Maximum value
						AS AT 30 SEP 22
Equity and equity-linked products	**14**	**-**	**Market comparability**	**Price in %[1]**		
Commodities	**828**	**(823)**	**Pricing model**	**Commodity margin curves**	**(245.5)**	**1,255.0**
			Pricing model	**Correlations**	**(25.0%)**	**1.0%**
			Pricing model	**Volatility and related variables**	**(38.0%)**	**535.0%**
Interest rate and other products	**80**	**(29)**	**Discounted cash flows**	**Discount rates**	**1.0%**	**10.0%**
			Pricing model	**Bond yields**	**1.5%**	**4.5%**
			Market comparability	**Price in %[1]**	**1.4%**	**99.1%**
Total	**922**	**(852)**				
						AS AT 31 MAR 22
Equity and equity-linked products	18	-	Market comparability	Price in %[1]		
Commodities	650	850	Pricing model	Commodity margin curves	(270.0)	1,665.0
			Pricing model	Correlations	(40.0%)	100.1%
			Pricing model	Volatility and related variables	(12.6%)	90.9%
Interest rate and other products	59	-	Discounted cash flows	Discount rates	1.0%	10.0%
			Pricing model	Bond yield	2.7%	3.5%
			Comparable transactions	Price in %	27.3%	941.2%
Total	727	850				
						AS AT 30 SEP 21
Equity and equity-linked products	-	-	Market comparability	Price in %[1]		
Commodities	-	-	Pricing model	Commodity margin curves	-	-
			Pricing model	Correlations	-	-
			Pricing model	Volatility and related variables	-	-
Interest rate and other products	-	-	Market comparability	Price in %[1]	-	-
			Pricing model	Correlations	-	-
			Pricing model	Bond yields	-	-
Total	-	-				

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

Note 24
Fair values of 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 equity and equity-linked products

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

Inputs for interest rate products (discount rate)

Loans are generally valued using discount rates. Significant unobservable inputs may include interest rates and credit spreads of counterparties and original issue discounts on primary debt issuances.

Note 25

Offsetting financial assets and financial liabilities

The Consolidated Entity presents financial assets and financial liabilities on a net basis in the Statement of financial position when they meet the criteria described in Note 38(vi) *Financial instruments* in 31 March 2022 Annual Financial Statement. The following tables provide information on the impact of offsetting of financial instruments in the Statement of financial position, as well as amounts that do no meet all the criteria for offsetting and therefore presented gross in the statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's financial position in that circumstance is to settle these contracts as one arrangement.

The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity.

	EFFECT OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS[1]			
	Gross amount[2],[3] $m	Amounts offset on Statement of financial position $m	Net amounts reported on the Statement of financial position $m	Other recognised financial instruments[4] $m	Cash and other financial collateral[5] $m	Other collateral for exposures not subject to enforceable netting arrangements[1] $m	Net Exposure $m
							AS AT 30 SEP 22
Settlement assets[6]	**3,886**	**(1,691)**	**2,195**	**(166)**	**-**	**-**	**2,029**
Derivative assets	**4,366**	**(1,895)**	**2,471**	**(1,321)**	**(216)**	**-**	**934**
Due from related body corporate entities[7]	**16,645**	**(1,879)**	**14,766**	**(4,710)**	**(1,139)**	**-**	**8,917**
Total assets	**24,897**	**(5,465)**	**19,432**	**(6,197)**	**(1,355)**	**-**	**11,880**
Settlement liabilities[6]	**(3,727)**	**1,691**	**(2,036)**	**329**	**-**	**-**	**(1,707)**
Derivative liabilities	**(8,304)**	**1,895**	**(6,409)**	**1,158**	**598**	**-**	**(4,653)**
Due to related body corporate entities[7]	**(12,641)**	**1,879**	**(10,762)**	**4,710**	**3,294**	**-**	**(2,758)**
Total liabilities	**(24,672)**	**5,465**	**(19,207)**	**6,197**	**3,892**	**-**	**(9,118)**
							AS AT 31 MAR 22
Settlement assets[6]	2,492	(1,058)	1,434	(165)	-	-	1,269
Derivative assets	2,227	(68)	2,159	(1,218)	(210)	-	731
Due from related body corporate entities[7]	30,313	(21,459)	8,854	(4,152)	(665)	-	4,037
Total assets	34,362	(22,585)	11,777	(5,535)	(875)	-	5,367
Settlement liabilities[6]	(2,426)	1,058	(1,368)	321	-	-	(1,047)
Derivative liabilities	(2,831)	68	(2,763)	1,062	83	-	(1,618)
Due to related body corporate entities[7]	(30,327)	21,459	(8,868)	4,152	2,466	-	(2,250)
Total liabilities	(34,011)	22,585	(11,426)	5,535	2,549	-	(6,381)

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.
(2) Gross assets includes balances not subject to enforceable netting arrangements, $588 million (31 March 2022: $416 million) of settlements assets, $279 million (31 March 2022: $254 million) of derivative assets and $1,474 million (31 March 2022: $2,504 million) of due from related body corporate entities. Gross liabilities includes balances not subject to enforceable netting arrangements, $393 million (31 March 2022: $366 million) of settlements liabilities and $4,031 million (31 March 2022: $1,207 million) of derivative liabilities and $1,984 million (31 March 2022: $2,186 million) of due to related body corporate entities.
(3) Amounts not subject to enforceable offsetting arrangement are where either there are no master netting agreements or enforceability of agreement is uncertain under bankruptcy laws in some countries or industries.
(4) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(5) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
(6) Excludes margin money assets of $493 million (31 March 2022: $367 million) and liabilities of $2,986 million (31 March 2022: $829 million) presented under Note 5 *Margin money and settlement assets* and Note 13 *Margin money and settlement liabilities* respectively on the Statements of financial position.
(7) Excludes margin money and non-financial assets of $1,214 million (31 March 2022: $2,322 million) and liabilities of $1,776 million (31 March 2022: $1,926 million) presented under due from related body corporate entities and due to related body corporate entities respectively on the Statements of financial position.

Notes to the consolidated financial statements

For the half year ended 30 September 2022 continued

Note 26
Acquisitions and disposals of subsidiaries and businesses

Acquisitions of businesses and subsidiaries

To ensure compliance with the revised Prudential Standard APS 222 Associations with Related Entities ("APS 222"), appropriate management, board and regulatory approvals were obtained between December 2021 and February 2022 for the restructure of the majority of the Bank Group's Non-Extended Licensed Entities (Non-ELE) within the Macquarie Bank Group (the Restructure). To affect the Restructure, in February 2022 a number of Share Sale and Purchase Agreements between relevant buying and selling entities were entered such that the Company became a direct subsidiary of MBL and in turn became the holding company for the various Non-ELE for total consideration of $4,175 million. The Company borrowed $2,799 million from a syndicate of third-party banks under a senior unsecured bank facility and issued ordinary shares for a value of $1,709 million to its parent MBL to fund the restructure with surplus placed on deposit with MBL.

The acquisition in the previous period was recognised as a purchase of businesses under the common control of MGL, and therefore, the net assets were recognised at the original carrying values in MGL at the date of disposal with the excess of consideration paid being recognised as reserves on restructure in equity as shown in Note 19 Reserves, retained earnings and non-controlling interest.

As part of the Restructure, further approvals were obtained in August 2022 to transfer Macquarie Bermuda Limited and Macquarie Corona Energy Holdings Limited to the Consolidated Entity for total consideration of $94 million equal to the net assets of the entities acquired. This represented completion of the majority of the Restructure and one remaining entity to be transferred in future. Had the acquisition occurred on 1st April 2022, there would not have been a significant impact to the Consolidated Entity's net operating income for the half year ended 30 September 2022.

There were no other individually significant businesses and subsidiaries where control was gained during the current half year

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

	As at 30 Sep 22 $m	As at 31 March 22 [1] $m
Book value of net assets acquired		
Cash and bank balances	**115**	1,447
Loan assets, other financial assets and other assets [2, 3]	**5,991**	36,125
Property, plant and equipment and right-of-use assets	**10**	437
Payables, provisions, borrowings and other liabilities[2]	**(6,022)**	(34,589)
Non-controlling interests	**-**	(5)
Total book value of net assets acquired	**94**	3,415
Total cash consideration	**94**	4,175
Restructure reserve recognised on acquisition	**-**	760
Net cash flow		
Cash consideration	**94**	4,175
Less: cash and cash equivalents acquired[1]	**115**	2,455
Net cash (Inflow)/outflow	**(21)**	1,720

Disposal of subsidiaries and businesses:

There were no individually significant businesses and subsidiaries where control was lost during the current half year.

(1) There were no other individually significant businesses and subsidiaries where control was gained or disposed during the half year ended 30 September 2021.
(2) This includes $Nil (Mar'22: $1,008m) cash and cash equivalent due from related body corporate entities which is acquired as part of the group restructure.
(3) The amounts of book values presented do not include the impact of offsetting as on the date of acquisition.

Note 27
Events after the reporting date

There were no material events subsequent to 30 September 2022 and up until the authorisation of the financial statements for issue, requiring a disclosure in the interim financial report, other than those that have been disclosed elsewhere in the financial statements.

Directors' declaration

For the half year ended 30 September 2022

In the Directors' opinion:

(a) the financial statements and notes set out on pages 5 to 41 are :

(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 2022 and performance for the half year ended on that date, and

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

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

DocuSigned by:

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Brad Milson
Director

Sydney
27 January 2023

Independent auditor's review report to the members of Macquarie International Finance Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Macquarie International Finance Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 September 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of Macquarie International Finance Limited does not present fairly, in all material respects, the Group's financial position as at 30 September 2022 and its financial performance and its cash flows for the half-year ended on that date, in accordance with the accounting policies as described in Note 1 to the financial statements.

Basis for conclusion

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

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

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 1 in the half-year financial report, which describes the basis of accounting. The half-year financial report has been prepared for internal purposes to assist Macquarie International Finance Limited. As a result, the half-year financial report may not be suitable for another purpose. Our report is intended solely for Macquarie International Finance Limited and its members and should not be used by parties other than Macquarie International Finance Limited and its members. Our conclusion is not modified in respect of this matter.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the accounting policies as described in Note 1 to the financial statements and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the half-year financial report does not present fairly, in all material respects, the financial position of the Group as at 30 September 2022 and of its financial performance and its cash flows for the half-year ended on that date in accordance with the accounting policies as described in Note 1 to the financial statements.

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

PricewaterhouseCoopers

R W McMahon
Partner

Sydney
27 January 2023