MACQUARIE BANK

Macquarie Bank Annual Report

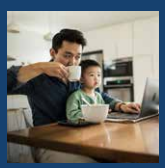
Year ended 31 March 2021

Macquarie Bank Limited ACN 008 583 542

Macquarie Bank Limited is a subsidiary of Macquarie Group Limited ACN 112 169 279 and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit-taking institution (ADI). Macquarie Group Limited is regulated by APRA as a Non-Operating Holding Company of an ADI.

Cover image

With you 'Every Step of the Way'. As Australia felt the impacts of COVID-19, the 'Every Step of the Way' campaign was launched to support and guide customers through uncertainty.



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01

Operating and Financial Review

Payment Pause

Between March 2020 and March 2021, Macquarie offered all business and personal banking clients who were experiencing financial difficulty due to the impacts of COVID-19 the ability to immediately defer their repayments for six months. This applied to all commercial loan, overdraft, home loan, car loan and credit card products.

Macquarie Bank offers transaction accounts, home loans, credit cards, online banking, business banking and more.

Operating and Financial Review

Performance

Macquarie Bank's consolidated net profit attributable to the ordinary equity holder of $A1,676 million for the year ended 31 March 2021 increased 15% from $A1,461 million in the prior year.

	FULL YEAR TO		
	31 Mar 21 $Am	31 Mar 20 $Am	*Movement %*
Net operating income	**6,995**	6,172	*13*
Operating expenses	**(4,697)**	(4,277)	*10*
Income tax expense	**(622)**	(586)	*6*
Profit from discontinued operations after income tax	**–**	164	*(100)*
Distribution paid or provided for on Macquarie Income Securities	**–**	(12)	*(100)*
Profit attributable to the ordinary equity holder	**1,676**	1,461	*15*
From continuing operations	**1,676**	1,297	*29*
From discontinued operations	**–**	164	*(100)*

Operating Group and Corporate updates

In the first half, certain activities of Commodities and Global Markets' (CGM's) Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The Cash Equities current year result and comparatives have been reclassified into the Corporate segment to reflect the reorganisation from CGM in the Bank Group.

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

Refer to Note 42 *Acquisitions and disposals of businesses* for additional information.

Prior year discontinued operations

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

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

Operating and Financial Review

Review of performance and financial position

FY2021 net profit

$A1,676m

↑ 29% on prior year[1]

FY2021 net operating income

$A6,995m

↑ 13% on prior year[1]

FY2021 operating expenses

$A4,697m

↑ 10% on prior year[1]

Net profit contribution by operating group[2]

Banking and Financial Services

$A769m

– In line with prior year

- Higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes.
- Decreased credit impairment charges driven by improvement in current and expected macroeconomic conditions compared to the prior year as a result of COVID-19.

Offset by:

- higher employment expenses including increased headcount to support volume growth and clients impacted by COVID-19, as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

Commodities and Global Markets

$A2,424m

↑ 33% on prior year

- Strong results across the commodities risk management platform including increased contribution from Resources, North American Gas and Power, EMEA Gas and Power and Agriculture due to client hedging activity driven by increased volatility and commodity price movements.
- Increased opportunities in inventory management and trading primarily driven by market dislocations and increased volatility in North American Gas and Power and Precious Metals in addition to gains associated with the timing of income recognition on Gas and Oil storage contracts and transport agreements as well as Power transmission positions.
- Improved client and trading activity in foreign exchange, interest rate and credit products.
- Increased net operating lease income driven by higher secondary income from the asset financing portfolio.

Partially offset by:

- reduced fee and commission income due to decreased demand for commodity risk premia products and a reduction in client brokerage activity following a strong prior year.

(1) Compared to continuing operations from the prior year.
(2) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

Net operating income

Net operating income of $A6,995 million for the year ended 31 March 2021 increased 13% from $A6,172 million in the prior year mainly driven by higher Net interest and trading income and Fee and commission income, as well as lower Credit and other impairment charges. This was partially offset by lower Other operating income and charges.

Net interest and trading income

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
5,404	4,655

↑ **16%** on prior year

- Increased opportunities in inventory management and trading driven by market dislocations and increased volatility, in addition to timing of income recognition on Gas and Oil storage contracts and transport agreements as well as Power transmission positions in CGM.
- Growth in average deposits and loan portfolio volumes in BFS.
- Impact of Cash Equities transfer to Macquarie Capital in the Non-Bank Group in the current year.

Partially offset by:

- margin compression on deposits and lower vehicle finance portfolio volumes in BFS.

Fee and commission income

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
1,326	1,185

↑ **12%** on prior year

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

Partially offset by:

- reduction in Cash Equities due to the transfer to Macquarie Capital in the Non-Bank Group in the current year
- reduced demand for commodity risk premia products and reduced client brokerage activity in CGM.

Net operating lease income

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
395	371

↑ **6%** on prior year

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

Share of net profits from associates and joint ventures

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
41	27

↑ **52%** on prior year

- Increase reflecting performance of underlying investments.

Credit and other impairment charges

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
(333)	(472)

↓ **29%** on prior year

- Lower credit and other impairment charges recognised across the Consolidated Entity compared to the prior year reflecting improvement in the current and expected macroeconomic conditions.

Other operating income and charges

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
162	406

↓ **60%** on prior year

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

Operating expenses

Total operating expenses of $A4,697 million for the year ended 31 March 2021 increased 10% from $A4,277 million in the prior year mainly driven by higher Employment expenses. This was partially offset by lower Other operating expenses.

Employment expenses

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
2,103	1,347

↑ **56%** on prior year

- Higher employment expenses mainly due to the transfer of staff from MGL's service entities during the current year resulting in an increase in permanent headcount of approximately 7,500 for the Consolidated Entity.
- Increase in performance-related profit share expense as a result of increased headcount due to the transfer of the service entities, as well as the performance of the Bank Group.
- Higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19.

Brokerage, commission and trading-related fee expenses

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
525	596

↓ **12%** on prior year

- Lower Wealth management expenses in BFS.
- Lower equities activity in EMEA and Asia in CGM.

Non-salary technology expenses

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
327	170

↑ **92%** on prior year

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

Other operating expenses and Occupancy

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
1,742	2,164

↓ **20%** on prior year

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

Income tax expense

Income tax expense from continuing operations for the year ended 31 March 2021 of $A622 million increased 6% from $A586 million in the prior year. The effective tax rate for the year ended 31 March 2021 was 27.1%, down from 30.9% in the prior year.

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

Balance sheet

The Consolidated Entity's statement of financial position was impacted during the year ended 31 March 2021 by changes resulting from business activities, Group Treasury management initiatives, developments with respect to COVID-19 and macroeconomic factors including the appreciation of the Australian dollar against major currencies.

Total assets

AS AT	
31 Mar 21 $Am	31 Mar 20 $Am
216,848	226,136

↓ 4% on 31 March 2020

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

- derivative assets of $A20.6 billion as at 31 March 2021 decreased 54% from $A44.8 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- margin money and settlement assets of $A8.3 billion as at 31 March 2021 decreased 32% from $A12.2 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in margin placed with financial institutions by CGM
- cash collateral on securities borrowed and reverse repurchase agreements of $A34.6 billion as at 31 March 2021 decreased 8% from $A37.7 billion as at 31 March 2020 primarily due to a decrease in reverse repurchase agreements in CGM partially offset by an increase in Group Treasury reverse repurchase agreements following lower Operating Group funding requirements
- due from related body corporate entities of $A2.2 billion as at 31 March 2021 decreased 58% from $A5.3 billion as at 31 March 2020 primarily due to a decrease in broker settlements, derivatives and margin deposit balances with the Non-Bank Group as a result of lower trade volumes.

These decreases were partially offset by:

- loan assets of $A99.0 billion as at 31 March 2021 increased 13% from $A87.7 billion as at 31 March 2020 primarily due to growth in the home loan portfolio partially offset by a decrease in the vehicle finance portfolio in BFS and a decrease in the corporate and commercial lending portfolio in CGM
- cash and bank balances of $A16.0 billion as at 31 March 2021 increased significantly from $A7.8 billion as at 31 March 2020 primarily due to an increase in surplus cash placed on overnight deposit with the Reserve Bank of Australia (RBA)
- trading assets of $A21.2 billion as at 31 March 2021 increased 30% from $A16.3 billion as at 31 March 2020 primarily due to an increase in precious metals and oil inventories in CGM.

Total liabilities

AS AT	
31 Mar 21 $Am	31 Mar 20 $Am
202,774	211,909

↓ 4% on 31 March 2020

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

- derivative liabilities of $A17.5 billion as at 31 March 2021 decreased 54% from $A37.8 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- due to related body corporate entities of $A15.9 billion as at 31 March 2021 decreased 28% from $A22.1 billion as at 31 March 2020 due to a decrease in broker settlement and derivative balances with the Non-Bank Group as a result of lower trade volumes and a decrease in repurchase agreements with MFHPL
- margin money and settlement liabilities of $A16.3 billion as at 31 March 2021 decreased 15% from $A19.1 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in call margin placed by financial institutions with CGM
- debt issued of $A44.7 billion as at 31 March 2021 decreased 5% from $A46.9 billion as at 31 March 2020 primarily due to the repayment of bondholder notes issued by securitisation vehicles in BFS partially offset by the issuance of short-term debt in Group Treasury.

These decreases were partially offset by:

- deposits of $A84.1 billion as at 31 March 2021 increased 25% from $A67.3 billion as at 31 March 2020 primarily due to an increase in retail and business banking deposits in BFS
- cash collateral on securities lent and repurchase agreements of $A4.5 billion as at 31 March 2021 increased significantly from $A2.3 billion as at 31 March 2020 primarily due to the draw down of the Term Funding Facility from the RBA by Group Treasury and increased stock lending transactions in CGM
- loan capital of $A6.8 billion as at 31 March 2021 increased 36% from $A5.0 billion as at 31 March 2020 primarily due to net issuance of capital instruments and subordinated debt during the year.

Total equity

AS AT	
31 Mar 21 $Am	31 Mar 20 $Am
14,074	14,227

↓ 1% on 31 March 2020

The decrease in the Consolidated Entity's equity was attributable to the decrease in the foreign currency translation and net investment hedge reserve of $A0.8 billion following the appreciation of the Australian dollar against major currencies and redemption of the Macquarie Income Securities of $A0.4 billion. This was partially offset by an increase in retained earnings during the year of $A0.9 billion.

Funding

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

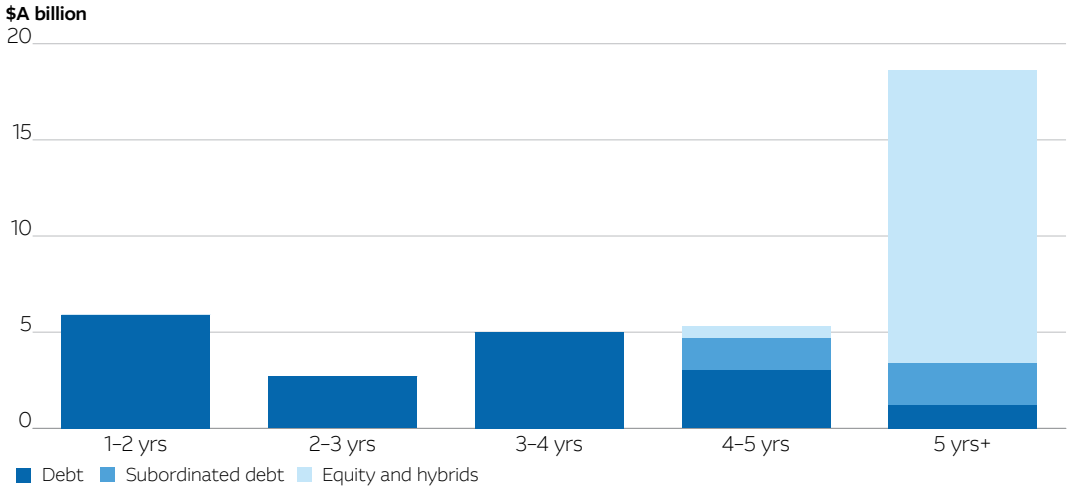
Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year[1] was 4.1 years as at 31 March 2021.

4.1 years

The weighted average term to maturity of term funding maturing beyond one year at 31 March 2021

Term funding profile

Detail of drawn funding maturing beyond one year



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

Details of term funding raised between 1 April 2020 and 31 March 2021:

		Total $Ab
Issued paper	– Senior and subordinated	**6.2**
Secured funding	– Term securitisation and other secured finance	**2.6**
	– RBA Term Funding Facility[2]	**1.7**
Hybrids	– Hybrid Instruments	**0.7**
Total[3]		**11.2**

Macquarie Bank has continued to develop its major funding markets and products during the year ended 31 March 2021.

(1) Including drawn RBA Term Funding Facility (TFF), excluding equity which is a permanent source of funding, and securitisations.
(2) Initial Allowance drawn as at 31 March 2021. MBL has $A1.3 billion of undrawn TFF Supplementary Allowance and had access to $A4.6 billion of TFF Additional Allowance as at 31 March 2021.
(3) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance and include undrawn facilities (does not include undrawn accessible TFF Allowances).

Capital

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

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

While specific historical matters leading to these actions have been addressed, Macquarie acknowledges that continued work is required on its risk governance and operating platform and has programs in place to strengthen capital and liquidity reporting and its risk management framework. Macquarie will work closely with APRA on these programs through a period of intensified supervision.

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 31 March 2021.

Macquarie Bank Level 2 Basel III ratios as at 31 March 2021	Harmonised Basel III[3]	APRA Basel III
Common Equity Tier 1 Capital Ratio	16.2%	12.6%
Tier 1 Capital Ratio	18.1%	14.3%
Leverage Ratio	6.3%	5.5%

For further information relating to the capital adequacy of Macquarie, refer to section 6 Capital of the Management Discussion and Analysis at **macquarie.com/fy21-mda**

(1) Based on materiality, the countercyclical capital buffer (CCyB) of ~1bps has not been included. The individual CCyB varies by jurisdiction and Macquarie Bank's CCyB is calculated as a weighted average based on exposures in different jurisdictions.
(2) APRA has released draft prudential standards on its implementation of a minimum requirement for the leverage ratio of 3.5% expected to be effective from January 2023.
(3) 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.

Our purpose

Empowering people to innovate and invest for a better future.

What we stand for

Opportunity

Accountability

Integrity

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

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

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

Our business strategy

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

Risk management approach

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

Strong balance sheet

Maintaining a strong and conservative balance sheet.

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

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

Business mix

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

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

Diversification

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

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

Proven expertise

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

Adjacencies

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

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

Pursuit of growth opportunities

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

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

Risk management

Macquarie Bank recognises that a sound risk culture is a fundamental requirement of an effective risk management framework.

Risk culture

Macquarie Bank's risk culture is well established, grounded in the long-held principles of *What We Stand For*: Opportunity, Accountability and Integrity.

Macquarie Bank's approach to maintaining an appropriate risk culture is based on the following three components:

- **setting behavioural expectations:** Senior Management, with oversight from the Board, set behavioural expectations. The way we fulfil Macquarie Group's purpose is defined by our principles of *What We Stand For*: Opportunity, Accountability and Integrity. Staff are made aware that these principles must form the basis of all behaviours and actions. These behavioural expectations are specified in the Board approved *Code of Conduct*, which is actively promoted by Management and cascaded through the organisation
- **leading and executing:** Management implements behavioural expectations through leadership actions and communication, organisational governance, incentives and consequence management and organisational and individual capability
- **monitoring, measuring and reporting:** Macquarie monitors and measures its risk culture to gauge effectiveness while promoting continuous improvement.

Risk management framework

The risk management framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Operating and Central Service Groups (including Bank Group entities). The framework is supported by a Macquarie-wide approach to policies and procedures. Macquarie Bank adopts policies, procedures and risk limits in accordance with the risk profile of each Bank Group entity.

The Risk Management Group (RMG) adopts the same level of rigour in relation to risk acceptance, monitoring and reporting for all Macquarie Group entities consistently.

Refer to the Risk Management section in the MGL Annual Report for details on Macquarie Group's risk management framework, risk culture and conduct risk management, which apply to all Macquarie Group businesses including the Bank Group entities

Macroeconomic factors

The key macroeconomic factors that impact Macquarie Bank are:

Market conditions

The general condition of markets, driven by both macroeconomic and geopolitical factors may have a bearing on Macquarie Bank's businesses. Changing market conditions influence the volume and timing of client and principal transactions across businesses and the value of various equity, credit and market risk exposures held by Macquarie Bank on its balance sheet.

The value of the Australian dollar

A significant proportion of Macquarie Bank's net income is denominated in foreign currency. Therefore, net income will be lower in Australian dollar terms if the Australian dollar appreciates against other foreign currencies, and net income will be higher in Australia dollar terms if the Australian dollar depreciates against other foreign currencies.

Potential regulatory changes

Macquarie Bank is affected by changes in regulation. Regulatory change continues to increase at both the global and Australian levels and has the potential to affect the regulatory capital and funding requirements and profitability of Macquarie Bank's businesses.

Funding and liquidity

Macquarie Bank uses deposits and debt markets, among other funding sources, to fund its assets. Macquarie Bank is therefore exposed to the risk of an increase in the cost of funding, or of reduced access to funding sources.

In addition, there are specific material risks that relate to the nature of Macquarie Bank's operations. Material risks are those that could have a material impact, financial or non-financial, on Macquarie or on the interests of the Bank Group depositors. These include aggregate, asset, conduct, credit, environmental and social (including climate change), equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic, tax, and work health and safety risks. These risks, including those mentioned above, are monitored, mitigated and managed under Macquarie Bank's risk management framework.

Further details on the management of these risks are available at **macquarie.com/risk-management**

Macquarie Bank's approach to risk management is based on stable and robust core risk management principles.

Ownership of risk at the business level

Group Heads are responsible for ownership of material risks that arise in, or because of, the business' operations, including identification, measurement, control and mitigation of these risks. Before taking decisions, clear analysis of the risks is sought to ensure those taken are consistent with the risk appetite and strategy of the Bank Group entities.

Understanding worst-case outcomes

Macquarie Bank's risk management approach is based on examining the consequences of worst-case outcomes and determining whether these are acceptable and within Macquarie Bank's risk appetite. This approach is adopted for all material risk types and is often achieved by stress testing. Macquarie Bank operates a number of sophisticated quantitative risk management processes, but the foundation of the approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals.

Requirement for an independent sign-off by RMG

Macquarie Bank places significant importance on having a strong, independent RMG charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals from a range of disciplines, including those with trading or advisory and capital markets experience. For all material proposals, RMG's opinion must be sought at an early stage in the decision-making process. The approval document submitted to Senior Management must include independent input from RMG on risk and return.

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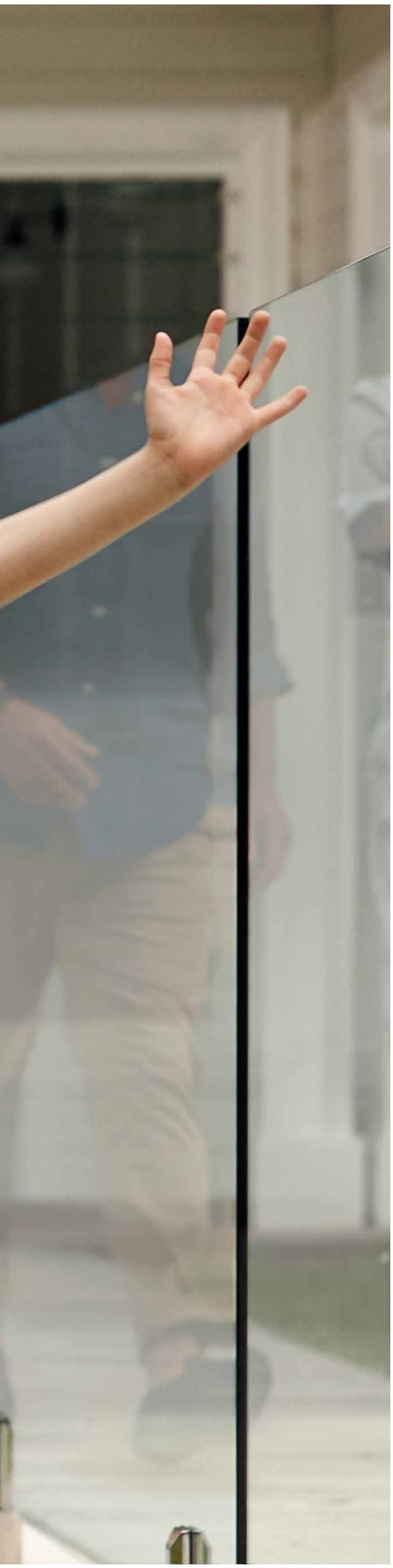


02

Directors' Report

The Home of Good Borrowers

In November 2020, Macquarie launched the Home of Good Borrowers advertising campaign. In our first ever television commercial we were able to tell Australians how we reward good borrowers for their positive financial habits with flexible home loan options, great rates, low fees and an exceptional digital experience.

Directors' Report

For the financial year ended 31 March 2021

The Directors of MBL submit their report with the financial report of the Consolidated Entity and the Company for the year ended 31 March 2021.

Directors

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

Independent Directors

P.H. Warne, Chairman

J.R. Broadbent AC

G.M. Cairns

P.M. Coffey

M.J. Coleman

D.J. Grady AO

R.J. McGrath

M. Roche

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Directors

M.J. Reemst, Managing Director and Chief Executive Officer (CEO)

S.R. Wikramanayake

Other than Ms McGrath and Mr Roche, the Directors listed above each held office as a Director of MBL throughout the financial year ended 31 March 2021. Ms McGrath and Mr Roche joined the Board of Directors as Independent Directors effective from 20 January 2021.

Mr G.R. Banks retired as an Independent Director on 30 July 2020 and Mr M.J. Hawker retired as an Independent Director on 30 September 2020. Mr G.M. Cairns retires as an Independent Director on 7 May 2021.

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

Principal activities

The principal activity of MBL during the financial year ended 31 March 2021 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. MBL is a subsidiary of MGL and is regulated by APRA as an authorised deposit-taking institution (ADI). In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2021 and 31 March 2020, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to the ordinary equity holders for the financial year ended 31 March 2021 was $A1,676 million (2020: $A1,461 million). This result represents profit from continuing operations of $A1,676 million (2020: $A1,297 million) and profit from discontinued operations of $A164 million in 2020.

Details of the qualifications, experience and special responsibilities of the Directors and qualifications and experience of the Company Secretaries at the date of this report are set out on pages 28 to 34 of this report

Dividends and distributions

MBL paid dividends and distributions during the financial year as set out in the table below:

Security	Payment Date	Payment Type	$Am	In respect of period	Paid/provided
Ordinary Shares	2 November 2020	Periodic	**500**	30 September 2020	Paid
Macquarie Income Securities (MIS)[1]	15 April 2020	Periodic	**2.6**	15 January 2020 to 14 April 2020	Paid

No other dividends or distributions were declared or paid during the financial year.

State of affairs

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

Operating and financial review

Please refer to section 1 of this Annual Report for the following in respect of the Consolidated Entity, which includes:

- a review of the operations during the year and the results of those operations
- comments on the financial position
- comments on business strategies and prospects for future financial years.

In respect of likely developments, business strategies and prospects for future financial years, material which if included would be likely to result in unreasonable prejudice to the Consolidated Entity, has been omitted.

(1) MIS were stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note), and a preference share in MBL. The MIS were quoted on the ASX. The MIS distribution set out above represents the payment made by MBL to its members. The MIS were classified as equity under Australian Accounting Standards – see Note 26 and Note 27 to the financial statements in the Financial Report for further information on the MIS and MIS distributions. The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020.

Directors' relevant interests

At the date of this report, none of the Directors held a relevant interest, as required to be notified by the Directors to the Australian Securities Exchange (ASX) in accordance with the *Corporations Act 2001* (Cth) (the Act), in ordinary shares or share options of MBL. The relevant interests of Directors in MBL securities, managed investment schemes made available by related companies of MBL and other disclosable relevant interests are listed in the table below:

Name and position	Direct and indirect interests	Number held
Executive Voting Director		
M.J. Reemst	Macquarie ordinary shares (MQG)	**81,331**
	Macquarie Group Retained Equity Plan (MEREP) Restricted Share Units (RSUs)[2]	**106,784**
	MEREP Performance Share Units (PSUs)[2]	**61,716**
S.R. Wikramanayake	MQG	**945,793**
	MEREP RSUs[2]	**350,417**
	MEREP PSUs[2]	**107,110**
	MAFCA Investments Pty Ltd ordinary shares	**2,000,000**
Independent Directors		
J.R. Broadbent	MQG	**16,250**
	Macquarie Group Capital Notes 3 (MCN3)	**7,177**
	Macquarie Group Capital Notes 4 (MCN4)	**4,000**
	Macquarie Bank Capital Notes 2 (BCN2)	**1,500**
G.M. Cairns	MQG	**12,734**
P.M. Coffey	MQG	**8,739**
	Walter Scott Global Equity Fund units	**408,699.89**
M.J. Coleman	MQG	**7,324**
	Macquarie Group Capital Notes 5 (MCN5)	**2,000**
D.J. Grady	MQG	**9,895**
	MCN3	**390**
	MCN4	**500**
	MCN5	**100**
	BCN2	**366**
R.J. McGrath	MQG	**349**
M. Roche	MQG	**2,000**
G.R. Stevens	MQG	**4,809**
N.M. Wakefield Evans	MQG	**7,111**
P.H. Warne	MQG	**14,933**

(2) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in Note 31 Employee equity participation disclosure to the financial statements in the Financial Report.

Meeting attendance

Board and Board Committee meetings and attendance

The number of meetings of the Board of Directors (the Board) and of the Committees of the Board and the individual attendance by Directors at those meetings which they were eligible to attend, during the financial year, is summarised in the table below:

Number of meetings	Regular Board meetings[3] 11	BAC meetings[3] 7	BRiC meetings[3] 5	Special Board meetings[3] 3
P.H. Warne	11/11	–	5/5	3/3
M.J. Reemst	11/11	–	–	3/3
S.R. Wikramanayake	11/11	–	–	3/3
G.R. Banks[4]	4/4	–	1/1	1/1
J.R. Broadbent	11/11	–	5/5	3/3
G.M. Cairns	11/11	–	5/5	3/3
P.M. Coffey	11/11	7/7	5/5	3/3
M.J. Coleman	11/11	7/7	5/5	3/3
D.J. Grady	11/11	–	5/5	3/3
M.J. Hawker[5]	4/5	2/2	1/1	1/2
R.J. McGrath[6]	3/3	–	2/2	–
M. Roche[7]	3/3	–	2/2	–
G.R. Stevens	11/11	7/7	5/5	3/3
N.M. Wakefield Evans	11/11	7/7	5/5	3/3

The Board Audit Committee (BAC) is a joint committee of MGL and MBL. The BAC assists the Boards of MGL and MBL in fulfilling the Boards' responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting of the Macquarie Group.

The Board Risk Committee (BRiC) is a joint committee of MGL and MBL. The membership of the Committee consists of all the Non-Executive Voting Directors (NEDs) of MGL and MBL. The BRiC assists the Boards of MGL and MBL by providing oversight of the Macquarie Group's risk management framework and advising the Boards on Macquarie Group's risk appetite, risk culture and risk management strategy.

In addition to the BAC and the BRiC, the MGL and MBL Boards are also assisted by the Board Governance and Compliance Committee (BGCC) and the Board Remuneration Committee (BRC).

The BGCC assists the Boards of MGL and MBL with adopting the most appropriate corporate governance standards for the Macquarie Group and assists the MGL Board in fulfilling its responsibility for oversight of the regulatory and compliance risk framework of the Macquarie Group. The BRC makes recommendations to the Boards of MGL and MBL that promote appropriate remuneration policies and practices for the Macquarie Group consistent with Macquarie Group's risk management framework.

There was one Board sub-committee convened during the period, with two meetings held. Both meetings were attended by all the eligible sub-committee members, being Mr Warne, Ms Wikramanayake, Ms Reemst, Mr Coleman and the Chief Financial Officer, Mr Harvey.

All Board members are sent Board Committee meeting agendas and may attend any meeting.

The Chairman of the Board, Macquarie Group CEO and the Macquarie Bank CEO, attend BAC meetings by invitation as a matter of course. The Macquarie Group CEO and Macquarie Bank CEO attend BRiC meetings as a matter of course.

(3) Number of meetings attended by the member/total number of meetings eligible to attend as a member. Some of the Special Board Meetings were called at short notice and not all Board members were able to attend.
(4) Mr Banks retired from the Board as an Independent Voting Director on 30 July 2020.
(5) Mr Hawker retired from the Board as an Independent Voting Director on 30 September 2020.
(6) Ms McGrath was appointed to the Board as an Independent Voting Director, and as a member of the Board Risk Committee, effective from 20 January 2021.
(7) Mr Roche was appointed to the Board as an Independent Voting Director, and as a member of the Board Risk Committee, effective from 20 January 2021.

Directors' and officers' indemnification and insurance

Under MBL's Constitution, MBL indemnifies all past and present directors and secretaries of MBL and its wholly-owned subsidiaries (including at this time the Directors named in this report and the Secretaries) 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 the 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 in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of MBL or its wholly-owned subsidiaries, if that has been approved in accordance with MBL policy.

The indemnity does not apply to the extent that:

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

MBL has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (as amended from time to time) (Deed) with each of the Directors.

Under the Deed, MBL, inter alia, agrees to:

- indemnify the Director upon terms broadly consistent with the indemnity contained in MBL'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 MBL 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 MBL'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)
- grant access to Directors to all relevant company papers (including Board papers and other documents) 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).

In addition, 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 MBL) and other companies where the person is acting as such at the specific request of MGL and its wholly-owned subsidiaries. The Deed Poll provides for broadly the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed described above.

However, the Deed Poll does not provide for access to company documents. The Deed Poll largely supersedes previous deed polls which were provided by MBL which were on similar terms. Certain directors and secretaries still have the benefit of the previous deed polls.

A Directors' and Officers' insurance policy, taken out by Macquarie Group, is in place that provides cover for each person in favour of whom such insurance is required to be taken out under the Deed and the Deed Poll and for MBL in indemnifying such persons pursuant to the Deed and the Deed Poll. Relevant individuals pay the premium attributable to the direct coverage under the policy and Macquarie Group pays 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.

To the extent permitted by law, MBL has agreed to reimburse its auditor, PricewaterhouseCoopers (PwC), for any liability (including reasonable legal costs) PwC incurs in connection with any claim by a third party arising from MBL's breach of the letter of engagement dated 23 June 2020.

Environmental regulations

MBL and its subsidiaries have 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, appropriately addressed and material breaches notified.

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

Non-audit services

Fees paid or payable to PwC, being the auditor of the Consolidated Entity, for non-audit services during the year ended 31 March 2021 total $A6.9 million (2020: $A4.6 million). Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 40 *Audit and other services provided by PwC* in the Financial Report.

The Directors are satisfied that the provision of non-audit services did not compromise the auditor independence requirements of the Act for the following reasons:

- the operation of the Consolidated Entity's *Auditor Independence Policy*, restricts the external auditor from providing non-audit services under which the auditor assumes the role of management, becomes an advocate for the Consolidated Entity, audits its own professional expertise, or creates a mutual or conflicting interest between the auditor and the Consolidated Entity. The policy also provides that significant permissible non-audit assignments awarded to the external auditor must be approved in advance by the BAC or the BAC Chairman, as appropriate.
- the BAC has reviewed a summary of non-audit services provided by PwC, including details of the amount paid or payable, and has provided written advice to the Board of Directors.

Consistent with the advice of the BAC, the Voting Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices is compatible with the general standard of independence for auditors imposed by the Act.

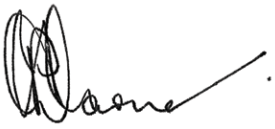
Rounding of amounts

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

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

Events subsequent to balance date

At the date of this report the Directors are not aware of any matter or circumstance, other than transactions disclosed in the financial statements, that has arisen and has 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 31 March 2021.



Peter Warne
Independent Director and Chairman

Mary Reemst
Managing Director and Chief Executive Officer

Sydney
7 May 2021

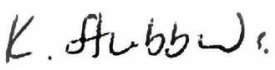
Auditor's independence declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* (Cth) in relation to the audit, and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Kristin Stubbins
Partner

PricewaterhouseCoopers

Sydney
7 May 2021

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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Directors' experience and special responsibilities

Peter H Warne

BA (Macquarie), FAICD

Age: 65
Resides: New South Wales

Independent Chairman of MGL and MBL since April 2016

Independent Voting Director of MGL since August 2007

Independent Voting Director of MBL since July 2007

Mr Warne is a member of the BRiC

Experience

Peter Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of senior roles at Bankers Trust Australia Limited, including as Head of its global Financial Markets Group from 1988 to 1999. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 to 1999, then from 2000 to 2006.

He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006, he became a Director of ASX Limited, a position he held to 2020. Mr Warne has previously served as Chairman of ALE Property Group from 2003 to 2017 and OzForex Group Limited (now trading as OFX Limited) from 2013 to 2016. He was a Director of New South Wales Treasury Corporation from 2012 to 2020, where he served as Chairman from 2019 to 2020.

Listed company directorships (last three years)

- Director, ASX Limited (July 2006–September 2020)

Other current directorships/appointments

- Board member, Allens
- Member, ASIC Corporate Governance Consultative Panel

Mary J Reemst

BA (Macquarie), Dip Fin Mgt (Accountancy) (UNE), MAICD

Age: 63
Resides: New South Wales

Managing Director and Chief Executive Officer of MBL since July 2014

Executive Voting Director of MBL since July 2014

Experience

Mary Reemst joined Macquarie Group in 1999, having held senior investment banking roles at Bankers Trust Australia.

Ms Reemst was Head of Credit in the Risk Management Group for 11 years, with oversight of Macquarie Group's wholesale and retail exposures, including lending, trading activities, equity investments and new products.

Other current directorships/appointments

- Chair, Macquarie Group Foundation
- Director, Australian Bankers' Association
- Director, Financial Markets Foundation for Children
- Director, Australian Financial Markets Association
- Board member, Asylum Seekers Centre Incorporated
- Board member, Sisters of Charity Foundation

Shemara R Wikramanayake

BCom LLB (UNSW)

Age: 59
Resides: New South Wales

Managing Director and Chief Executive Officer of MGL since December 2018

Executive Voting Director of MGL and MBL since August 2018

Experience

In her time at Macquarie, Shemara Wikramanayake has worked in nine cities in six countries and across several business lines, establishing and leading Macquarie's corporate advisory offices in New Zealand, Hong Kong and Malaysia, and the infrastructure funds management business in the US and Canada. She joined Macquarie in 1987 and was instrumental in establishing Macquarie Capital which at the time included: advisory; infrastructure funds; corporate leasing and lending; and cash equities.

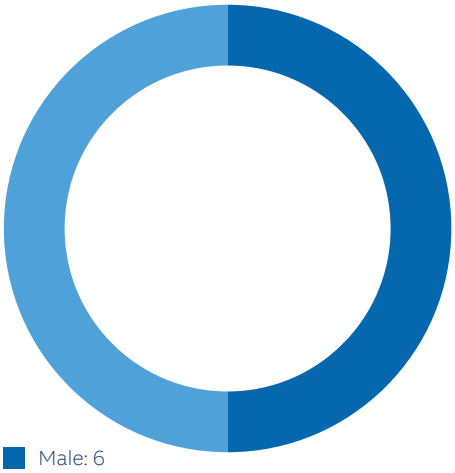
Ms Wikramanayake was most recently the Head of Macquarie Asset Management, a role she held from 2008 to 2018. Macquarie Asset Management offers a diverse range of services including infrastructure and real asset management; securities investment management; and fund and equity based investment solutions.

Before joining Macquarie, she worked as a corporate lawyer at Blake Dawson Waldron in Sydney.

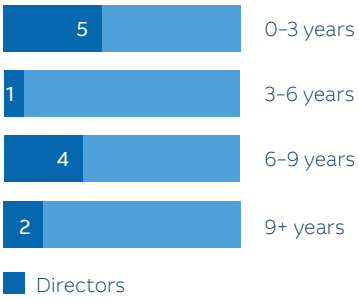
Other current directorships/appointments

- Board member, Institute of International Finance
- Founding Commissioner, Global Commission on Adaptation
- Founding Member, Climate Finance Leadership Initiative
- Member, University Research Commercialisation Scheme
- Member, Technology Investment Advisory Council

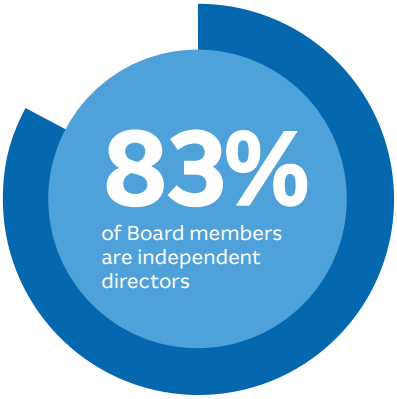
Gender diversity



Board tenure



Board independence



Directors' experience and special responsibilities

Continued

Jillian R Broadbent AC

BA (Maths & Economics) (Sydney)

Age: 73
Resides: New South Wales
Independent Voting Director of MGL and MBL since November 2018

Ms Broadbent is a member of the BRiC

Experience

Jillian Broadbent has extensive investment banking industry knowledge and markets expertise, including a deep knowledge of risk management and regulation in these areas. She also has considerable executive management and listed company board experience. Ms Broadbent spent 22 years at Bankers Trust Australia until 1998, initially as an economic strategist and then as executive director responsible for risk management and derivatives in foreign exchange, interest rates and commodities.

Ms Broadbent was also a Member of the Reserve Bank of Australia Board between 1998 and 2013 and has previously served as Chair of the Board of Clean Energy Finance Corporation, and as a director of ASX Limited, SBS, Coca Cola Amatil Limited, Woodside Petroleum Limited, Qantas Airways Limited, Westfield Management Limited and Woolworths Group Limited.

Listed company directorships (last three years)

- Director, Woolworths Group Limited (January 2011–November 2020)

Other current directorships/appointments

- Director, National Portrait Gallery of Australia
- Director, Sydney Dance Company

Gordon M Cairns

MA (Hons) (Edin)

Age: 70
Resides: New South Wales
Independent Voting Director of MGL and MBL since November 2014

Mr Cairns is a member of the BRiC

Experience

Gordon Cairns has held a range of management and executive roles throughout his career with Nestle, Cadbury Ltd and Pepsico culminating as Chief Executive Officer of Lion Nathan Limited from 1997 to 2004. He has extensive experience as a company director, including nine years as a Non-Executive Director of Westpac Banking Corporation, where he served on the Board Risk Management and Remuneration Committees.

Mr Cairns has served as a director on the boards of Lion Nathan Australia Limited and Seven Network Australia Limited, and as Chairman of David Jones Limited, Rebel Group Pty Limited and Origin Energy Limited.

Listed company directorships (last three years)

- Chairman, Woolworths Group Limited (since September 2015)
- Chairman, Origin Energy Limited (October 2013–October 2020); (Director June 2007–October 2020)

Other current directorships/appointments

- Director, World Education Australia

Philip M Coffey

BEc (Hons) (Adelaide), GAICD, SF Finsia

Age: 63
Resides: New South Wales
Independent Voting Director of MGL and MBL since August 2018
Mr Coffey is a member of the BAC and BRiC

Experience

Phil Coffey served as the Deputy Chief Executive Officer (CEO) of Westpac Banking Corporation, from April 2014 until his retirement in May 2017. As the Deputy CEO, Mr Coffey had the responsibility of overseeing and supporting relationships with key stakeholders of Westpac including industry groups, regulators, customers and government. He was also responsible for the Group's Mergers & Acquisitions function. Prior to this role, Mr Coffey held a number of executive positions at Westpac including Chief Financial Officer and Group Executive, Westpac Institutional Bank.

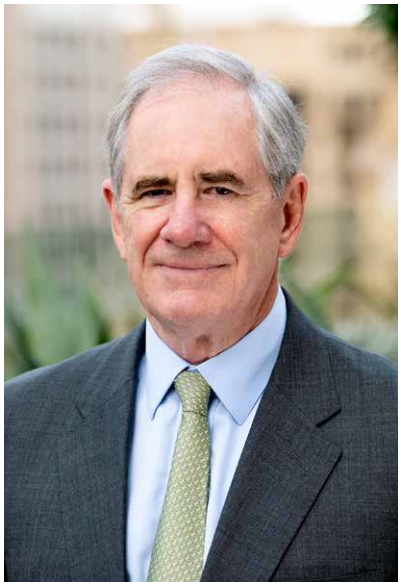
He has successfully led operations based in Australia, New Zealand, the United States, the United Kingdom and Asia, and has extensive experience in financial markets, funds management, balance sheet management and risk management. He began his career at the Reserve Bank of Australia and has also held executive positions at AIDC Limited and Citigroup.

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since January 2017)

Other current directorships/appointments

- Director, Clean Energy Finance Corporation



Michael J Coleman

MCom (UNSW), FCA, FCPA, FAICD

Age: 70
Resides: New South Wales
Independent Voting Director of MGL and MBL since November 2012
Mr Coleman is Chairman of the BAC and a member of the BRiC

Experience

After a career as a senior audit partner with KPMG for 30 years, Mr Coleman has been a professional Non Executive Director since 2011. He has significant experience in risk management, financial and regulatory reporting and corporate governance.

Mr Coleman has been the Chairman of ING Management Limited, a member of the Audit Committee of the Reserve Bank of Australia and a member of the Financial Reporting Council, including terms as Chairman and Deputy Chairman. During his time with KPMG, Mr Coleman was a financial services specialist, providing audit and advisory services to large banks, investment banks and fund managers. He was KPMG's inaugural National Managing Partner Assurance and Advisory from 1998 to 2002, National Managing Partner for Risk and Regulation from 2002 to 2010, and Regional Leader for Asia Pacific Quality and Risk Management from 2002 to 2011.

Listed company directorships (last three years)

- Chairman, Bingo Industries Limited (since March 2017)

Other current directorships/appointments

- Chairman, Planet Ark Environmental Foundation
- Chairman, Reporting Committee, Australian Institute of Company Directors
- Member, National Board and NSW Council, Australian Institute of Company Directors
- Board member, Legal Aid NSW
- Adjunct Professor, Australian School of Business, UNSW
- Governor, Centenary Institute of Cancer Medicine & Cell Biology

Directors' experience and special responsibilities

Continued

Diane J Grady AO

BA (Mills), MA (Hawaii), MBA (Harv), FAICD

Age: 72
Resides: New South Wales
Independent Voting Director of MGL and MBL since May 2011
Ms Grady is a member of the BRiC

Experience

Diane Grady has extensive international experience in a variety of industries having spent 25 years as a full-time independent director of public companies and not-for-profit boards and as a partner with McKinsey & Co where for 15 years she consulted with clients in financial services, insurance, retailing, telecommunications, consumer goods and manufacturing industries.

Ms Grady's previous boards include Woolworths, BlueScope, Lendlease, MLC, Goodman Group and the Sydney Opera House. She has also served as President of Chief Executive Women and Chair of Ascham School. At McKinsey Ms Grady was a firm-wide leader of the Organisation, Culture and Change Management Practice and in Australia she focused on assisting clients to grow through service improvement, innovation, and marketing strategies. She has a Masters of Chinese Studies and worked for three years as a journalist in Asia.

Other current directorships/appointments

- Chair, The Hunger Project Australia
- Director, Grant Thornton Australia Board
- Director, Tennis Australia
- Member, Heads Over Heels Advisory Board
- Member, NFP Chairs Forum

Rebecca J McGrath

BTP (Hons) (UNSW), MAppSc (ProjMgt) (RMIT), FAICD

Age: 56
Resides: Victoria
Independent Voting Director of MGL and MBL since January 2021
Ms McGrath is a member of the BRiC

Experience

Rebecca McGrath is an experienced professional company director and Chairman, with substantial international business experience. She spent 25 years at BP plc. where she held various executive positions, including Chief Financial Officer Australasia and served as a member of BP's Executive Management Board for Australia and New Zealand.

Ms McGrath has served as a director of CSR Limited, Big Sky Credit Union and Incitec Pivot Ltd, and as Chairman of Kilfinan Australia. She is a former member of the JP Morgan Advisory Council. She has attended executive management programmes at Harvard Business School, Cambridge University and MIT in Boston.

Listed company directorships (last three years)

- Chairman, OZ Minerals Limited (since May 2017); Director (since November 2010)
- Director, Goodman Group (since April 2012)
- Director, Incitec Pivot Limited (September 2011–December 2020)

Other current directorships/appointments

- Chairman, Scania Australia Pty Limited
- Director, Investa Wholesale Funds Management Limited
- Director, Kilfinan Australia
- President, Victorian Council, Australian Institute of Company Directors
- Member, National Board, Australian Institute of Company Directors
- Member, ASIC Corporate Governance Consultative Panel

Mike Roche

BSc (UQ), GAICD, FIA (London), FIAA

Age: 68
Resides: New South Wales
Independent Voting Director of MGL and MBL since January 2021
Mr Roche is a member of the BRiC

Experience

Mike Roche has over 40 years' experience in the finance sector as a highly skilled and experienced provider of strategic, financial, mergers and acquisitions, and capital advice to major corporate, private equity and government clients. He held senior positions with AXA Australia as a qualified actuary and Capel Court/ANZ Capel Court.

Mr Roche spent more than 20 years at Deutsche Bank and was Head of Mergers and Acquisitions (Australia and New Zealand) for 10 years where he advised on major takeovers, acquisitions, privatisations, and divestments. He stepped down as Deutsche Bank's Chairman of Mergers and Acquisitions (Australia and New Zealand) in 2016. He was a member of the Takeovers Panel for two terms from 2008 to 2014.

Listed company directorships (last three years)

- Director, Wesfarmers Limited (since February 2019)

Other current directorships/appointments

- Director, MaxCap Group Pty Ltd
- Director, Six Park Asset Management Pty Ltd
- Director, Te Pahau Management Ltd
- Trustee Director, Energy Industries Superannuation Scheme Pty Ltd
- Managing Director, M R Advisory Pty Ltd
- Member, ADARA Partners Corporate Advisory Wise Counsel Panel
- Co-founder and Director, Sally Foundation

Glenn R Stevens AC

BEc (Hons) (Sydney), MA (Econ) (UWO)

Age: 63
Resides: New South Wales
Independent Voting Director of MGL and MBL since November 2017
Mr Stevens is Chairman of the BRiC and a member of the BAC

Experience

Glenn Stevens worked at the highest levels of the Reserve Bank of Australia (RBA) for 20 years and, as well as developing Australia's successful inflation targeting framework for monetary policy, played a significant role in central banking internationally. Most recently, he was Governor of the Reserve Bank of Australia between 2006 and 2016.

Mr Stevens has also made key contributions to a number of Australian and international boards and committees, including as chair of the Australian Council of Financial Regulators between 2006 and 2016, as a member of the Financial Stability Board and on a range of G20 committees.

Other current directorships/appointments

- Board member, NSW Treasury Corporation
- Director, Anika Foundation
- Director, Lowy Institute
- Member, Investment Committee, NWQ Capital Management
- Deputy Chair, Temora Aviation Museum

Directors' experience and special responsibilities

Continued

Nicola M Wakefield Evans

BJuris/BLaw (UNSW), FAICD

Age: 60
Resides: New South Wales
Independent Voting Director of MGL and MBL since February 2014
Ms Wakefield Evans is a member of the BAC and BRiC

Experience

Nicola Wakefield Evans is an experienced Non-Executive Director and corporate finance lawyer. As a lawyer, Ms Wakefield Evans has significant Asia-Pacific experience and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jacques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors. She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since September 2013)

Other current directorships/appointments

- Director, MetLife Insurance Limited
- Director, MetLife General Insurance Limited
- Director, Clean Energy Finance Corporation
- Chair, 30% Club Australia
- Member, Takeovers Panel
- Member, National Board, Australian Institute of Company Directors
- Director, UNSW Foundation Limited
- Director, GO Foundation

Company secretaries' qualifications and experience

Dennis Leong

BSc BE (Hons) (Syd), MCom (UNSW), FGIA

Company Secretary since October 1993

Experience

Dennis Leong is an Executive Director of Macquarie and has had responsibility for Macquarie's company secretarial requirements, general and professional risks insurances and aspects of its employee equity plans. He has over 27 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Simone Kovacic

BBus LLB (Hons) (UTS), LLM (Sydney)

Assistant Company Secretary since June 2020

Experience

Simone Kovacic is a Division Director of Macquarie, having joined in 2009. Simone has company secretarial responsibilities and provides governance and corporate advice. She has over 20 years of experience as a corporate lawyer at Macquarie and in private practice at Freehills, now Herbert Smith Freehills, and Skadden, Arps, Slate, Meagher & Flom LLP in the US.

Ida Lawrance ceased to be an Assistant Company Secretary of MBL on 29 May 2020.

Remuneration Report

Introduction

Macquarie Bank is a subsidiary of Macquarie Group Limited. Whilst subject to the remuneration framework determined by Macquarie Group, the Board considers remuneration recommendations relating to senior executives of Macquarie Bank. Throughout this Remuneration Report, for consistency, references are made to the Macquarie Group's remuneration arrangements rather than Macquarie Bank's remuneration arrangements.

Remuneration framework

This section explains the link between Macquarie Group's purpose and its remuneration objectives and principles, and how these are reflected in the remuneration framework.

Macquarie Group's longstanding and consistent approach to remuneration continues to support our remuneration objectives, including delivering strong company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of Conduct* and *What We Stand For*. The Macquarie Group Limited Board recognises that to achieve these objectives, we must attract, motivate and retain exceptional people with deep industry expertise while aligning their interests with shareholders to meet the needs of clients and customers while ensuring that regulatory requirements are upheld. This broad approach has been in place since Macquarie Group's inception, evolving over time to ensure the framework continues to meet our remuneration objectives.

Macquarie Group's remuneration approach has been a key driver of our sustained success as an international organisation. Staff are motivated to grow businesses over the medium to long-term, taking accountability for all decisions and their accompanying risk management, customer, economic and reputational consequences.

This approach has been fundamental in ensuring we can continue to attract, motivate and retain exceptional, entrepreneurial and ethical people across the global markets in which we operate. We hire world-class people in 32 highly competitive markets. These people come from, and compete in, various industry sectors (including hedge funds, private equity firms, global investment banks, fund managers, advisory boutiques, commodity houses and other banks, as well as industries that are not specific to banking or financial services, for example, technology, accounting and engineering) across many jurisdictions.

The table below shows the link between Macquarie Group's purpose and the remuneration objectives and principles.

Macquarie Group's purpose:

Empowering people to innovate and invest for a better future

Opportunity | Accountability | Integrity

Remuneration objectives

Macquarie Group's remuneration framework aims to:

- deliver strong company performance over the short and long-term whilst prudently managing risk
- attract, motivate and retain exceptional people with deep industry expertise
- align the interests of staff and shareholders to deliver sustained results for our customers, clients and community
- promote innovation and the building of sustainable businesses
- drive behaviours that reflect Macquarie Group's culture and the principles of *What We Stand For*
- foster a diverse and inclusive work environment.

Remuneration principles

These objectives are achieved by:

- emphasising performance-based remuneration
- determining an individual's variable remuneration based on a range of financial and non-financial factors
- retaining a significant proportion of performance-based remuneration to enable risk outcomes to be considered over a long period
- delivering retained profit share in equity to ensure the interests of staff and shareholders are aligned over the long-term
- remunerating high-performing staff appropriately, relative to global peers
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives.

Remuneration Report

Continued

Remuneration framework continued

Macquarie Group's remuneration framework works as an integrated whole. As summarised below, an individual's remuneration comprises fixed remuneration, profit share and, for Executive Committee members (our Executive KMP), Performance Share Units (PSUs).

Remuneration framework

Fixed Remuneration

- primarily comprises base salary, as well as superannuation contributions and standard country-specific benefits in line with local market practice
- for Executive KMP, is set at a comparatively low level, relative to the industry, and a low proportion of total remuneration but sufficient to avoid inappropriate risk-taking
- is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements
- for risk and financial control staff, is generally a higher proportion of total remuneration than for front office staff.

Performance-based Remuneration

Criteria	Profit Share	Performance Share Units
Eligibility	• all permanent employees	• Executive Committee members
Determination	• allocations reflect an individual's performance, which is assessed against a range of financial and non-financial factors including: – contribution to financial results – approach to risk management and compliance – business leadership including outcomes for customers and the community – people leadership and professional conduct including the role-modelling of the Macquarie Group's culture and purpose	• PSU pool is determined with reference to profits over recent years, subject to Board discretion • individual allocations reflect their role as members of the Executive Committee and their contribution to driving the collective performance of Macquarie • for FY2021, allocations are based on the face value of shares on the grant date
Structure	• significant proportion is retained (80% for the MGL CEO and 60% for the MBL CEO) • long deferral periods (up to seven years for the MGL and MBL CEOs) • retained profit share is delivered in a combination of MGL equity and Macquarie-managed fund equity	• PSUs vest after four years, subject to the achievement of two forward-looking performance hurdles (no retesting of hurdles) • PSUs are structured as DSUs(1) with no exercise price • no right to dividend equivalent payments
Malus	• applies for senior employees	• applies to all awards
Forfeiture	• retained profit share is subject to forfeiture upon leaving Macquarie Group except in certain circumstances	• unvested PSUs are subject to forfeiture upon leaving Macquarie Group except in certain circumstances

The MGL Board has discretion to change remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

(1) A DSU is a Deferred Share Unit and is an award type under the MEREP. For further details, refer to Note 31 to the financial statements in the Financial Report.

Profit share

This section describes the way in which profit share is determined, structured and delivered.

Annual process to determine profit share outcomes

Remuneration outcomes are based on realised outcomes, which are determined through a principles-based approach, taking into consideration all aspects of an individual's performance. Significant judgement is applied in determining remuneration outcomes to ensure that all factors that may potentially impact the quantum of profit share allocations are considered. The table below describes how profit share allocations are determined at an individual, business group and company-wide level. Outcomes may be adjusted downwards at any level as a result of any risk management, compliance and conduct issues that have come to light during the year.

Individual profit share allocations	Individual profit share allocations reflect an employee's performance. Employees are assessed against the following areas: **Financial Results** • business profits and individual contribution to profits for front office staff • primarily based on contribution to high quality control functions for risk and financial control roles • for other support staff, based on their contribution to delivering high quality services to support the businesses **Risk management and compliance** • an assessment of an individual's approach to managing financial and non-financial risks • motivates a culture of disciplined risk management, and regulatory, policy and business compliance **Business leadership (including customer and community outcomes)** • business growth and innovation • delivering solutions for our customers and the communities in which we operate **People leadership and professional conduct** • alignment to Macquarie Group's purpose and culture • conduct and behaviour consistent with the *Code of Conduct* and *What We Stand For* • fostering a diverse and inclusive work environment • talent development. Individual profit share allocations also consider relativities in the market in which each business competes for talent.
Business group profit share pools	• For Operating Groups reflects consideration of: – each business' contribution to company-wide profits – each business' capital, funding and liquidity requirements and usage – other factors such as the quality of the income, whether the business is highly regulated or not, the maturity of the business, and the reliance on intellectual capital versus financial capital. • For Central Service Groups, based on the quality and integrity of control functions and support services; not primarily determined with reference to profitability. • Considers the risk profile of each business including consideration of any significant reputational, cultural or compliance matters. • Also considers overall remuneration levels in the market in which each business operates.
Company-wide profit share pool	• Is an aggregate of the bottom-up assessment conducted at both the business and individual level. • Is assessed for overall reasonableness, including consideration of: – an internal reference based on Macquarie Group's after-tax profits and its earnings over and above the estimated cost of capital – the resultant compensation expense to income ratio and how it compares to that of peers. • The Board retains discretion to amend the final pool determined in accordance with the bottom-up assessment to ensure that all relevant factors, including risk and conduct matters, have been appropriately taken into consideration. For the seventh year in a row, the company-wide pool is substantially below the internal reference described above. • The Chief Financial Officer (CFO) confirms that the profit share pool can be supported by Macquarie Group's capital position and does not limit Macquarie Group's ability to further strengthen its capital base in the future.

Remuneration Report

Continued

Retained profit share: retention and vesting

Macquarie Group retains a percentage of each individuals' annual profit share allocation (retained profit share) above certain thresholds, which is invested in a combination of MGL ordinary shares under the Macquarie Group Employee Retained Equity Plan (MEREP) and Macquarie-managed fund equity notionally invested under the Directors' Profit Share (DPS) Plan.[2] Whilst they are employed, an individual's retained profit share vests and is released over a period that reflects the scope and nature of their role and responsibilities.[3] These arrangements ensure that Macquarie Group continues to retain high-performing staff, provide significant long-term alignment to shareholders and customers as well as enabling risk outcomes to be considered over long periods.

Retention and vesting arrangements are determined by the Board Remuneration Committee (BRC), according to prevailing market conditions, remuneration trends, and compliance with regulatory requirements (including under the Banking Executive Accountability Regime (BEAR)). For each year's allocation, once the vesting period has been determined it remains fixed for that allocation.

As noted in last year's Remuneration Report, in light of the economic uncertainty due to COVID-19, retention rates in FY2020 were increased to 100% for the MBL CEO and all Executive Committee members (no cash component). For FY2021, to reflect improved economic conditions, the MGL Board has determined that retention rates be reset to standard levels more in line with 2019. The following table summarises the standard retention and vesting arrangements applicable for FY2021.

FY2021 standard profit share retention and vesting arrangements

Role	Profit share retention (%)	Vesting and release of profit share[4]
CEO Macquarie Group	80	One-fifth in each of years 3–7
CEO Macquarie Bank	60	
Executive Committee members	60	
Designated Executive Directors[5]	50-60	
Executive Directors	40-60	One-third in each of years 3–5
Staff other than Executive Directors	25–60[6]	One-third in each of years 2–4

The MGL Board's discretion to change remuneration arrangements, as noted above, includes changes to profit share retention levels provided that the retention percentage is at least 30% for all Executive Directors.

Investment of retained profit share

An individual's retained profit share is invested in a combination of MGL ordinary shares under the MEREP and Macquarie-managed fund equity notionally invested under the DPS Plan. The allocation reflects the nature of their role as set out in the following table.

FY2021 Standard investment of retained profit share

	Retained profit share investment	
Role	MEREP (MGL ordinary shares) %	DPS Plan (Macquarie-managed fund equity) %
CEOs of MGL and MBL	90	10
Executive Committee members	80–90	10–20
Executive Directors	80–100[7]	0–20
Staff other than Executive Directors	100[8]	0[8]

(2) Both the MEREP and DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in MGL ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 31 *Employee equity participation* to the financial statements in the Financial Report. The DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment.

(3) Profit share that is not retained ("available profit share") is delivered in cash except for staff subject to the UK Remuneration Code implementing CRD IV, where 50% of available profit share is delivered in MGL equity and is subject to a 12-month hold period.

(4) For staff subject to the UK Remuneration Code implementing CRD IV, retained profit share invested in MGL equity is subject to a further 12 month hold post the vesting period.

(5) Executive Directors who have a significant management or risk responsibility in the organisation.

(6) Above certain monetary thresholds.

(7) For Executive Directors subject to the UK Remuneration Code implementing CRD IV, retained profit share is invested 60% in MGL equity and 40% in the DPS Plan.

(8) For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of MGL equity and Macquarie-managed fund equity.

In addition to the arrangements set out in the tables above, different arrangements may apply in certain circumstances:

- retention rates, vesting and release schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in certain jurisdictions, for example in the UK or European Union (EU), to ensure compliance with local regulatory requirements
- in limited circumstances, retained profit share may be allocated under arrangements other than the DPS Plan or the MEREP. For example, this may include investment in funds or products of a specific business group where there is a need to directly align the interests of staff with those of their clients.

Forfeiture of retained profit share – Malus and Clawback

The Board or its delegate has the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances (Malus), as set out on page 43. For certain employees identified in the UK or EU, the Board also has the ability to recover (in whole or in part) vested profit share (Clawback).

Early vesting and release of retained profit share

The standard policy is that staff who cease employment with Macquarie Group will forfeit their unvested retained profit share. The Board may exercise discretion to accelerate the vesting of a departing employee's retained profit share and reduce the retention period including where, for example, their employment ends in the case of retirement from Macquarie Group, redundancy, death, serious incapacitation, disability, or serious ill-health. The Board's discretion to accelerate the vesting of retained profit share under these circumstances is subject to the conditions of early release as set out below for Executive Directors.

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in relation to strategic business objectives, including in connection with the divestment or internalisation of Macquarie Group businesses, or when an employee resigns to fulfil a public service role in a governmental organisation or agency. Where such discretion is exercised, the Board may impose such other conditions as it considers appropriate. This year, such discretion has been exercised and retained profit share was approved to be released on original vesting schedule for one executive due to the transfer of their employment to a joint venture entity.

Conditions of early release to departing Executive Directors – Post Employment Events

Where discretion has been exercised to accelerate the vesting of retained profit share, the Board may reduce or eliminate their retained profit share, if it is determined that the Executive Director has at any time during their employment or the relevant release periods after their employment committed a Malus Event (as set out on page 43) or:

(a) taken staff to a competitor of Macquarie Group or been instrumental in causing staff to go to a competitor, or

(b) joined a competitor of Macquarie Group or otherwise participated in a business that competes with Macquarie Group.

Each of the above is a Post Employment Event.

In the case of death or serious incapacitation, the Board will typically accelerate the vesting of retained profit share and immediately release it. In other circumstances, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

	First Period	Second Period	Third Period
Time post-departure	Six months	Six months to one year	One year to two years
Unvested retained profit share released	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
Subject to	No Malus Event or Post Employment Event as set out previously	No Malus Event or Post Employment Event during the First Period, and	No Malus Event or Post Employment Event during the First Period, and
		No Malus Event or Post Employment Event (a) above during Second Period	No Malus Event or Post Employment Event (a) during the Second Period, and
			No Malus Event during the Third Period
Where the release is by reason of retirement from Macquarie Group	As above	As above and in addition, the release is subject to no Post Employment Event (b) during the Second Period	As above and in addition, the release is subject to no Post Employment Event (b) during the Second or Third Period

In addition to the above, for Accountable Persons, the exercise of discretion for any early release of retained profit share will be subject to Macquarie Bank meeting the minimum deferral periods required under the BEAR.

Where an Executive Director has a tax liability on termination of employment in respect of any unvested retained profit share, the Board has discretion to release unvested retained profit share up to an amount equal to the Executive Director's tax liability at an earlier time than noted above.

Performance Share Units

This section describes the way in which Performance Share Units (PSUs) are determined, structured and delivered.

Allocation and structure

Executive Committee members are the only group of staff eligible to receive PSUs, which are subject to forward-looking performance hurdles and determined with reference to Macquarie Group's performance as a whole. As such, they provide an additional incentive to Executive Committee members to drive company-wide performance over the long-term and beyond their business group responsibilities. PSU awards are a meaningful incentive but are generally not the major element of an Executive Committee member's total remuneration.

While the PSU pool is determined with reference to profits over recent years, the MGL Board retains discretion to determine the final PSU pool taking into consideration both financial and non-financial factors, including the risk profile of the Macquarie Group.

Individual allocations are based on their role as members of the Executive Committee and their contribution to driving the collective performance of Macquarie Bank, including their collaboration across businesses.

PSUs are granted in August each year. The number of PSUs that will be allocated will be calculated by dividing the face value of the award by the price of MGL ordinary shares on or around the date of grant.

Since their introduction, PSUs have been structured as DSUs with performance hurdles. Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

Performance hurdles

The following summarises the key terms of PSUs and the performance hurdles:

	EPS CAGR hurdle	ROE hurdle
Application	50% of PSU award	50% of PSU award
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (four years).[9]	Average annual ROE over the vesting period (four years)[9] relative to a reference group of global financial institutions.[10]
Hurdle	Sliding scale applies: • 50% becoming exercisable at EPS CAGR of 7.5% • 100% at EPS CAGR of 12%. For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.	Sliding scale applies: • 50% becoming exercisable above the 50th percentile • 100% at the 75th percentile. For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.
Forfeiture	• Malus provisions apply. • The standard policy is that unvested PSUs will be forfeited upon termination. • In the case of retirement from Macquarie Group, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles. • Should a change of control occur[11] the Board or the BRC has discretion to determine how unvested PSUs should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control.	

(9) PSUs awarded prior to FY2020 vested in two equal tranches after three and four years.
(10) The reference group for awards is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG. Comparator company information is presented in the same order throughout the Remuneration Report.
(11) Under the MEREP Plan Rules, a change in control occurs where a person acquires or ceases to hold a relevant interest in more than 30% of MGL shares or where the Board resolves that a person is in a position to remove one-half or more of the Non-Executive Directors.

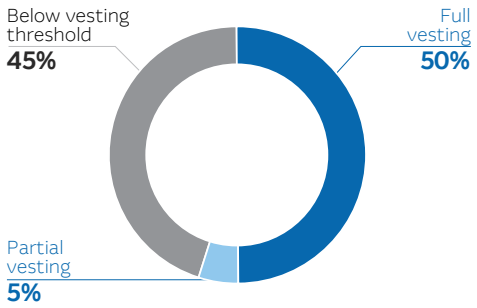
Rationale for hurdles

The PSU hurdles are regularly reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators, as well as market practice. Both the relative ROE and absolute EPS hurdles were reviewed by the BRC during the year and were considered to still be appropriate. No change has been made to the hurdles for FY2021 for the following reasons:

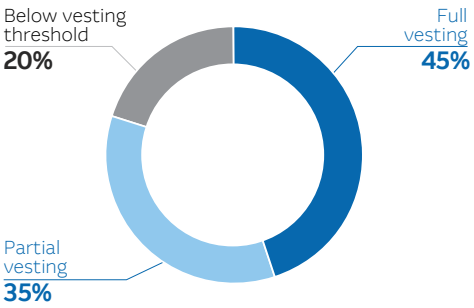
- ROE and EPS growth drive long-term shareholder value and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control
- the approach is consistent with that advocated by APRA in not using TSR as a measure
- ROE and EPS can be substantiated using information that is disclosed in Macquarie Group's annual reports
- a sliding scale diversifies the risk of not achieving the hurdles and provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test, which some have argued could promote excessive risk-taking
- the hurdles are designed to reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three- to seven-year deferral of profit share for members of the Executive Committee
- the EPS targets are confirmed as rigorous when market performance is considered, with the EPS threshold hurdle exceeding the performance of most of the ASX 20, global reference group and relevant indices over time
- for the EPS element to fully vest, Macquarie Group needs to achieve at least 12% CAGR over the vesting period. Supporting the rigour of the hurdle, cumulative EPS growth of 57% over four years is required to achieve full vesting
- the ROE vesting thresholds and sliding scale are in line with the domestic market and are particularly challenging when compared to international practice.

The charts below display Macquarie Group's historical EPS and ROE PSU outcomes, highlighting that since their introduction in 2009, 50% of the EPS tranches and 55% of the ROE tranches have resulted in either no vesting or partial vesting.

Historical EPS tranche outcomes



Historical ROE tranche outcomes



Use of an international reference group

An international reference group[12] recognises the extent of Macquarie Group's diversification and internationalisation. As at 31 March 2021, total international income represented approximately 68% of Macquarie Group's total income, with approximately 56% of Macquarie Group's staff located outside Australia. The BRC considers an international reference group to be appropriate on the basis that:

- the international reference group is currently most representative of Macquarie Group's business operations and talent pool. These firms broadly operate in the same markets and in similar business segments and compete for the same people as Macquarie Group
- Macquarie Group has no comparable Australian-listed peers.

In addition, the BRC considers it important to not intervene reactively to remove under-performers or over-performers in any given period. An organisation's period of under-performance is generally followed by a period of over-performance.

(12) The reference group is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG. Comparator company information is presented in the same order throughout the Remuneration Report.

Executive KMP – PSUs vesting during FY2021

The PSUs that completed their performance period on 30 June 2020 comprised the second tranche of those awards granted in 2016 and the first tranche of those granted in 2017. The performance hurdle tests were performed using data sourced from Bloomberg for all peers (as well as Macquarie Group) and the calculations were reviewed independently. The results showed that the performance hurdles:

- based on Macquarie Group's relative average annual ROE compared to the peer group have been fully met for both tranches; and
- based on the EPS CAGR in Macquarie Group's reported financial year have not been met for either the 2016 or the 2017 PSU grants.

As a result, 50% of the awards became exercisable on 1 July 2020, as shown below:

	EPS CAGR Hurdle			ROE Hurdle		
PSU tranche	Macquarie Group result (for vesting period)	Hurdle	Outcome	Macquarie Group result (for vesting period)	Hurdle	Outcome
2016 Tranche 2	6.31%	50% at 7.5% CAGR 100% at 12% CAGR	0% exercisable	14.86% (88th percentile)	50% above the 50th percentile[13] 100% at the 75th percentile[13]	100% exercisable
2017 Tranche 1	6.35%	50% at 7.5% CAGR 100% at 12% CAGR	0% exercisable	15.23% (88th percentile)	50% above the 50th percentile[14] 100% at the 75th percentile[14]	100% exercisable

(13) Peer group ROE at 50th percentile 8.83% and peer group ROE at 75th percentile 9.41%.
(14) Peer group ROE at 50th percentile 9.92% and peer group ROE at 75th percentile 10.53%.

Culture, accountability and remuneration

This section describes how risk and conduct are considered throughout Macquarie Group's remuneration approach.

Risk culture

Macquarie Group's *What We Stand For* principles of Opportunity, Accountability and Integrity remain pivotal to our culture and effectively guide our staff in balancing risk and reward and making decisions that realise opportunity for the benefit of our clients, our shareholders, our people and the communities in which we operate. Staff are continually made aware that these principles must form the basis of all behaviours and actions. These behavioural expectations are outlined in the MGL Board approved *Code of Conduct*, which is actively promoted by Management and cascaded through the organisation through multiple mechanisms. Macquarie Group invests significant time and effort into communicating and reinforcing Macquarie Group's culture through communications from senior management, policy reminders, training, and learning and development activities. The Board is able to assess Macquarie Group's culture in a number of ways including through staff survey results, human capital reporting, risk culture reports, consequence management reports, strategy presentations as well as through personal observation of management, and staff behaviour and actions.

Strong risk management is a fundamental part of everyone's role at Macquarie Group. Staff understand that they are rewarded not just for their contribution to financial results, but also for how those results are achieved. This includes an assessment of an individual's approach to managing risk, and their alignment to the *What We Stand For* principles. They understand there are potential consequences for non-compliance with the risk management framework and Macquarie Group's behavioural expectations. Staff training and communications emphasise the link between risk, conduct, policy breaches and consequence management outcomes, including, where appropriate, adjustments to performance-based remuneration.

Alignment of remuneration with risk outcomes

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. The consideration of risk is embedded throughout the entire remuneration process including through the determination of individual profit share allocations, business and company-wide profit share pools as well as through the way in which remuneration is structured and delivered.

The Board is aware of the increasing focus of regulators and shareholders on ensuring that risk-related matters that come to light subsequent to remuneration being awarded are appropriately factored into remuneration decisions. The Macquarie Group's high retention rates and long deferral periods provide a mechanism for the Board to consider risk outcomes over a long period. Furthermore, where an investigation has commenced into a risk or conduct-related matter that may result in forfeiture or, for senior employees, the application of Malus, Macquarie Group may further defer the payment, vesting and/or release of profit share to allow for the investigation to be completed.(15)

The following mechanisms exist to risk adjust remuneration outcomes:

In-year profit share adjustments — **Applies to all staff**

- determined as part of assessing an individual's performance each year
- the annual assessment includes consideration of compliance with the risk management framework and with the behavioural expectations outlined in the *Code of Conduct*. In addition, any outcomes from the consequence management process or the independent reporting from the Chief Risk Officer (CRO) and General Counsel are also considered.

Forfeiture — **Applies to all staff with retained profit share**

- where an individual's employment is terminated due to a compliance or conduct concern (or they resign), unvested remuneration is forfeited, as per Macquarie's standard policy.

Malus Events — **Applies to senior employees**

Macquarie Group's Malus provisions provide the MGL Board or its delegate with the ability to reduce or eliminate in full, the retained profit share for senior employees and, for Executive Committee members, unvested PSUs where it is determined that the individual has at any time:

- acted dishonestly (including, but not limited to, misappropriating funds or deliberately concealing a transaction)
- acted or failed to act in a way that contributed to:
  - a breach of a significant legal or significant regulatory requirement relevant to the Macquarie Group
  - MGL or Macquarie Bank making a material financial restatement
  - MGL, MBL or any Operating Group within the Macquarie Group incurring:
    - significant reputational harm
    - a significant unexpected financial loss, impairment charge, cost or provision.

(15) Malus also applies to any unvested profit share retained by Executive Directors on termination, in addition to the Post Employment Events set out on page 39.

Additional provisions may apply to staff in certain jurisdictions to ensure compliance with local regulations. This includes, for example:

- if an Accountable Person fails to comply with their accountability obligations under the BEAR, this may result in consequences being applied in accordance with Macquarie Group's policies, including the application of Malus
- staff in the UK and EU, including one Executive Committee member, who are subject to additional Malus and clawback provisions under local regulatory requirements.

The BRC considers whether, and the extent to which, to apply Malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

Macquarie Bank has always had and continues to have, the ability to terminate staff where a Malus Event has occurred, at which time any unvested profit share would be forfeited in full.

Risk adjustment processes

There are robust processes in place to ensure that all risk, reputation, and conduct-related matters are specifically considered when determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate. A wide range of risks that could have a financial or non-financial impact on Macquarie Bank are considered, including if there has been a detriment to customers.

The diagram below provides an overview of these processes.

Independent control function input when determining remuneration outcomes

Risk Management Group	Human Resources	Legal
The CRO provides the BRC with an independent report detailing significant regulatory and legal matters, significant compliance and operational incidents, internal audit issues and other financial and non-financial risk matters.	The Global Head of HR discusses RMG's report with the Group Heads to ensure any matters listed in the report are appropriately reflected in remuneration outcomes for relevant staff and provides a report to the BRC on how this has been achieved.	The General Counsel provides a further source of independent input and, in conjunction with HR, considers whether there are any incidents, including any breach of the BEAR obligations, that should be brought to the attention of the BRC which might lead to a Malus determination.

Consequence management process

Incidents, breaches of policy and misconduct issues are regularly reported to senior management. The Global Head of HR annually reports to the BRC on the outcomes from the consequence management process and confirms that these matters have been considered in determining remuneration and promotion outcomes where appropriate.

Consequence management outcomes

Macquarie Group's Consequence Management Guideline applies wherever a breach of internal policy or regulatory requirement is identified. Consequences may include further training, removal of delegated authorities or permissions, adjustments to performance-based remuneration, impact on promotion, formal warnings or termination.

Where an employee has received a formal warning, their performance-based remuneration will likely be impacted and in some cases, it will be reduced to zero. Promotion decisions may also be impacted. Consequences may also be applied where a formal warning has not been issued. In each case, judgement is exercised as to the appropriate Consequence(s) based on all the relevant circumstances.

In FY2021, for Macquarie Bank, there were 81 (FY2020: 79) matters involving conduct or policy breaches (for example, *Code of Conduct*, appropriate workplace behaviour, risk management and technology breaches) that resulted in formal consequences. Of those:

- for 15 matters, termination of employment was the outcome (FY2020: 15)
- for 66 matters, a formal warning was issued (FY2020: 64). Additional consequences were applied as appropriate including additional training, removal of delegated authorities or permissions, adjustments to profit share and/or impact to promotion. Of the 66 matters, 13 resulted in individuals subsequently leaving Macquarie Bank before year-end outcomes were determined and 52 individuals had their profit share reduced by an average of 49%.

The overall number of matters is broadly in line with the prior year, despite a significant increase in headcount as a result of the transfer to MBL of entities employing Macquarie Group's shared service staff during the year. The remote working environment also impacted the number of matters this year. For example, fewer in-person interactions contributed to a reduction in instances of conduct failing to meet appropriate workplace behaviour standards.

The 81 matters were considered isolated incidents and there was no evidence of broader systemic conduct issues.

Further details on remuneration framework

This section describes other key features of Macquarie Group's remuneration framework and of the employment contracts for Executive Committee members.

Other features of Macquarie Group's remuneration framework

The following table summarises key features of Macquarie Group's remuneration framework:

Role-based allowances	• Role-based allowances are a component of fixed remuneration that may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals.
Minimum shareholding requirement	• Executive Directors are required to hold a relevant interest in MGL ordinary shares that have a value equal to 5% of an Executive Director's aggregate profit share allocation for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy. • For Executive Committee members, compliance with this policy equates to a minimum shareholding requirement of between 195% to 780% of fixed remuneration.
Promotion Awards	• Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on Director-level set with reference to an Australian dollar value. Currently these awards range from $A25,000 to $A175,000 depending on the promotion level.
Hedging	• Macquarie Group prohibits staff from hedging (i) shares held to meet the minimum shareholding requirement and (ii) unvested equity held in the MEREP.

Employment contracts

The following table summarises key features of the employment contracts for Executive Committee members including the CEO:

Length of contract	Permanent open-ended.
Remuneration review period	1 April to 31 March annually.
Profit share participation	Executive Committee members are eligible to be considered for a profit share allocation that ensures a large part of their remuneration is 'at risk'. Refer to pages 37 to 39 for details.
PSU participation	Executive Committee members are eligible to receive PSUs. Refer to pages 40 to 42 for details.
Termination of employment	Requires no more than four weeks' notice by Macquarie Bank or the Executive Committee member (Post employment restrictions apply).(16)
Post-employment restrictions	Restrictions include non solicitation provisions applicable for six months, and paid non competition provisions applicable, at Macquarie Bank's election, for up to three months post termination.

(16) Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie Bank may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment. In the UK, the statutory minimum notice period increases from 4 weeks to a maximum 12 weeks based on years of service.

Macquarie Bank's performance

Macquarie Bank's results

Net profit after tax (NPAT) has increased 29% based on continuing operations.

	2017	2018[17]	2019[18]	2020[19]	**2021**
NPAT attributable to the ordinary equity holder ($Am)	1,221	1,023	1,066	1,297	**1,676**

(17) NPAT attributable to the ordinary equity holder reported above relates to continuing operations only. Additional profit of $A545 million in FY2018 is attributable to discontinued operations.
(18) NPAT attributable to the ordinary equity holder reported above relates to continuing operations only. Additional profit of $A956 million in FY2019 is attributable to discontinued operations.
(19) NPAT attributable to the ordinary equity holder reported above relates to continuing operations only. Additional profit of $A164 million in FY2020 is attributable to discontinued operations.

Executive KMP remuneration outcomes for FY2021

This section details Executive KMP remuneration outcomes for FY2021 and demonstrates the link between pay and performance.

Process to determine Executive KMP profit share outcomes

There is a consistent and comprehensive process for the Board and the BRC to assess the performance of the CEO and each Executive Committee member during the year to enable them to determine remuneration outcomes at the end of the year. The Board is always mindful of the external focus on overall remuneration levels and has spent considerable time determining remuneration outcomes for the CEO and each Executive KMP. The BRC recognises the range of expectations and have made decisions which take into consideration the perspectives of all stakeholders. Significant judgement is applied in order to ensure that remuneration outcomes are aligned both with individual and company-wide performance and with outcomes delivered to our shareholders, our clients and the communities in which we operate.

As part of the Board's annual review of the MBL CEO's performance, the CEO meets with the Non-Executive Directors (NEDs) of the Board towards the end of each financial year to consider formal documentation that outlines her views of Macquarie Bank's performance. The presentation includes a broad range of Macquarie Bank's activities covering the following main areas:

- financial performance
- risk management and compliance
- business leadership including customer and community outcomes
- people leadership and professional conduct consistent with the *Code of Conduct* and *What We Stand For*.

Over the course of the year the Board receives regular reports and updates on many of these areas. These are summarised in the CEO's presentation, together with additional information on any particular matters of interest the Board has identified for further discussion as a part of the review process. The Board then considers the CEO's performance and progress against all of these topics in determining the CEO's remuneration for the year. This is similar to the process followed for the MGL CEO.

The Board and the BRC consider formal documentation for each Executive Committee member, which includes consideration of the same factors as the CEO as set out above.

The BRC also consider risk-related matters raised in the independent reports from the CRO and the General Counsel. To ensure that all matters are appropriately brought to the BRC's attention and to achieve an integrated approach to remuneration that reflects prudent and appropriate risk, there is a joint meeting of the BRC, Board Risk Committee (BRiC) and the Board Governance and Compliance Committee (BGCC). Finally, the BRC considers remuneration levels for organisations that broadly operate in the same markets and compete for the same people as Macquarie Group.

FY2021 remuneration impacts – APRA enforcement action

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

The Board acknowledges the seriousness of the APRA findings and has reflected this in its determination of remuneration outcomes. This has been through a reduction in the PSU allocations for Executive KMP and the imposition of additional qualifying conditions on the release of a portion of their retained profit share. The qualifying conditions relate to the timely and satisfactory remediation of the APRA findings.

Remuneration Report

Continued

Remuneration governance

Effective governance is central to Macquarie Group's remuneration strategy and approach. The key elements of Macquarie Group's remuneration governance framework are described below.

MGL AND MBL BOARDS	
Board Remuneration Committee	**Board Risk Committee & Board Governance and Compliance Committee**
Oversees Macquarie Group's remuneration policies and practices, and makes recommendations to the Boards	Discuss any relevant matters which may impact remuneration in a joint meeting with the Board Remuneration Committee

Strong Board oversight

The MGL Board oversees Macquarie Group's remuneration framework. The MGL Board has a BRC whose objective is to assist the MGL Board and the Board of Macquarie Bank, a key operating subsidiary, with the Macquarie Group's remuneration policies and practices. The BRC currently comprises six independent Non Executive Directors (NEDs):

Board Remuneration Committee	
Chair	**Members**
J.R. Broadbent	G.M. Cairns P.M. Coffey D.J. Grady M. Roche P.H. Warne

The BRC members have the required experience and expertise in human resources, remuneration and risk to enable them to achieve effective governance of Macquarie Group's remuneration framework. The BRC has a regular meeting cycle and met six times during FY2021. Strict processes are in place to ensure conflicts of interest are appropriately managed.

BRC responsibilities

The BRC pays close attention to the design and operation of remuneration practices for all of Macquarie Group, not just for the most senior executives. The responsibilities of the BRC are outlined in its Charter, which is reviewed and approved annually by the Board.

The Charter is available at **macquarie.com/corporate-governance**

Some of the responsibilities include:

- overseeing the process for the annual review of the CEOs' and other Executive KMPs' performance by the Macquarie Group and Macquarie Bank Boards
- recommending to the Board the remuneration outcomes for all Executive KMP, Designated Executive Directors and other senior executives
- assessing the effectiveness of the *Remuneration Policy* to ensure compliance with legal and regulatory requirements, as well as to support the alignment of remuneration with prudent risk-taking and professional conduct across the organisation
- recommending the *Remuneration Policy* to the Board for approval.

Alignment to risk

The BRC liaises with the BRiC and BGCC to ensure there is effective co-ordination between the Committees to assist in producing an integrated approach to remuneration that reflects prudent and appropriate risk.

As set out on page 44, the CRO provides the BRC with an independent report detailing significant regulatory and legal matters, significant compliance and operational incidents, internal audit issues and other non-financial risk matters. A joint meeting of the BRC, BRiC and BGCC is held to discuss these matters, with the CRO in attendance. The General Counsel attends as required to provide a further source of independent input, including on matters which might lead to a Malus determination. The CFO annually confirms to the BRC that the profit share pool can be supported by Macquarie Group's current and forecast capital position and does not limit Macquarie Group's ability to further strengthen its capital base in the future if required.

Engagement with external stakeholders

The Chairman of the Board, the previous BRC Chairman and the current BRC Chair undertook a series of meetings with investors and proxy advisors during the year to communicate our remuneration approach and to hear any concerns raised by the investor community.

They also engaged with APRA during the year during the consultation process for CPS 511.

Independent remuneration review

The BRC has retained Pay Governance as its independent remuneration consultant, for the use of the Board to obtain advice on the appropriateness of Macquarie Group's remuneration framework.

The only service that Pay Governance provides to Macquarie Group is executive compensation consulting to the BRC. Pay Governance has not made any remuneration recommendations, as defined by the *Corporations Act* 2001 (Cth) (the Act). The BRC is responsible for making decisions within the terms of its Charter. Pay Governance's terms of engagement set out their independence from members of Macquarie Group's management. This year, Pay Governance:

- provided information on global remuneration and regulatory trends
- considered alignment with shareholder interests
- compared individual remuneration for Executive KMP where relevant comparator company information was available
- considered Macquarie Group's overall remuneration approach compared to comparator company organisations.

Pay Governance's findings included that:

- the objectives of Macquarie Group's remuneration framework are similar to those cited by other leading global investment banks
- Macquarie Group's remuneration components support its remuneration objectives and principles and are largely consistent with practices at other leading global investment banks, including that performance based remuneration takes risk management into account.

Remuneration Report

Continued

Non-Executive Director remuneration

The Macquarie Board seeks to attract and appoint high-calibre NEDs. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, differ significantly from the arrangements applicable to Executives.

Non-Executive Director remuneration

Non-Executive Director fees are set acknowledging the level required to appropriately remunerate highly qualified NEDs who have the relevant skills and experience to govern as a member of the Board.

The Macquarie Group's NED remuneration framework seeks to remunerate high calibre directors by:

- setting an overall fee that reflects the scale and complexity of the Macquarie Group, including risk management and regulatory responsibilities and the global financial nature of Macquarie's activities
- setting Board and Committee fees to reflect the time commitment required to meet the responsibilities involved in the annual scheduled calendar, taking into account market rates for relevant organisations and market trends
- paying separate fees for additional responsibilities that may arise on an ad hoc basis
- delivering these fees in a form that is not contingent on Macquarie Group's performance
- setting a minimum shareholding requirement to align the interest of NEDs with shareholders.

All NEDs of MGL are also NEDs of MBL. The framework governs the remuneration of NEDs of both MGL and MBL. The MGL and MBL CEOs are not remunerated separately for acting as Executive Voting Directors.

Unlike Macquarie Group executives, NEDs are not granted equity, nor are they eligible to receive profit share payments. There are no termination payments to NEDs on their retirement from office other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions over and above the minimum level of contribution required under applicable legislation.

Macquarie Group's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for this purpose. MGL shareholders approved the current limit ($A5.0 million per annum) at MGL's 2019 Annual General Meeting. The Board ensures that NED remuneration for MGL and MBL taken together does not exceed this shareholder approved maximum amount.

MBL does not have standalone Board committees. The MGL Board Audit Committee and the MGL Board Risk Committee are joint committees of MGL and MBL. The Board Governance and Compliance Committee and Board Remuneration Committee assist both Boards.

Board and Committee fees are reviewed annually.[20]

An internal review of NED fees was completed during the year. The Boards determined, following this review, that Board and Committee fees should remain unchanged.

MBL Annual Director Fees

	Chairman $A	Member $A
Board	267,000	78,000

(20) Macquarie Group has five standing Board Committees. The BAC and BRiC are joint committees of Macquarie Group and Macquarie Bank. The BGCC and BRC assist both Boards. The BNC assists the Macquarie Group Board.

Appendix 1: Key Management Personnel (KMP) for FY2021

All the individuals listed below have been determined to be KMP for FY2021 for the purposes of the Act and as defined by AASB 124 *Related Party Disclosures*. KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of MBL and its controlled entities (together making Executive KMP) and NEDs. MBL's NEDs are required by the Act to be included as KMP for the purposes of disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management.

Name	Position	Term as KMP for FY2021
Executive Voting Directors		
M.J. Reemst	Macquarie Bank CEO	Full year[21]
S.R. Wikramanayake	Macquarie Group CEO	Full year
Non-Executive Directors		
G.R. Banks AO	Independent Director	Ceased to be a member of the Board on 30 July 2020
J.R. Broadbent AC	Independent Director	Full year
G.M. Cairns	Independent Director	Full year[22]
P.M. Coffey	Independent Director	Full year
M.J. Coleman	Independent Director	Full year
D.J. Grady AO	Independent Director	Full year
M.J. Hawker AM	Independent Director	Ceased to be a member of the Board on 30 September 2020
R.J. McGrath	Independent Director	Appointed to the Board effective from 20 January 2021
M. Roche	Independent Director	Appointed to the Board effective from 20 January 2021
G.R. Stevens AC	Independent Director	Full year
N.M. Wakefield Evans	Independent Director	Full year
P.H. Warne	Independent Chairman	Full year
Executives[23]		
A.H. Harvey	CFO, Head of FMG	Full year
N. O'Kane	Head of CGM	Full year
N. Sorbara	COO, Head of COG	Full year
P.C. Upfold	CRO, Head of RMG	Full year
G.C. Ward	Head of BFS	Full year

(21) Will cease to be a member of the Board and the Executive Committee effective 1 July 2021.
(22) Will cease to be a member of the Board effective 7 May 2021.
(23) Except where otherwise indicated, all of the Executives as well as the MBL and MGL CEOs were members of the Executive Committee as at 7 May 2021.

Remuneration Report

Continued

Appendix 2: Executive KMP remuneration disclosure (in accordance with Australian Accounting Standards)

			SHORT-TERM EMPLOYEE BENEFITS		
			Salary (including superannuation)	Performance related remuneration	Total short-term employee benefits
Name	Position	Year	$A	$A	$A
Executive Voting Directors					
M.J. Reemst[24]	Macquarie Bank CEO	**2021**	**620,895**	**1,508,000**	**2,128,895**
		2020	747,758	–	747,758
S.R. Wikramanayake	Macquarie Group CEO	**2021**	**396,677**	**2,143,821**	**2,540,498**
		2020	389,850	–	389,850
Other Executives					
A.H. Harvey	CFO, Head of FMG	**2021**	**337,498**	**1,246,840**	**1,584,338**
		2020	440,178	–	440,178
N. O'Kane	Head of CGM	**2021**	**684,075**	**8,542,273**	**9,226,348**
		2020	475,041	–	475,041
N. Sorbara	COO, Head of COG	**2021**	**514,341**	**1,671,319**	**2,185,660**
		2020	377,673	–	377,673
P.C. Upfold	CRO, Head of RMG	**2021**	**398,426**	**1,351,474**	**1,749,900**
		2020	382,034	–	382,034
G.C. Ward	Head of BFS	**2021**	**771,319**	**3,220,000**	**3,991,319**
		2020	691,682	–	691,682
Total Remuneration - Comparable Executive KMP[25]		**2021**	**3,723,231**	**19,683,727**	**23,406,958**
		2020	3,504,216	–	3,504,216
Former Executives					
G.A. Farrell[26]	Former Co-Head of CAF	**2021**	**–**	**–**	**–**
		2020	286,665	–	286,665
Total Remuneration - Executive KMP (including former executives)		**2021**	**3,723,231**	**19,683,727**	**23,406,958**
		2020	3,790,881	–	3,790,881

(24) Ms Reemst will retire as a member of the Board and Executive Committee effective 1 July 2021. Her FY2021 statutory remuneration of $A7.8 million includes $A5.5 million related to the amortisation of her equity awards. $A3.1 million of this amount represents accelerated amortisation of equity awards. As a result of her intention to retire, the amortisation of her equity awards is being recognised over an accelerated vesting period resulting in further accounting amortisation.
(25) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2021 and FY2020.
(26) Mr Farrell ceased to be a member of the Executive Committee and retired on 1 September 2019.

LONG-TERM EMPLOYEE BENEFITS			SHARE BASED PAYMENTS				
Restricted profit share	Earnings on prior years restricted profit share	Total long-term employee benefits	Equity awards	PSUs	Total share-based payments	Total Remuneration	Percentage of remuneration that consists of PSUs
$A	$A	$A	$A	$A	$A	$A	%
226,200	**(15,730)**	**210,470**	**4,874,638**	**584,132**	**5,458,770**	**7,798,135**	**7%**
397,878	143,063	540,941	2,151,589	1,362,480	3,514,069	4,802,768	28%
857,528	**(385,592)**	**471,936**	**5,111,530**	**452,187**	**5,563,717**	**8,576,151**	**5%**
811,994	1,469,399	2,281,393	3,238,676	1,088,813	4,327,489	6,998,732	16%
187,026	**(10,540)**	**176,486**	**1,751,581**	**516,769**	**2,268,350**	**4,029,174**	**13%**
329,672	114,646	444,318	1,736,121	602,483	2,338,604	3,223,100	19%
1,281,341	**(29,128)**	**1,252,213**	**9,250,782**	**1,073,559**	**10,324,341**	**20,802,902**	**5%**
1,854,676	563,959	2,418,635	9,083,550	1,472,193	10,555,743	13,449,419	11%
250,698	**(15,067)**	**235,631**	**2,332,022**	**203,896**	**2,535,918**	**4,957,209**	**4%**
281,160	99,109	380,269	1,449,372	673,957	2,123,329	2,881,271	23%
202,721	**(14,710)**	**188,011**	**1,979,352**	**164,876**	**2,144,228**	**4,082,139**	**4%**
284,544	109,598	394,142	1,597,901	682,069	2,279,970	3,056,146	22%
966,000	**(53,515)**	**912,485**	**4,309,959**	**303,992**	**4,613,951**	**9,517,755**	**3%**
1,603,737	540,104	2,143,841	3,810,167	1,907,720	5,717,887	8,553,410	22%
3,971,514	**(524,282)**	**3,447,232**	**29,609,864**	**3,299,411**	**32,909,275**	**59,763,465**	
5,563,661	3,039,878	8,603,539	23,067,376	7,789,715	30,857,091	42,964,846	
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	110,440	110,440	4,085,998	1,327,779	5,413,777	5,810,882	23%
3,971,514	**(524,282)**	**3,447,232**	**29,609,864**	**3,299,411**	**32,909,275**	**59,763,465**	
5,563,661	3,150,318	8,713,979	27,153,374	9,117,494	36,270,868	48,775,728	

Remuneration Report

Continued

Additional information regarding the statutory remuneration disclosures set out in this Appendix

The remuneration disclosures set out in this Appendix have been prepared in accordance with Australian Accounting Standards.

Under the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2021 and 31 March 2020 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

The following information provides more detail regarding some of the column headings in this Appendix:

(1) *Short-term employee benefits:*

(a) *Salary*: includes salary, superannuation, any accrual for long service leave and other benefits

(b) *Performance-related remuneration*: this represents the cash portion of each person's profit share allocation for the reporting period as an Executive KMP.

(2) *Long-term employee benefits:*

(a) *Restricted profit share*: this represents the amount of retained profit share awarded for the current period that is deferred to future periods and held as a notional investment in Macquarie-managed fund equity (DPS Plan)

(b) *Earnings on prior years restricted profit share*: Profit share amounts retained under the DPS Plan are notionally invested in Macquarie-managed funds, providing Executive Directors with an economic exposure to the underlying investments. Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. The notional returns are calculated based on Total Shareholder Return. Where these amounts are positive, they may be paid to Executive Directors and are included in these remuneration disclosures as part of 'Earnings on prior years restricted profit share'. If there is a notional loss, this loss will be offset against any future notional income until the loss is completely offset and is reported as a negative amount in the same column. These earnings reflect the investment performance of the assets in which prior years retained amounts have been notionally invested. Their inclusion in the individual remuneration disclosures on the previous pages may, therefore, cause distortions when year on year remuneration trends are examined. They do not reflect remuneration review decisions made about the individual's current year performance.

(3) *Share-based payments:*

(a) *Equity awards including shares*: This represents the current year expense for retained profit share that is invested in MGL ordinary shares under the MEREP as described on pages 37 to 39. This is recognised as an expense over the respective vesting periods, or service period if shorter, as described on pages 37 to 39 and includes amounts relating to prior years equity awards that have been previously disclosed. Equity awards in respect of FY2021 performance will be granted during FY2022; however, Macquarie Group begins recognising an expense for these awards (based on an initial estimate) from 1 April 2020. The expense is estimated using the price of MGL ordinary shares as at 31 March 2021 and the number of equity awards expected to vest. In the following financial year, Macquarie Group will adjust the accumulated expense recognised for the final determination of the accounting fair value for each equity award when granted and will use this validation for recognising the expense over the remaining vesting period

(b) *PSUs*: This represents the current year expense for PSUs that is recognised over the vesting period as described on pages 40 to 42. This includes amounts relating to prior years PSU awards. PSU awards in respect of FY2021 will be granted during FY2022; however, Macquarie Group begins recognising an expense for these awards (based on an initial estimate) from 1 April 2020. The expense is estimated using the price of MGL ordinary shares as at 31 March 2021 and the number of PSUs expected to vest. The estimate also incorporates an interest rate to maturity of 0.44% per annum, expected vesting date of 1 July 2025, and a dividend yield of 3.96% per annum. In the following financial year, Macquarie Group will adjust the accumulated expense recognised for the final determination of the accounting fair value for each PSU when granted and will use this validation for recognising the expense over the remaining vesting period. Performance hurdles attached to the PSUs allow for PSUs to become exercisable upon vesting only when the relevant performance hurdles are met. The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

Appendix 3: Non-Executive Director remuneration

The remuneration arrangements for all the persons listed below as NEDs are described on page 50 of the Remuneration Report. The fees shown include fees paid as members of the MBL Board.

	Year	Fees $A	Other benefits[27] $A	Total Compensation $A
G.R. Banks[28]	**2021**	**26,000**	**–**	**26,000**
	2020	78,000	–	78,000
J.R. Broadbent	**2021**	**78,000**	**–**	**78,000**
	2020	78,000	–	78,000
G.M. Cairns	**2021**	**78,000**	**–**	**78,000**
	2020	78,000	–	78,000
P.M. Coffey	**2021**	**78,000**	**–**	**78,000**
	2020	78,000	–	78,000
M.J. Coleman	**2021**	**78,000**	**2,000**	**80,000**
	2020	78,000	12,000	90,000
D.J. Grady	**2021**	**78,000**	**–**	**78,000**
	2020	78,000	–	78,000
M.J. Hawker[29]	**2021**	**39,000**	**–**	**39,000**
	2020	78,000	–	78,000
R.J. McGrath[30]	**2021**	**15,516**	**–**	**15,516**
	2020	–	–	–
M. Roche[31]	**2021**	**15,516**	**–**	**15,516**
	2020	–	–	–
G.R. Stevens	**2021**	**78,000**	**–**	**78,000**
	2020	78,000	–	78,000
N.M. Wakefield Evans	**2021**	**78,000**	**–**	**78,000**
	2020	78,000	–	78,000
P.H. Warne	**2021**	**267,000**	**–**	**267,000**
	2020	267,000	–	267,000
Total Remuneration – Non-Executive KMP	**2021**	**909,032**	**2,000**	**911,032**
	2020	969,000	12,000	981,000

(27) Other benefits for NEDs include due diligence fees paid to Mr Coleman of $A2,000 in FY2021 (FY2020: $A12,000).
(28) Mr Banks ceased to be a member of the MGL and MBL Boards on 30 July 2020.
(29) Mr Hawker ceased to be a member of the MGL and MBL Boards on 30 September 2020.
(30) Ms McGrath was appointed to the MGL and MBL Boards as an Independent Voting Director, effective from 20 January 2021.
(31) Mr Roche was appointed to the MGL and MBL Boards as an Independent Voting Director, effective from 20 January 2021.

Appendix 4: Loan disclosures

Loans to Key Management Personnel and their related parties

Details of loans provided by Macquarie Group to KMP and their related parties are disclosed in the following table.

Name and Position	Balance as at 1 April 2020[32] $A'000	Interest charged $A'000	Write downs $A'000	Balance as at 31 March 2021[33] $A'000	Highest balance during the year $A'000
Non-Executive Directors					
D.J. Grady (related party)	479	18	0	468	479
M.J. Hawker (related party)	560	12	0	504	659
N.M. Wakefield Evans (related party)	4,960	77	0	4,800	4,960
P.H. Warne (related party)	470	10	0	456	470
Executives					
A.H. Harvey	5,000	15	0	5,000	5,000
Aggregate of KMP and related party loans[34]	11,469	135	0	11,228	11,619

This Remuneration Report has been prepared in accordance with the Act. The Remuneration Report contains disclosures as required by AASB 124 *Related Party Disclosures* as permitted by Corporations Regulation 2M.3.03 *Prescribed details*.

Throughout this Remuneration Report, financial information for Macquarie Group relating to the years ended 31 March 2017 through to 31 March 2021 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(32) Or date of appointment if later.
(33) Or date of ceasing to be a KMP if earlier.
(34) In addition to the loans disclosed above, a related party of a KMP had a car loan provided by Macquarie for a period of the year which is included in relevant totals. All loans provided by Macquarie to KMP are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

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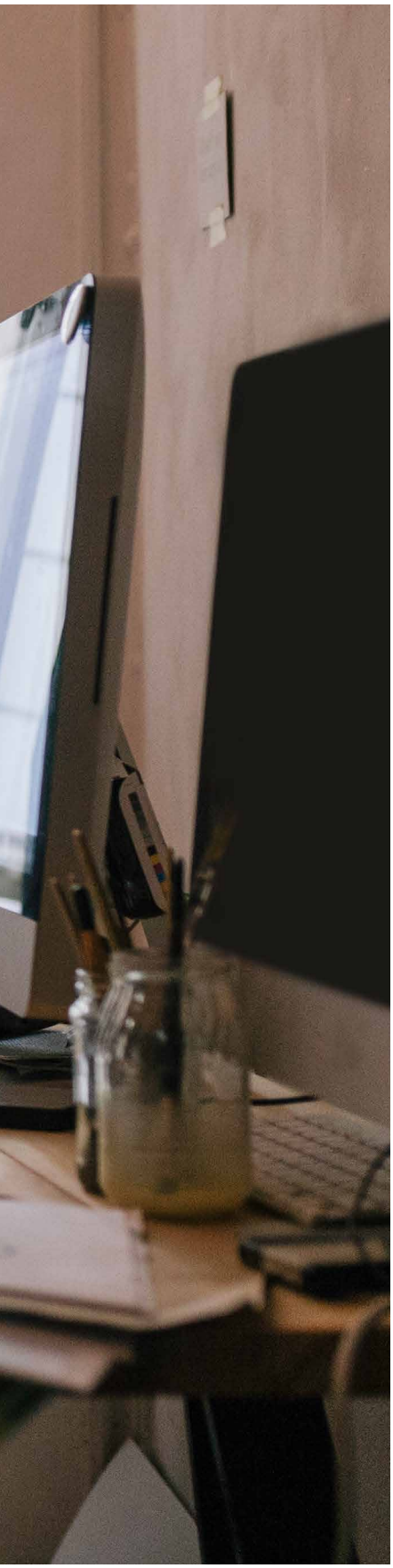

03

Financial Report

A better banking experience, every step of the way

As business conditions continue to evolve and change, Macquarie clients can have confidence knowing they will have uninterrupted access to their banking via the online and mobile platforms.

With Macquarie's award-winning app and leading digital tools, clients can securely manage their finances anytime, anywhere.

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The Financial Report was authorised for issue by the Board of Directors on 7 May 2021.
The Board of Directors has the power to amend and reissue the Financial Report.

Income statements

For the financial year ended 31 March 2021

	Notes	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Interest and similar income					
Effective interest rate method	2	**3,101**	3,777	**2,489**	3,267
Other	2	**261**	686	**222**	512
Interest and similar expense	2	**(1,273)**	(2,423)	**(1,310)**	(2,540)
Net interest income		**2,089**	2,040	**1,401**	1,239
Fee and commission income	2	**1,326**	1,185	**990**	904
Net trading income	2	**3,315**	2,615	**2,020**	1,250
Net operating lease income	2	**395**	371	**130**	114
Share of net profits from associates and joint ventures	2	**41**	27	**–**	–
Net credit impairment charges	2	**(287)**	(451)	**(132)**	(220)
Other impairment (charges)/reversal	2	**(46)**	(21)	**44**	30
Other operating income and charges	2	**162**	406	**1,765**	892
Net operating income		**6,995**	6,172	**6,218**	4,209
Employment expenses	2	**(2,103)**	(1,347)	**(1,008)**	(970)
Brokerage, commission and trading-related fee expenses	2	**(525)**	(596)	**(662)**	(586)
Occupancy expenses	2	**(150)**	(104)	**(91)**	(82)
Non-salary technology expenses	2	**(327)**	(170)	**(138)**	(132)
Other operating expenses	2	**(1,592)**	(2,060)	**(1,730)**	(1,642)
Total operating expenses		**(4,697)**	(4,277)	**(3,629)**	(3,412)
Operating profit from continuing operations before income tax		**2,298**	1,895	**2,589**	797
Income tax expense	4	**(622)**	(586)	**(166)**	(324)
Profit from continuing operations after income tax		**1,676**	1,309	**2,423**	473
Profit from discontinued operations after income tax	41	**–**	164	**–**	164
Profit from continuing and discontinued operations after income tax		**1,676**	1,473	**2,423**	637
Profit attributable to equity holders of Macquarie Bank Limited		**1,676**	1,473	**2,423**	637
Distribution paid or provided for on:					
Macquarie Income Securities (MIS)	5	**–**	(12)	**–**	–
Profit attributable to the ordinary equity holder of Macquarie Bank Limited		**1,676**	1,461	**2,423**	637
From continuing operations		**1,676**	1,297	**2,423**	473
From discontinued operations		**–**	164	**–**	164

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

Statements of comprehensive income

For the financial year ended 31 March 2021

	Notes	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Profit from continuing and discontinued operations after income tax		**1,676**	1,473	**2,423**	637
Other comprehensive (loss)/income[1]:					
Movements in items that may be subsequently reclassified to the income statement:					
Fair value through other comprehensive income (FVOCI) reserve:					
Revaluation movement	27	**71**	(46)	**46**	(11)
Changes in allowance for expected credit losses	27	**(3)**	6	**1**	–
Cash flow hedges:					
Revaluation movement	27	**7**	(93)	**(20)**	(29)
Transferred to income statement	27	**39**	44	**27**	12
Share of other comprehensive gains/(losses) of associates and joint ventures	27	**1**	(2)	**–**	–
Foreign exchange movements on translation and hedge accounting of foreign operations	27	**(800)**	566	**(6)**	13
Movements in items that will not be subsequently reclassified to the income statement:					
Fair value (loss)/gain attributable to own credit risk on debt that is designated at fair value through profit or loss (DFVTPL)	27	**(79)**	50	**(79)**	50
Total other comprehensive (loss)/income from continuing operations		**(764)**	525	**(31)**	35
Total comprehensive income		**912**	1,998	**2,392**	672
Total comprehensive income attributable to Macquarie Income Securities holders		**–**	(12)	**–**	–
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited					
From continuing operations		**912**	1,822	**2,392**	508
From discontinued operations	41	**–**	164	**–**	164
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited		**912**	1,986	**2,392**	672

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

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

Statements of financial position

As at 31 March 2021

	Notes	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Assets					
Cash and bank balances		**15,966**	7,847	**14,012**	6,037
Cash collateral on securities borrowed and reverse repurchase agreements		**34,555**	37,708	**31,034**	36,034
Trading assets	6	**21,212**	16,251	**19,128**	14,499
Margin money and settlement assets	7	**8,302**	12,183	**6,417**	10,015
Derivative assets	8	**20,552**	44,845	**19,328**	41,604
Financial investments	9	**7,999**	7,484	**7,916**	7,366
Held for sale and other assets	10	**3,066**	3,267	**1,622**	2,266
Loan assets	11	**98,992**	87,719	**83,676**	64,975
Due from subsidiaries	29	**–**	–	**21,500**	27,040
Due from related body corporate entities	29	**2,154**	5,278	**1,645**	5,105
Interests in associates and joint ventures	13	**281**	251	**40**	42
Property, plant and equipment and right-of-use assets	14	**2,797**	2,598	**672**	819
Intangible assets	15	**146**	185	**55**	78
Investments in subsidiaries	16	**–**	–	**6,618**	5,592
Deferred tax assets	17	**826**	520	**493**	470
Total assets		**216,848**	226,136	**214,156**	221,942
Liabilities					
Cash collateral on securities lent and repurchase agreements		**4,542**	2,322	**4,542**	2,322
Trading liabilities	18	**6,134**	5,363	**6,137**	5,395
Margin money and settlement liabilities	19	**16,251**	19,052	**13,632**	16,662
Derivative liabilities	20	**17,475**	37,823	**15,732**	35,973
Deposits	21	**84,140**	67,253	**83,994**	67,186
Other liabilities	22	**4,350**	2,946	**2,054**	1,774
Borrowings		**2,473**	3,047	**1,967**	2,304
Due to subsidiaries	29	**–**	–	**16,532**	18,249
Due to related body corporate entities	29	**15,901**	22,115	**15,684**	22,013
Debt issued	23	**44,668**	46,922	**34,764**	34,235
Deferred tax liabilities	17	**36**	69	**–**	21
Total liabilities excluding loan capital		**195,970**	206,912	**195,038**	206,134
Loan capital	25	**6,804**	4,997	**6,804**	4,997
Total liabilities		**202,774**	211,909	**201,842**	211,131
Net assets		**14,074**	14,227	**12,314**	10,811
Equity					
Contributed equity	26	**8,523**	8,899	**8,400**	8,789
Reserves	27	**306**	991	**(10)**	(58)
Retained earnings	27	**5,245**	4,336	**3,924**	2,080
Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited		**14,074**	14,226	**12,314**	10,811
Non-controlling interests	27	**–**	1	**–**	–
Total equity		**14,074**	14,227	**12,314**	10,811

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

Statements of change in equity

For the financial year ended 31 March 2021

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							CONSOLIDATED
Balance as at 1 Apr 2019		7,898	516	2,824	11,238	2	11,240
Profit from continuing and discontinued operations after income tax		–	–	1,473	1,473	–	1,473
Other comprehensive income, net of tax		–	475	50	525	–	525
Total comprehensive income		–	475	1,523	1,998	–	1,998
Transactions with equity holders:							
Contributions of ordinary equity	26	1,000	–	–	1,000	–	1,000
Dividends and distributions paid or provided for	5	–	–	(12)	(12)	–	(12)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	1	1	(1)	–
Other equity movements:							
Contribution from ultimate parent entity[1] in relation to share-based payments	26	1	–	–	1	–	1
		1,001	–	(11)	990	(1)	989
Balance as at 31 Mar 2020		8,899	991	4,336	14,226	1	14,227
Profit from continuing operations after income tax		**–**	**–**	**1,676**	**1,676**	**–**	**1,676**
Other comprehensive loss, net of tax		**–**	**(685)**	**(79)**	**(764)**	**–**	**(764)**
Total comprehensive (loss)/income		**–**	**(685)**	**1,597**	**912**	**–**	**912**
Transactions with equity holders:							
Redemption of Macquarie Income Securities	26	**(400)**	**–**	**–**	**(400)**	**–**	**(400)**
Dividends and distributions paid or provided for	5	**–**	**–**	**(500)**	**(500)**	**–**	**(500)**
Change attributable to group restructure	27	**–**	**–**	**(189)**	**(189)**	**–**	**(189)**
Non-controlling interests:							
Changes in non-controlling ownership interests		**–**	**–**	**1**	**1**	**(1)**	**–**
Other equity movements:							
Contribution from ultimate parent entity[1] in relation to share-based payments	26	**24**	**–**	**–**	**24**	**–**	**24**
		(376)	**–**	**(688)**	**(1,064)**	**(1)**	**(1,065)**
Balance as at 31 Mar 2021		**8,523**	**306**	**5,245**	**14,074**	**–**	**14,074**

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

(1) Macquarie Group Limited.

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
					COMPANY
Balance as at 1 Apr 2019		7,785	(43)	1,393	9,135
Profit from continuing and discontinued operations after income tax		–	–	637	637
Other comprehensive (loss)/income, net of tax		–	(15)	50	35
Total comprehensive (loss)/income		–	(15)	687	672
Transactions with equity holders:					
Contributions of ordinary equity	26	1,000	–	–	1,000
Other equity movements:					
Contributions from ultimate parent entity[1] in relation to share-based payments	26	4	–	–	4
		1,004	–	–	1,004
Balance as at 31 Mar 2020		8,789	(58)	2,080	10,811
Profit from continuing operations after income tax		**–**	**–**	**2,423**	**2,423**
Other comprehensive (loss)/income, net of tax		**–**	**48**	**(79)**	**(31)**
Total comprehensive income		**–**	**48**	**2,344**	**2,392**
Transactions with equity holders:					
Redemption of Macquarie Income Securities	26	**(400)**	**–**	**–**	**(400)**
Dividends paid	5	**–**	**–**	**(500)**	**(500)**
Other equity movements:					
Contributions from ultimate parent entity[1] in relation to share-based payments	26	**11**	**–**		**11**
		(389)	**–**	**(500)**	**(889)**
Balance as at 31 Mar 2021		**8,400**	**(10)**	**3,924**	**12,314**

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

(1) Macquarie Group Limited.

Statements of cash flows

For the financial year ended 31 March 2021

	Notes	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Cash flows generated from operating activities					
Interest income and expense:					
Received		**3,370**	4,482	**2,691**	3,804
Paid		**(1,397)**	(2,467)	**(1,430)**	(2,579)
Fees, commissions and other income and charges:					
Received		**1,455**	1,252	**1,325**	1,262
Paid		**(522)**	(630)	**(650)**	(619)
Operating lease income received		**933**	1,196	**398**	617
Dividends and distributions received		**5**	4	**1,369**	134
Operating expenses paid:					
Employment expenses		**(1,751)**	(1,385)	**(932)**	(978)
Other operating expenses		**(2,005)**	(2,544)	**(1,924)**	(2,074)
Income tax paid		**(212)**	(278)	**(45)**	(1)
Changes in operating assets:					
Loan assets and balances with related body corporate entities		**(13,629)**	(13,242)	**(17,475)**	(5,170)
Assets under operating lease		**(407)**	(516)	**71**	(25)
Other assets		**(596)**	(454)	**307**	(160)
Trading assets and liabilities, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities), and trading income		**(1,579)**	3,746	**(4,119)**	939
Changes in operating liabilities:					
Deposits		**17,205**	10,916	**17,118**	10,939
Borrowings		**(164)**	1,516	**(36)**	1,276
Debt issued		**2,321**	8,573	**6,425**	2,935
Other liabilities		**18**	(12)	**(25)**	(17)
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		**30**	426	**–**	–
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		**(28)**	(422)	**–**	–
Net cash flows generated from operating activities	28	**3,047**	10,161	**3,068**	10,283
Cash flows utilised in investing activities					
Net proceeds/(payments) for financial investments		**204**	(1,363)	**153**	(1,325)
Associates, joint ventures, subsidiaries and businesses:					
Proceeds from the disposal of discontinued operations, net of cash deconsolidated			–	**–**	102
Proceeds from the disposal or capital return, net of cash deconsolidated		**13**	273	**415**	436
Payments for the acquisition of or additional capital contribution, net of cash acquired		**(324)**	(29)	**(1,637)**	(368)
Proceeds from the disposal of property, plant and equipment, right-of-use assets and intangible assets		**20**	**–**	**–**	**–**
Payment for the acquisition of property, plant and equipment, right-of-use assets and intangible assets		**(153)**	(71)	**(133)**	(68)
Net cash flows utilised in investing activities		**(240)**	(1,190)	**(1,202)**	(1,223)
Cash flows generated from/(utilised in) financing activities					
Issuance of ordinary shares		**–**	1,000	**–**	1,000
Redemption of Macquarie Income Securities		**(400)**	–	**(400)**	–
Payment to non-controlling interests		**(1)**	(1)	**–**	–
Loan capital:					
Issuance		**3,694**	–	**3,694**	–
Redemption		**(740)**	(429)	**(740)**	(429)
Dividends and distributions paid		**(503)**	(573)	**(500)**	(560)
Net cash flows generated from/(utilised in) financing activities		**2,050**	(3)	**2,054**	11
Net increase in cash and cash equivalents		**4,857**	8,968	**3,920**	9,071
Cash and cash equivalents at the beginning of the financial year	28	**27,290**	16,743	**26,192**	15,795
Effect of exchange rate movement on cash and cash equivalents		**(2,829)**	1,579	**(2,463)**	1,326
Cash and cash equivalents at the end of the financial year	28	**29,318**	27,290	**27,649**	26,192

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

Notes to the financial statements

For the financial year ended 31 March 2021

Note 1
Basis of preparation

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with *Australian Accounting Standards* and the *Corporations Act 2001* (Cth). Macquarie Bank Limited is a for-profit Company for the purposes of preparing this Financial Report.

The principal accounting policies adopted in the preparation of this Financial Report are set out below. These policies have been consistently applied to all the financial years presented and are applicable to both the Consolidated Entity (Macquarie Bank Limited and its subsidiaries) as well as to the Company (Macquarie Bank Limited), unless otherwise stated.

(i) Compliance with IFRS as issued by the IASB

Compliance with Australian Accounting Standards ensures that this Financial Report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this Financial Report is compliant with IFRS.

(ii) Basis of measurement

This Financial Report has been prepared under the historical cost convention except for the following items, as disclosed in the respective accounting policy:

- financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL); financial assets classified as fair value through other comprehensive income (FVOCI) and financial instruments that have been designated as FVTPL (DFVTPL)
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships
- non-current assets and disposal groups that have been classified as held for sale and where a disposal group has been impaired to its fair value less costs to sell
- commodity inventories that are measured at fair value less costs to sell in accordance with the broker-trader exemption.

(iii) Critical accounting estimates and significant judgements

The preparation of this Financial Report in compliance with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Consolidated Entity and the consolidated Financial Report such as:

- determining the appropriate business model for a group of financial assets which includes determining the level at which the business model condition is applied and whether past or expected sales activity is consistent with a held to collect business model (Note 44(vii))
- assessing whether the cash flows generated by a financial asset constitute solely payment of principal and interest (SPPI) may require the application of judgement, particularly for certain subordinated or non-recourse positions, and in the determination of whether compensation for early termination of a contract is reasonable (Note 44(vii))
- the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss, including the determination of significant increase in credit risk (SICR), forecasts of economic conditions and the weightings assigned thereto (Note 44(xxii) and Note 12)
- timing and amount of impairment of interests in associates and joint ventures and investments in subsidiaries, including the reversal thereof (Note 44(i), Note 44(xxii), Note 13 and Note 16)
- fair value of assets and liabilities including the determination of non-recurring fair values and accounting for day 1 profits or losses for financial instruments (Note 44(vii), Note 44(x) and Note 37)
- determination of significant influence over associates, joint control over arrangements and control over subsidiaries, including the assessment of whether certain rights are protective or substantive in nature, whether these rights are held in the capacity as agent or principal, and whether the level of involvement in an investee's relevant activities is sufficient to significantly affect the returns generated (Note 44(i))
- recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities can require significant judgement, particularly where the recoverability of such tax balances relies on the estimation of future taxable profits and management's determination of the likelihood that uncertain tax positions will be accepted by the relevant taxation authority (Note 44(vi), Note 4 and Note 17)
- recognition and measurement of provisions related to actual and potential claims and the determination of contingent liabilities (Note 44(xvii) and Note 32)
- the application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 44(x) and Note 34)
- the determination of whether an asset or group of assets is held for sale (and/or constitutes a discontinued operation of the Consolidated Entity) (Note 44 (xvii)
- the timing of derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 44(i)).

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

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

Note 1
Basis of preparation continued

(iv) Coronavirus (COVID-19) impact

The Novel Coronavirus (COVID-19) has had significant impacts on global economies and equity, debt and commodity markets, led to several changes in the economy and resulted in several support actions by financial markets, governments, and regulators. The impact of COVID-19 continues to evolve and, where applicable, 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 these financial statements is consistent with the processes disclosed and applied in its 31 March 2020 and 30 September 2020 financial statements. Those processes identified that expected credit losses (Note 12 *Expected credit losses*) required continued judgement as a result of the impact of COVID-19.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, actual outcomes may differ to those forecasted which may impact the accounting estimates included in these financial statements. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

The impact of COVID-19 has been discussed further in each of the related notes.

(v) New Australian Accounting Standards and amendments to Australian Accounting Standards that are either effective in the current financial year or have been early adopted

(i) AASB Revised Conceptual Framework for Financial Reporting

The revised AASB Framework was effective for the Consolidated Entity's annual financial reporting period beginning on 1 April 2020.

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

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

(ii) AASB 2020-8 *Interest Rate Benchmark Reform Phase 2*

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

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

The nature of the reforms varies across different jurisdictions. For example, in Australia the existing IBOR benchmark (BBSW) has undergone reform and is expected to continue for the foreseeable future alongside the nominated ARR for AUD which is AONIA (AUD Overnight Index Average). By contrast, due to a lack of observable transactions to support robust LIBOR reference rates, LIBOR publication is expected to cease. A transition away from LIBOR is therefore necessary. The cessation date for all tenors of GBP, CHF, EUR, JPY LIBOR and the one week and two-month tenors for USD LIBOR is 31 December 2021. The cessation date for the remaining USD LIBOR tenors is 30 June 2023.

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

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

Note 1
Basis of preparation continued

(v) New Australian Accounting Standards and amendments to Australian Accounting Standards that are either effective in the current financial year or have been early adopted continued

Impacts on financial reporting

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

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

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

The amendments, which are mandatorily effective for annual reporting periods beginning on or after 1 January 2021, also require additional quantitative and qualitative disclosures. The Consolidated Entity has early adopted the amendments for its annual financial statements for the year ended 31 March 2021.

(vi) Other amendments made to existing standards

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 2				
Operating profit from continuing operations before income tax				
Net interest income				
Interest and similar income				
Effective interest rate method[1]	**3,101**	3,777	**2,489**	3,267
Other	**261**	686	**222**	512
Interest and similar expense[2]	**(1,273)**	(2,423)	**(1,310)**	(2,540)
Net interest income	**2,089**	2,040	**1,401**	1,239
Fee and commission income				
Brokerage and other trading-related fee income	**360**	501	**259**	386
Portfolio administration fees	**216**	233	**55**	33
Lending fees	**129**	149	**163**	209
Service fee from related body corporates[3]	**365**	–	**–**	–
Other fee and commission income	**256**	302	**513**	276
Total fee and commission income	**1,326**	1,185	**990**	904
Net trading income[4]				
Commodities[5],[6]	**2,439**	1,857	**1,036**	821
Equities	**341**	410	**237**	290
Credit, interest rate, foreign exchange and other products	**535**	348	**747**	139
Net trading income	**3,315**	2,615	**2,020**	1,250
Net operating lease income				
Rental income	**846**	1,197	**321**	671
Depreciation and other operating lease-related charges (Note 14)	**(451)**	(826)	**(191)**	(557)
Net operating lease income	**395**	371	**130**	114
Share of net profits from associates and joint ventures	**41**	27	**–**	–

(1) Includes interest income of $3,032 million (2020: $3,674 million) in the Consolidated Entity and $2,420 million (2020: $1,654 million) in the Company on financial assets measured at amortised cost and $69 million (2020: $103 million) in the Consolidated Entity and $69 million (2020: $1,613 million) in the Company on financial assets measured at FVOCI. Following an assessment of the Company's business model, certain loan assets were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI). Refer to Note 36 *Measurement categories of financial instruments.*

(2) Includes interest expense on financial liabilities measured at amortised cost calculated using the effective interest rate method of $1,242 million (2020: $2,249 million) in the Consolidated Entity and $1,284 million (2020: $2,401 million) in the Company.

(3) Represents fee and service income earned from the Non-Bank Group by the service entities acquired from MGL during the year. For details, refer to Note 42 *Acquisition and disposals of subsidiaries and businesses.*

(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships, fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk and foreign currency gains and losses on foreign currency-denominated monetary assets and liabilities. Refer to Note 44(x) *Derivative instruments and hedging activities.*

(5) Includes $485 million (2020: $492 million) in the Consolidated Entity and $126 million (2020: $51 million) in the Company for transportation, storage and certain other trading related costs.

(6) Includes $11 million (2020: $15 million) depreciation on right-of-use (ROU) assets held for trading-related business.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m

Note 2
Operating profit from continuing operations before income tax continued

Credit and other impairment (charges)/reversal				
Credit impairment (charges)/reversal				
Loan assets	**(196)**	(325)	**(110)**	(148)
Margin money and settlement assets	**(29)**	(66)	**1**	(28)
Financial investments, other assets, undrawn commitments and financial guarantees	**(64)**	(72)	**(23)**	(49)
Gross credit impairment charges	**(289)**	(463)	**(132)**	(225)
Recovery of loans previously written off	**2**	12	**–**	5
Net credit impairment charges	**(287)**	(451)	**(132)**	(220)
Other impairment (charges)/reversal				
Interests in associates and joint ventures	**(24)**	(7)	**(2)**	(5)
Intangible and other non-financial assets	**(22)**	(14)	**(14)**	(11)
Investments in subsidiaries	**–**	–	**60**	46
Total other impairment (charges)/reversal	**(46)**	(21)	**44**	30
Total credit and other impairment charges	**(333)**	(472)	**(88)**	(190)
Other operating income and charges				
Investment income				
Net gain/(loss) on:				
Equity and debt investments	**100**	9	**67**	134
Interests in associates and joint ventures	**1**	18	**–**	13
Non-financial assets	**16**	3	**11**	(6)
Disposal of businesses and subsidiaries	**8**	241	**9**	185
Dividends from subsidiaries	**–**	–	**1,369**	131
Total investment income	**125**	271	**1,456**	457
Other income and charges	**37**	135	**309**	435
Total other operating income and charges	**162**	406	**1,765**	892
Net operating income	**6,995**	6,172	**6,218**	4,209

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 2				
Operating profit from continuing operations before income tax continued				
Employment expenses				
Salary and related costs including commissions, superannuation and performance-related profit share	**(1,875)**	(1,154)	**(893)**	(841)
Share-based payments	**(206)**	(192)	**(97)**	(129)
Provision for long service leave and annual leave	**(22)**	(1)	**(18)**	–
Total employment expenses	**(2,103)**	(1,347)	**(1,008)**	(970)
Brokerage, commission and trading-related fee expenses				
Brokerage and other trading-related fee expenses	**(457)**	(530)	**(338)**	(390)
Other fee and commission expenses	**(68)**	(66)	**(324)**	(196)
Total brokerage, commission and trading-related fee expenses	**(525)**	(596)	**(662)**	(586)
Occupancy expenses				
Lease and other occupancy expenses[1]	**(134)**	(100)	**(88)**	(79)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements (Note 14)	**(16)**	(4)	**(3)**	(3)
Total occupancy expenses	**(150)**	(104)	**(91)**	(82)
Non-salary technology expenses				
Information services	**(92)**	(83)	**(58)**	(61)
Depreciation on own use assets: equipment (Note 14)	**(10)**	(4)	**(4)**	(3)
Service provider and other non-salary technology expenses	**(225)**	(83)	**(76)**	(68)
Total non-salary technology expenses	**(327)**	(170)	**(138)**	(132)
Other operating expenses				
Service cost recoveries by related entities	**(1,108)**	(1,643)	**(1,404)**	(1,344)
Professional fees	**(178)**	(145)	**(111)**	(104)
Indirect and other taxes	**(86)**	(78)	**(69)**	(57)
Audit fees	**(28)**	(22)	**(18)**	(11)
Amortisation of intangible assets	**(22)**	(20)	**(19)**	(16)
Advertising and promotional expenses	**(26)**	(19)	**(22)**	(16)
Communication expenses	**(12)**	(11)	**(8)**	(7)
Travel and entertainment expenses	**(6)**	(41)	**(4)**	(27)
Other expenses	**(126)**	(81)	**(75)**	(60)
Total other operating expenses	**(1,592)**	(2,060)	**(1,730)**	(1,642)
Total operating expenses	**(4,697)**	(4,277)	**(3,629)**	(3,412)
Operating profit from continuing operations before income tax	**2,298**	1,895	**2,589**	797

(1) Includes $37 million (2020: $5 million) of depreciation on ROU assets relating to property leases.

Note 3
Segment reporting

(i) Operating segments

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

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

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

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

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

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

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

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

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

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

Internal funding arrangements

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

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

Deposits are a funding source for the Bank Group. The value of deposits that the Bank Group generates is recognised within Net interest and trading income for segment reporting purposes.

Transactions between Operating Segments

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

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

Accounting for derivatives that hedge interest rate risk

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

(1) Includes general plant and equipment.

Note 3
Segment reporting continued

(i) Operating segments continued

Central Service Groups

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

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

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

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

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

Please refer to Note 42 *Acquisition and disposals of subsidiaries and businesses* for additional information.

Performance-related profit share and share-based payments expense

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

Income tax

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

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

Reportable segment assets

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

Note 3
Segment reporting continued

(i) Operating segments continued

	Banking and Financial Services $m	Commodities and Global Markets $m	Corporate[1] $m	Total $m
				CONSOLIDATED 2021
Net interest and trading income	**1,746**	**3,576**	**82**	**5,404**
Fee and commission income	**416**	**447**	**463**	**1,326**
Net operating lease income	**–**	**384**	**11**	**395**
Share of net (losses)/profits of associates and joint ventures	**(3)**	**44**	**–**	**41**
Credit and other impairment (charges)/reversal	**(115)**	**(240)**	**22**	**(333)**
Other operating income and charges	**30**	**96**	**36**	**162**
Internal management revenue/(charges)	**1**	**(3)**	**2**	**–**
Net operating income	**2,075**	**4,304**	**616**	**6,995**
Total operating expenses	**(1,306)**	**(1,880)**	**(1,511)**	**(4,697)**
Operating profit/(loss) before income tax	**769**	**2,424**	**(895)**	**2,298**
Income tax expense	**–**	**–**	**(622)**	**(622)**
Operating profit/(loss) after income tax	**769**	**2,424**	**(1,517)**	**1,676**
Net profit/(loss) attributable to the ordinary equity holder from continuing operations	**769**	**2,424**	**(1,517)**	**1,676**
Reportable segment assets	**90,227**	**94,668**	**31,953**	**216,848**
				CONSOLIDATED 2020
Net interest and trading income	1,728	2,933	(6)	4,655
Fee and commission income	441	511	233	1,185
Net operating lease income	–	360	11	371
Share of net profits/(losses) of associates and joint ventures	3	25	(1)	27
Credit and other impairment charges	(149)	(238)	(85)	(472)
Other operating income and charges	9	75	322	406
Internal management revenue/(charges)	2	24	(26)	–
Net operating income	2,034	3,690	448	6,172
Total operating expenses	(1,267)	(1,870)	(1,140)	(4,277)
Operating profit/(loss) before income tax	767	1,820	(692)	1,895
Income tax expense	–	–	(586)	(586)
Operating profit/(loss) after income tax	767	1,820	(1,278)	1,309
Distributions paid or provided for on MIS	–	–	(12)	(12)
Net profit/(loss) attributable to the ordinary equity holder from continuing operations	767	1,820	(1,290)	1,297
Reportable segment assets	76,776	126,224	23,136	226,136

(1) The Corporate segment in the current and prior comparative periods includes certain balances relating to the Cash Equities business – primarily being margin money and settlements assets amounting to $335 million (2020: $5,150 million). Following the transfer of the business from the CGM segment to the Macquarie Capital segment in the Non-Bank Group during the year, certain balances will remain on the Consolidated Entity's balance sheet for an interim transition period.

Note 3
Segment reporting continued

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

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

	Banking and Financial Services $m	Commodities and Global Markets $m	Corporate $m	Total $m
Fee and commission income				**CONSOLIDATED 2021**
Brokerage and other trading-related fee income	**47**	**201**	**112**	**360**
Portfolio administration fee	**212**	**4**	**–**	**216**
Lending fees	**118**	**11**	**–**	**129**
Service fee from related body corporates[1]	**–**	**–**	**365**	**365**
Other fee and commission income/(expenses)	**39**	**231**	**(14)**	**256**
Total fee and commission income	**416**	**447**	**463**	**1,326**
Fee and commission income				CONSOLIDATED 2020
Brokerage and other trading-related fee income	49	244	208	501
Portfolio administration fee	219	5	9	233
Lending fees	130	19	–	149
Other fee and commission income	43	243	16	302
Total fee and commission income	441	511	233	1,185

(1) Represents fee and service income earned by the service entities from the Non-Bank Group. The service entities was acquired from MGL during the year. For details, refer to Note 42 *Acquisition and disposals of subsidiaries and businesses.*

Note 3
Segment reporting continued

(iii) Products and services

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

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

	CONSOLIDATED	
	2021 $m	2020 $m
Revenue from external customers		
Financial markets	**4,874**	5,160
Lending	**4,008**	4,690
Corporate services	**365**	–
Asset and wealth management	**304**	555
Total revenue from external customers[1]	**9,551**	10,405

(iv) Geographical areas

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

	CONSOLIDATED 2021		CONSOLIDATED 2020	
	Revenue from external customers $m	**Non current assets[2] $m**	Revenue from external customers $m	Non current assets[2] $m
Australia	**4,684**	**1,092**	5,489	990
Americas[3]	**2,448**	**252**	2,127	318
Europe, Middle East and Africa[4]	**1,684**	**1,593**	2,066	1,665
Asia Pacific	**735**	**287**	723	61
Total	**9,551**	**3,224**	10,405	3,034

(v) Major customers

The Consolidated Entity does not rely on any major customer.

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, service fees from related body corporates, share of net profits/losses of associates and joint ventures, income associated with investing activities and other operating income.
(2) Non-current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and right-of-use assets.
(3) Includes external revenue generated in the United States of America of $2,276 million (2020: $1,934 million).
(4) Includes external revenue generated in the United Kingdom of $1,606 million (2020: $2,014 million).

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 4 Income tax expense				
(i) Income tax expense				
Current tax expense	**(755)**	(556)	**(172)**	(340)
Deferred tax benefit	**133**	32	**6**	78
Total income tax expense	**(622)**	(524)	**(166)**	(262)
Income tax expense is attributable to:				
Profit from continuing operations	**(622)**	(586)	**(166)**	(324)
Profit from discontinued operations	**–**	62	**–**	62
(ii) Reconciliation of income tax expense to *prima facie* tax expense				
Prima facie income tax expense on operating profit[1]	**(689)**	(599)	**(777)**	(269)
Tax effect of amounts which are non-assessable/ (non-deductible) in calculating taxable income:				
Rate differential on offshore income	**68**	19	**197**	(129)
Impairment reversal on subsidiaries	**–**	–	**18**	14
Intra-group dividends	**–**	–	**411**	39
Gain on sale of discontinued operations	**–**	93	**–**	93
Other items	**(1)**	(37)	**(15)**	(10)
Total income tax expense	**(622)**	(524)	**(166)**	(262)
(iii) Tax benefit/(expense) relating to OCI items				
FVOCI reserve	**(14)**	3	**(13)**	(22)
Own credit risk	**34**	(21)	**34**	(21)
Cash flow hedge reserve	**(4)**	(7)	**12**	(18)
Total tax benefit/(expense) relating to OCI items	**16**	(25)	**33**	(61)
(iv) Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities				
Property, plant and equipment	**6**	(10)	**(3)**	(9)
Intangible assets	**17**	2	**14**	(4)
Financial investments, associates and joint ventures	**(29)**	4	**(14)**	(10)
Tax losses	**(42)**	(21)	**(29)**	(15)
Operating and finance leases	**48**	33	**(21)**	99
Loan assets and derivatives	**6**	(14)	**1**	10
Other assets and liabilities	**127**	38	**58**	7
Total deferred tax benefit represents movements in deferred tax assets and liabilities	**133**	32	**6**	78

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

(1) *Prima facie* income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (2020: 30%).

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m

Note 5
Dividends

(i) Dividends to ordinary equity holder

Dividend paid[1]	**500**	560	**500**	560
Total dividends paid (Note 27)	**500**	560	**500**	560

(ii) Distributions on MIS

MIS were stapled arrangements, which included perpetual preference shares previously issued by the Company. Distributions paid and provided for during previous year amounts to $12 million. MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020. Refer to Note 26 *Contributed equity* for further details on these instruments.

Note 6
Trading assets

Commodities	**6,691**	3,540	**4,980**	2,110
Equity securities				
Listed	**6,657**	4,405	**6,593**	4,324
Debt securities				
Commonwealth and foreign government securities	**4,385**	6,763	**4,385**	6,751
Corporate loans and securities	**133**	281	**132**	175
Treasury notes	**–**	318	**–**	318
Other debt securities	**1**	1	**1**	1
Commodity contracts	**3,345**	943	**3,037**	820
Total trading assets	**21,212**	16,251	**19,128**	14,499

The majority of the above amounts are expected to be materially recovered within 12 months of the balance date by the Consolidated Entity and the Company.

(1) Previous year represents dividend declared during March 2019 which was paid on 5 April 2019.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 7 Margin money and settlement assets				
Margin money	**4,552**	6,842	**4,027**	5,959
Security settlements	**1,828**	3,207	**1,457**	2,839
Commodity settlements	**1,922**	2,134	**933**	1,217
Total margin money and settlement assets	**8,302**	12,183	**6,417**	10,015

The above amounts are expected to be materially recovered within 12 months of the balance date by the Consolidated Entity and the Company.

Note 8 Derivative assets				
Held for trading	**19,972**	42,988	**18,755**	39,997
Designated in hedge relationships[1]	**580**	1,857	**573**	1,607
Total derivative assets	**20,552**	44,845	**19,328**	41,604

The above amounts under held for trading category are expected to be materially recovered within 12 months of the balance date by the Consolidated Entity and the Company.

Note 9 Financial investments				
Equity securities				
Listed	**53**	39	**50**	36
Unlisted	**153**	115	**97**	73
Debt securities				
Bonds and Negotiable Certificate of Deposits (NCDs)	**7,638**	7,163	**7,638**	7,163
Other	**155**	167	**131**	94
Total financial investments	**7,999**	7,484	**7,916**	7,366

Of the above amounts, $2,023 million (2020: $3,253 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $2,023 million (2020: $3,237 million) by the Company.

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 34 *Hedge accounting*.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 10 Held for sale and other assets				
Assets held for sale[1]	**74**	–	**–**	–
Other assets				
Commodity-related receivables	**1,661**	1,525	**1,091**	1,295
Debtors and prepayments[2]	**1,016**	1,077	**364**	779
Income tax receivable	**277**	330	**165**	190
Life investment linked contracts and other unitholder assets[3]	**12**	308	**–**	–
Other	**26**	27	**2**	2
Total held for sale and others assets	**3,066**	3,267	**1,622**	2,266

Of the above amounts, $2,755 million (2020: $3,118 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $1,388 million (2020: $1,831 million) by the Company.

(1) Subsequent to 31 March 2021, the Consolidated Entity and the Company disposed of certain assets that were classified as held for sale for a pre-tax gain of approximately $450 million. The gain on disposal will be recognised by the Consolidated Entity and the Company in the half-year ending 30 September 2021.
(2) Includes $117 million (2020: $182 million) of fee and commission receivables.
(3) Certain assets were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

	2021			2020		
	Gross $m	**ECL allowance[1] $m**	**Net $m**	Gross $m	ECL allowance[1] $m	Net $m
Note 11						
Loan assets						**CONSOLIDATED**
Home loans[2]	**71,588**	**(67)**	**71,521**	56,106	(62)	56,044
Asset financing[2]	**13,584**	**(343)**	**13,241**	16,453	(294)	16,159
Corporate, commercial and other lending	**12,333**	**(365)**	**11,968**	13,288	(331)	12,957
Investment lending	**2,263**	**(1)**	**2,262**	2,560	(1)	2,559
Total loan assets	**99,768**	**(776)**	**98,992**	88,407	(688)	87,719
						COMPANY
Home loans	**69,124**	**(65)**	**69,059**	52,895	(26)	52,869
Corporate, commercial and other lending	**9,836**	**(289)**	**9,547**	9,677	(286)	9,391
Asset financing	**4,370**	**(33)**	**4,337**	2,477	(59)	2,418
Investment lending	**733**	**–**	**733**	297	–	297
Total loan assets	**84,063**	**(387)**	**83,676**	65,346	(371)	64,975

Of the above amounts, $26,937 million (2020: $26,195 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $21,381 million (2020: $17,588 million) by the Company.

Loan assets continue to represent the Consolidated Entity's most significant component of credit exposures on which ECL allowances are carried. The credit quality of the Consolidated Entity's loan assets, which are monitored through its credit policies, is reported under Note 35.1 *Credit risk*.

The carrying value of the exposure in the corporate, commercial and other lending segments reduced in the current year as a result of repayments and the impact of the stronger Australian dollar, partially offset by new originations. Repayments, lower drawdowns and the impact of the stronger Australian dollar contributed to the reduction in the asset financing segment during the current year.

Repossessed collateral

In the event of a customer default, the Consolidated Entity may either take possession of the underlying collateral held as security and/or exercise its right to dispose of the customer's asset. At the reporting date the Consolidated Entity and the Company did not have any material amounts of such collateral recognised in its Statement of financial position.

(1) The ECL allowance carried against loan assets measured at FVOCI is not represented in the table as the allowance is included in reserves. Refer to Note 12 *Expected credit losses*.
(2) Includes $11,344 million (2020: $16,402 million) held by consolidated Structured Entities (SEs), which are available as security to note holders and debt providers.

Note 11
Loan assets continued

Finance lease receivables

Finance lease receivables are included within loan assets. The Consolidated Entity provides finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment. Finance lease receivables do not include retail products such as hire purchase, mortgages related to movable property and consumer loans. The following table represents the maturity profile of the contractual undiscounted cashflows of the Consolidated Entity and the Company:

	2021			2020		
	Gross investment in finance lease receivables $m	**Unearned income $m**	**Present value of minimum lease payments receivable $m**	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m
						CONSOLIDATED
Within one year	**1,458**	**(117)**	**1,341**	2,039	(197)	1,842
Between one to two years	**1,095**	**(84)**	**1,011**	1,540	(139)	1,401
Between two to three years	**725**	**(55)**	**670**	1,079	(98)	981
Between three to four years	**388**	**(30)**	**358**	628	(59)	569
Between four to five years	**128**	**(9)**	**119**	280	(26)	254
Later than five years	**43**	**(1)**	**42**	68	(3)	65
Total	**3,837**	**(296)**	**3,541**	5,634	(522)	5,112
						COMPANY
Within one year	**140**	**(10)**	**130**	123	(11)	112
Between one to two years	**133**	**(10)**	**123**	100	(8)	92
Between two to three years	**108**	**(8)**	**100**	81	(6)	75
Between three to four years	**75**	**(5)**	**70**	29	(2)	27
Between four to five years	**78**	**(5)**	**73**	6	–	6
Later than five years	**7**	**–**	**7**	1	–	1
Total	**541**	**(38)**	**503**	340	(27)	313

Note 12
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 contract 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 Expected Credit Losses (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 inputs 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. Portfolio PDs are a function of industry type, internal credit ratings and transition matrices 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.

Method of determining 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 CreditWatch an internal credit monitoring mechanism supervised by the credit watch management committee to closely monitor exposures showing signs of stress. Where exposures' credit risk profiles deteriorate, the exposures are monitored through the CreditWatch reports. The business remains responsible for management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. All exposures on CreditWatch are classified as stage II or, if defaulted, as stage III.

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposures' credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other exposures that are classified as stage I. Accordingly, while similar increases in the quantum of stage II exposures will suggest an increase in credit risk, 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, 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 the realisation of collateral; or the borrower is 90 days or more past due.

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

Note 12
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 inputs in measuring the ECL have been developed by analysing historical data as part of the development of internal models, calibration and validation process.

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. These overlays consider the risk that losses predicted to occur at points of particular economic stress, which have since been passed, are yet to occur and that uncertainty exists as to whether enhanced levels of government and other-related support measures may cause the loss emergence profile to differ to that for which the models have been calibrated. These overlays also 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 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 $350 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 the weighting applied to those scenarios. For this purpose, three possible economic scenarios have been developed, being an upside, downside and base case 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 continued to anchor the upside and downside scenarios with COVID-19 as the key driver of the macroeconomic outlook.

The general shape of the economic recovery varies within each scenario and is outlined in further detail in the following section.

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

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

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

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

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

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

The modelled ECL for each scenario is sensitive to the speed and resilience of post-COVID economic normalisation, and the longevity of monetary and fiscal intervention, as these influence both the probability of default, and the value of collateral that may be utilised.

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

Note 12
Expected credit losses continued

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$850 million (2020: $800 million)[1]	Probable	**Global:** The baseline assumes the global economic recovery continues through the first half of 2021, helped by the continuation of localised health policies and enduring fiscal and monetary stimulus across most economies. Job retention schemes and other policy measures are expected to ease gradually through 2021 as recoveries take hold, ensuring that official unemployment rates remain stable as economic activity returns gradually towards normalised levels. In developed markets outside Europe, GDP is expected to return to pre-COVID-19 levels by mid-2021. **Australia:** The Australian economy is expected to recover ahead of other economies having experienced a relatively small contraction in 2020. Equity markets are expected to continue to stabilise and return to modest growth reaching pre-COVID-19 peaks at the end of 2021. With localised restrictions generally eased, unemployment rates continue to fall from a peak of 7.1% in mid-2020 declining to ~5% by the end of 2020. House prices increase by 8% in 2021, supported by low rates as the RBA maintains the cash rate at historic lows until 2023. **United States:** The unemployment rate continues to fall from its high of ~13% in the first half of 2020, albeit at a slowing pace remaining above pre-COVID-19 levels, reaching ~5% in early 2022. US GDP contracted by ~10% in the first half of 2020 but is expected to return to pre-COVID-19 levels in the second quarter of 2021 fuelled by robust stimulus measures. 10-year government bond yields are expected to remain at historical lows while equities trend higher. **Europe:** European GDP is not expected to recover to pre-COVID-19 levels until the second half of 2022. The unemployment rate is expected to peak at ~9% in mid-2021 and return slowly to pre-COVID-19 levels of ~7% by 2025. The European Central Bank (ECB) is expected to maintain its policy rate in slightly negative territory.

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

Note 12
Expected credit losses continued

Scenario	Weighting	Expectation
Downside A 100% weighting to this scenario would result in a of total expected credit loss provision on balance sheet at the reporting date of ~$1,350 million (2020: $1,150 million)[1]	Possible	**Global:** The downside assumes the COVID-19 recovery is more protracted as fresh outbreaks trigger renewed lockdown measures, while delayed or ineffectual vaccination programmes fail are unable to facilitate a return to pre-COVID economic environments. The impact to global economic output is significantly less than the initial wave in early 2020, but the recovery trajectory is slow as low interest rates and limited fiscal capacity constrain the scope for further stimulus. Employment rates in this scenario stagnate at elevated levels across developed markets throughout 2021. With equity markets reversing many of their gains in 2021 as it becomes clear that recovery will be more prolonged. **Australia:** Returning to recession in 2021, the downward trend in unemployment rates ends and remains above 6% (~1% above pre-COVID-19 levels) until mid-2023. Australian GDP in this scenario would to return to pre-COVID-19 levels in mid-2022 and growth rates would remain modest thereafter. House prices may continue to rise by 3% in 2021 before correcting sharply in 2022, falling by 8% and not recovering to pre-pandemic levels until late 2024. The RBA would maintain the cash rate at historic lows until the end of 2024. **United States:** GDP growth briefly tips into negative territory in the second half of 2021 but avoids the severe shocks of 2020, ultimately restoring pre-pandemic output by early 2022. The declining unemployment rate reverses only modestly but remains at ~6% and above into late 2022 at ~2.5% above the pre-COVID-19 levels. 10-year government bond yields remain below 1% for the forecast period and central bank rates are kept at all-time lows until 2025. **Europe:** Hardest-hit of developed markets, European GDP stagnates through 2021, with GDP still remaining ~5% below pre-COVID-19 levels at the end of 2021 only returning to pre-pandemic highs in 2025. Increases in the unemployment rate are contained by fiscal measures though the rate remains slightly above pre-COVID-19 levels at 8-9% through to 2025. The ECB maintains interest rates in negative territory for the forecast period.
Upside A 100% weighting to this scenario would result in the recognition of total expected credit loss provision on balance sheet at the reporting date of ~$800 million (2020: $650 million)	Unlikely	**Global:** The scenario assumes swift results through medical developments allow for faster removal of restrictions without triggering subsequent outbreaks of Covid 19 , enabling normalisation and the release of pent-up demand. Governments and central banks would gradually ease accommodative monetary and fiscal policies without economic harm in this scenario. The growth trajectory is steeper and maintained, allowing for the removal of active stimulus by governments and central banks without prompting reversals. Global GDP surpasses pre-COVID-19 levels in by mid-2021 facilitating higher employment and stimulating commodity prices. Equity markets also rally, driven by the positive economic and health developments, and continued support from monetary policy. **Australia's** GDP surpasses pre-COVID-19 levels in mid-2021 and continues to grow at upwards of 3% annually through to 2024. The uptick in economic activity segues with the withdrawal of job retention schemes, while unemployment rates fall to 5% by the end of 2021 and continue to fall to a low of 4.5%. House prices respond to this improved outlook and increase sharply by ~9% in 2021 and 6% in 2022.

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

Note 12
Expected credit losses continued

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

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI	Other[2]	Total exposure	Amortised cost $m	FVOCI	Other $m	Total ECL allowance $m
								CONSOLIDATED 2021
Cash and bank balances	**15,966**	**–**	**–**	**15,966**	**–**	**–**	**–**	**–**
Cash collateral on securities borrowed and reverse repurchase agreements	**9,284**	**17,362**	**–**	**26,646**	**–**	**–**	**–**	**–**
Margin money and settlement assets	**8,024**	**–**	**–**	**8,024**	**54**	**–**	**–**	**54**
Financial investments	**18**	**7,624**	**–**	**7,642**	**–**	**6**	**–**	**6**
Held for sale and other assets	**1,155**	**–**	**–**	**1,155**	**106**	**–**	**–**	**106**
Loan assets	**99,575**	**–**	**–**	**99,575**	**776**	**–**	**–**	**776**
Due from related body corporate entities	**1,508**	**–**	**–**	**1,508**	**1**	**–**	**–**	**1**
Loans to associates and joint ventures	**5**	**–**	**–**	**5**	**5**	**–**	**–**	**5**
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	**–**	**–**	**6,338**	**6,338**	**–**	**–**	**24**	**24**
Total	**135,535**	**24,986**	**6,338**	**166,859**	**942**	**6**	**24**	**972**
								CONSOLIDATED 2020
Cash and bank balances	7,847	–	–	7,847	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	6,687	23,064	–	29,751	–	–	–	–
Margin money and settlement assets	11,694	–	–	11,694	66	–	–	66
Financial investments	–	7,256	–	7,256	–	10	–	10
Other assets	1,454	–	–	1,454	73	–	–	73
Loan assets	88,158	–	–	88,158	688	–	–	688
Due from related body corporate entities	4,347	–	–	4,347	1	–	–	1
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	–	–	4,885	4,885	–	–	10	10
Total	120,192	30,320	4,885	155,397	832	10	10	852

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statement of financial position.
(2) Other exposures included in other assets represent fee-related contract assets.
(3) Gross exposure for undrawn credit commitments, letters of credit and financial guarantees contracts (not measured at FVTPL) represents the notional values of these contracts.

Note 12
Expected credit losses continued

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI	Other[2]	Total exposure	Amortised cost $m	FVOCI	Other $m	Total ECL allowance $m
								COMPANY 2021
Cash and bank balances	**14,012**	**–**	**–**	**14,012**	**–**	**–**	**–**	**–**
Cash collateral on securities borrowed and reverse repurchase agreements	**6,588**	**16,896**	**–**	**23,484**	**–**	**–**	**–**	**–**
Margin money and settlement assets	**6,438**	**–**	**–**	**6,438**	**25**	**–**	**–**	**25**
Financial investments	**–**	**7,623**	**–**	**7,623**	**–**	**1**	**–**	**1**
Held for sale and other assets	**608**	**–**	**–**	**608**	**73**	**–**	**–**	**73**
Loan assets[3]	**81,195**	**2,692**	**–**	**83,887**	**387**	**46**	**–**	**433**
Due from related body corporate entities	**1,181**	**–**	**–**	**1,181**	**–**	**–**	**–**	**–**
Loans to associates and joint ventures	**4**	**–**	**–**	**4**	**4**	**–**	**–**	**4**
Due from subsidiaries	**17,975**	**–**	**–**	**17,975**	**15**	**–**	**–**	**15**
Undrawn credit commitments, letters of credit and financial guarantee contracts[4]	**–**	**–**	**5,831**	**5,831**	**–**	**–**	**14**	**14**
Total	**128,001**	**27,211**	**5,831**	**161,043**	**504**	**47**	**14**	**565**
				COMPANY 2020				
Cash and bank balances	6,037	–	–	6,037	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	5,534	22,543	–	28,077	–	–	–	–
Margin money and settlement assets	9,709	–	–	9,709	28	–	–	28
Financial investments	–	7,240	–	7,240	–	10	–	10
Other assets	1,281	–	–	1,281	49	–	–	49
Loan assets	15,937	49,164	–	65,101	371	36	–	407
Due from related body corporate entities	4,254	–	–	4,254	–	–	–	–
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Due from subsidiaries	21,093	–	–	21,093	22	–	–	22
Undrawn credit commitments, letters of credit and financial guarantee contracts[4]	–	–	4,377	4,377	–	–	9	9
Total	63,850	78,947	4,377	147,174	474	46	9	529

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal to amount presented in the Statement of financial position.
(2) Other exposures represent contract assets and undrawn credit commitments, letters of credit and financial guarantee contracts (not measured at FVTPL).
(3) Following an assessment of the Company's business model during the year, loan assets of $64,855 million were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).
(4) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts. The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date. Given the nature of these guarantees, the ECL at the balance sheet date is not material.

Note 12
Expected credit losses continued

The table provides a reconciliation between the opening and closing balance of the ECL allowances:

	Margin money and settlement assets $m	Financial Investments $m	Other assets $m	Loan assets $m	Due from related body corporate entities $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
								CONSOLIDATED
Balance as at 1 Apr 2019	–	–	21	511	1	1	6	540
Impairment charge (Note 2)	66	10	59	325	–	–	3	463
Amount written off, previously provided for	–	–	(5)	(150)	–	–	–	(155)
Foreign exchange, reclassifications and other movements	–	–	(2)	2	–	3	1	4
Balance as at 31 Mar 2020	66	10	73	688	1	4	10	852
Impairment charge/(reversal) (Note 2)	**29**	**(3)**	**52**	**196**	**–**	**–**	**15**	**289**
Amount written off, previously provided for	**(33)**	**–**	**(7)**	**(75)**	**–**	**–**	**–**	**(115)**
Foreign exchange, reclassifications and other movements	**(8)**	**(1)**	**(12)**	**(33)**	**–**	**1**	**(1)**	**(54)**
Balance as at 31 Mar 2021	**54**	**6**	**106**	**776**	**1**	**5**	**24**	**972**

	Margin money and settlement assets $m	Financial investments $m	Other assets $m	Loan assets $m	Due from subsidiaries $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
								COMPANY
Balance as at 1 Apr 2019	–	–	4	316	31	–	5	356
Impairment charge/(reversal) (Note 2)	28	10	45	148	(9)	–	3	225
Amount written off, previously provided for	–	–	–	(59)	–	–	–	(59)
Foreign exchange, reclassifications and other movements	–	–	–	2	–	4	1	7
Balance as at 31 Mar 2020	28	10	49	407	22	4	9	529
Impairment (reversal)/charge (Note 2)	**(1)**	**(9)**	**33**	**110**	**(7)**	**–**	**6**	**132**
Amount written off, previously provided for	**–**	**–**	**(3)**	**(29)**	**–**	**–**	**–**	**(32)**
Foreign exchange, reclassifications and other movements	**(2)**	**–**	**(6)**	**(55)**	**–**	**–**	**(1)**	**(64)**
Balance as at 31 Mar 2021	**25**	**1**	**73**	**433**	**15**	**4**	**14**	**565**

The $120 million in the Consolidated Entity and $36 million in the Company increase in ECL allowance during the year reflects the net impact of impairment charges partially offset by amounts written off, and foreign exchange movements with the appreciation of the Australian dollar during the year.

Note 12
Expected credit losses continued

ECL on loan assets

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

		LIFETIME ECL		
	Stage I 12 month ECL $m	Stage II Not credit impaired $m	Stage III Credit impaired $m	Total ECL Allowance $m
				CONSOLIDATED
Balance as at 1 Apr 2019	135	173	203	511
Transfers during the period	31	(17)	(14)	–
Impairment charge (Note 2)	3	130	192	325
Amount written off, previously provided for	–	–	(150)	(150)
Foreign exchange, reclassifications and other movements	4	2	(4)	2
Balance as at 31 Mar 2020	173	288	227	688
Transfers during the period	**30**	**(25)**	**(5)**	**–**
Impairment charge (Note 2)	**123**	**(57)**	**130**	**196**
Amount written off, previously provided for	**–**	**–**	**(75)**	**(75)**
Foreign exchange, reclassifications and other movements	**(11)**	**(4)**	**(18)**	**(33)**
Balance as at 31 Mar 2021	**315**	**202**	**259**	**776**
				COMPANY
Balance as at 1 Apr 2019	85	118	113	316
Transfers during the period	24	(18)	(6)	–
Impairment charge (Note 2)	3	72	73	148
Amount written off, previously provided for	–	–	(59)	(59)
Foreign exchange, reclassifications and other movements	2	(3)	3	2
Balance as at 31 Mar 2020	114	169	124	407
Transfers during the period	**25**	**(21)**	**(4)**	**–**
Impairment charge/(reversal) (Note 2)	**31**	**(2)**	**81**	**110**
Amount written off, previously provided for	**–**	**–**	**(29)**	**(29)**
Foreign exchange, reclassifications and other movements	**(13)**	**(14)**	**(28)**	**(55)**
Balance as at 31 Mar 2021	**157**	**132**	**144**	**433**

Note 13
Interests in associates and joint ventures

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Equity investments with no provisions for impairment	**216**	149	**40**	41
Equity investments with provisions for impairment				
Gross carrying value	**198**	253	**1**	5
Less: provisions for impairment	**(133)**	(153)	**(1)**	(5)
Equity investments with provisions for impairment	**65**	100	**–**	–
Total equity investments in associates and joint ventures	**281**	249	**40**	41
Loans to associates and joint ventures	**5**	6	**4**	5
Less: credit impairment charges	**(5)**	(4)	**(4)**	(4)
Total loans to associates and joint ventures	**–**	2	**–**	1
Total interests in associates and joint ventures[1],[2],[3]	**281**	251	**40**	42

The above amounts are expected to be recovered after 12 months of the balance sheet date by the Consolidated Entity and the Company.

(1) Includes $281 million (2020: $250 million) relating to interests in associates and $Nil (2020: $1 million) relating to interests in joint ventures held by the Consolidated Entity, and $40 million (2020: $41 million) relating to interests in associates and $Nil (2020: $1 million) relating to interests in joint ventures held by the Company.
(2) Financial statements of associates and joint ventures have various reporting dates which have been adjusted to align with the Consolidated Entity's reporting date.
(3) There were no associates or joint ventures that are individually material to the Consolidated Entity or the Company.

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

	2021			2020		
	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m
						CONSOLIDATED
Assets for own use						
Land and buildings	**491**	**(31)**	**460**	136	–	136
Furniture, fittings and leasehold improvements	**511**	**(417)**	**94**	42	(29)	13
Equipment	**85**	**(58)**	**27**	26	(19)	7
Infrastructure assets	**2**	**–**	**2**	1	–	1
Total assets for own use	**1,089**	**(506)**	**583**	205	(48)	157
Assets under operating lease						
Meters	**2,184**	**(813)**	**1,371**	2,454	(910)	1,544
Telecommunications	**733**	**(602)**	**131**	1,139	(715)	424
Other	**423**	**(81)**	**342**	623	(187)	436
Total assets under operating lease	**3,340**	**(1,496)**	**1,844**	4,216	(1,812)	2,404
Asset under right-of-use						
Property	**550**	**(201)**	**349**	25	(5)	20
Commodity storage	**34**	**(21)**	**13**	32	(15)	17
Others	**20**	**(12)**	**8**	–	–	–
Total assets under right-of-use	**604**	**(234)**	**370**	57	(20)	37
Total property, plant and equipment and right-of-use assets	**5,033**	**(2,236)**	**2,797**	4,478	(1,880)	2,598
						COMPANY
Assets for own use						
Land and buildings	**250**	**–**	**250**	133	–	133
Furniture, fittings and leasehold improvements	**22**	**(10)**	**12**	19	(12)	7
Equipment	**8**	**(4)**	**4**	16	(11)	5
Total assets for own use	**280**	**(14)**	**266**	168	(23)	145
Assets under operating lease						
Telecommunications	**727**	**(595)**	**132**	1,117	(704)	413
Other	**385**	**(111)**	**274**	357	(96)	261
Total assets under operating lease	**1,112**	**(706)**	**406**	1,474	(800)	674
Total property, plant and equipment and right-of-use assets	**1,392**	**(720)**	**672**	1,642	(823)	819

Of the above amounts, $18 million (2020: $434 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $3 million (2020: $295 million) by the Company.

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

The movement in the carrying value of the Consolidated Entity's property, plant and equipment was as follows:

	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Assets for own use					
Balance as at 1 Apr 2019	85	15	11	–	111
Acquisitions and additions	51	2	3	1	57
Disposals	–	(1)	–	–	(1)
Reclassification and other adjustments	–	–	(3)	–	(3)
Foreign exchange movements	–	1	–	–	1
Depreciation expense (Note 2)	–	(4)	(4)	–	(8)
Balance as at 31 Mar 2020	136	13	7	1	157
Acquisitions and additions[1]	**116**	**99**	**34**	**1**	**250**
Disposals	**–**	**(2)**	**–**	**–**	**(2)**
Reclassification and other adjustments	**210**	**5**	**(1)**	**–**	**214**
Foreign exchange movements	**–**	**(7)**	**(3)**	**–**	**(10)**
Depreciation expense (Note 2)	**(2)**	**(14)**	**(10)**	**–**	**(26)**
Balance as at 31 Mar 2021	**460**	**94**	**27**	**2**	**583**

	Meters $m	Telecommunication $m	Other $m	Total $m
Assets under operating lease				
Balance as at 1 Apr 2019	1,248	966	413	2,627
Acquisitions and additions	421	348	105	874
Disposals	–	(330)	(25)	(355)
Reclassification and other adjustments	(51)	–	(19)	(70)
Impairments	–	(11)	–	(11)
Foreign exchange movements	142	1	22	165
Depreciation expense (Note 2)	(216)	(550)	(60)	(826)
Balance as at 31 Mar 2020	1,544	424	436	2,404
Acquisitions and additions	**304**	**–**	**228**	**532**
Disposals	**–**	**(93)**	**(18)**	**(111)**
Reclassification and other adjustments	**(98)**	**(3)**	**(220)**	**(321)**
Impairments	**–**	**(14)**	**–**	**(14)**
Foreign exchange movements	**(163)**	**(1)**	**(31)**	**(195)**
Depreciation expense (Note 2)	**(216)**	**(182)**	**(53)**	**(451)**
Balance as at 31 Mar 2021	**1,371**	**131**	**342**	**1,844**

(1) Includes assets acquired by the Consolidated Entity as part of the acquisition of service entities from MGL during the year. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses.*

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

The movement in the carrying value of the Company's property, plant and equipment was as follows:

	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Total $m
Assets for own use				
Balance as at 1 Apr 2019	82	8	5	95
Acquisitions and additions	51	2	3	56
Depreciation expense (Note 2)	–	(3)	(3)	(6)
Balance as at 31 Mar 2020	133	7	5	145
Acquisitions and additions	**117**	**7**	**4**	**128**
Disposals	**–**	**–**	**(1)**	**(1)**
Depreciation expense (Note 2)	**–**	**(2)**	**(4)**	**(6)**
Balance as at 31 Mar 2021	**250**	**12**	**4**	**266**

	Meters $m	Telecommunication $m	Others $m	Total $m
Assets under operating lease				
Balance as at 1 Apr 2019	–	949	273	1,222
Acquisitions and additions	–	345	9	354
Disposals	–	(328)	(6)	(334)
Impairments	–	(11)	–	(11)
Depreciation expense (Note 2)	–	(542)	(15)	(557)
Balance as at 31 Mar 2020	–	413	261	674
Acquisitions and additions	**–**	**–**	**29**	**29**
Disposals	**–**	**(88)**	**(1)**	**(89)**
Reclassifications and other adjustments	**–**	**(3)**	**–**	**(3)**
Impairments	**–**	**(14)**	**–**	**(14)**
Depreciation expense (Note 2)	**–**	**(176)**	**(15)**	**(191)**
Balance as at 31 Mar 2021	**–**	**132**	**274**	**406**

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

	Property $m	Commodity storage $m	Others $m	Total $m
Right-of-use assets				
Balance as at 1 Apr 2019	21	18	11	50
Acquisitions and additions	2	18	–	20
Amortisation expense	(5)	(15)	–	(20)
Foreign exchange movements	2	2	–	4
Other	–	(6)	(11)	(17)
Balance as at 31 Mar 2020	20	17	–	37
Acquisitions and additions[1]	**399**	**10**	**11**	**420**
Disposals	**(20)**	**–**	**–**	**(20)**
Amortisation expense	**(37)**	**(11)**	**(3)**	**(51)**
Impairment	**(7)**	**–**	**–**	**(7)**
Foreign exchange movements	**(7)**	**(3)**	**–**	**(10)**
Other	**1**	**–**	**–**	**1**
Balance as at 31 Mar 2021	**349**	**13**	**8**	**370**

The future minimum lease payments expected to be received under non-cancellable operating leases are as follows:

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Assets under operating lease				
Within one year	**176**	306	**113**	250
Between one and two years	**153**	75	**109**	32
Between two and three years	**127**	46	**103**	21
Between three and four years	**75**	28	**89**	21
Between four and five years	**5**	21	**38**	21
Later than five years	**–**	38	**–**	38
Total future minimum lease payments receivable	**536**	514	**452**	383

(1) Includes ROU assets acquired by the Consolidated Entity as part of the acquisition of service entities from MGL during the year. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses.*

Note 15
Intangible assets

	2021			2020		
	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m
						CONSOLIDATED
Goodwill	**98**	**(33)**	**65**	115	(40)	75
Other identifiable intangible assets	**276**	**(195)**	**81**	367	(257)	110
Total intangible assets	**374**	**(228)**	**146**	482	(297)	185
						COMPANY
Other identifiable intangible assets	**215**	**(160)**	**55**	302	(224)	78
Total intangible assets	**215**	**(160)**	**55**	302	(224)	78

The above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Company.

The movement in the Consolidated Entity's intangible assets at their net carrying value:

	CONSOLIDATED			COMPANY	
	Goodwill $m	Other identifiable intangible assets $m	Total $m	Other identifiable intangible assets $m	Total $m
Balance as at 1 Apr 2019	68	109	177	81	81
Acquisitions	–	19	19	16	16
Disposals, reclassifications and other adjustments	–	1	1	–	–
Amortisation[1]	–	(20)	(20)	(16)	(16)
Foreign exchange movements	7	1	8	(3)	(3)
Balance as at 31 Mar 2020	75	110	185	78	78
Acquisitions	**–**	**6**	**6**	**5**	**5**
Amortisation[1]	**–**	**(31)**	**(31)**	**(28)**	**(28)**
Foreign exchange movements	**(10)**	**(4)**	**(14)**	**–**	**–**
Balance as at 31 Mar 2021	**65**	**81**	**146**	**55**	**55**

(1) Includes amortisation of $9 million (2020: $Nil) presented under Net trading income and $22 million (2020: $20 million) under Other operating expenses.

	COMPANY	
	2021 $m	2020 $m
Note 16 Investments in subsidiaries		
Investments at cost with no provisions for impairment	**5,802**	4,702
Investments at cost with provisions for impairment	**1,314**	1,475
Less: provisions for impairment[1]	**(498)**	(585)
Investments with provisions for impairment[1]	**816**	890
Total investments in subsidiaries	**6,618**	5,592

The above amounts are expected to be recovered after 12 months of the balance date by the Company.

The following are the Consolidated Entity's significant subsidiaries:

Australia

- Boston Australia Pty Limited
- Macquarie Group Treasury Funding Pty Limited
- Macquarie Group Services Australia Pty Ltd
- Macquarie International Finance Limited
- Macquarie Equities Limited
- Macquarie Finance Pty Limited
- Macquarie Investment Management Ltd
- Macquarie Life Limited
- Macquarie Leasing Pty Limited

Europe, Middle East And Africa

- Macquarie Corporate And Asset Finance 2 Limited (United Kingdom)
- Macquarie Equipment Funding Limited (Ireland)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Equipment Finance Designated Activity Company (Ireland)
- Macquarie Bank Europe Designated Activity Company (Ireland)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Leasing Limited (United Kingdom)
- Macquarie Meters 3 (UK) Limited (United Kingdom)
- Macquarie Corporate And Asset Finance 1 Limited (United Kingdom)

Asia Pacific

- Macquarie Commodities Trading (Shanghai) Co, Ltd (China) (Reporting date 31 December)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Emerging Markets Asian Trading Pte. Limited (Singapore)

Americas

- Macquarie Energy LLC (United States)
- Macquarie Inc. (United States)
- Macquarie Futures USA LLC (United States)
- Macquarie Energy Canada Ltd (Canada)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Physical Metals (USA) Inc. (United States)

The list of significant subsidiaries has been categorised based on the geographic region of their incorporation. The country of incorporation has been stated in brackets. For entities in Australia region, the country of incorporation is Australia.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all significant subsidiaries is 100%.

All significant subsidiaries have a 31 March reporting date, except for specific cases covered above

(1) During the financial year, the Company performed an impairment assessment of its investments in subsidiaries. The impairment assessment resulted in the recognition of reversals of previously recognised impairment losses in the current and previous financial year. The recoverable value, which was determined as the higher of value-in-use and fair value less costs to sell, was based on the subsidiary's maintainable earnings, growth rates, price earnings' multiples and discount rates. The recoverable values are classified as Level 3 in the fair value hierarchy as defined in Note 37 *Fair value of financial assets and financial liabilities.*

Note 17
Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Other assets and liabilities	**747**	516	**368**	316
Tax losses	**39**	80	**3**	32
Property, plant and equipment	**67**	16	**10**	13
Intangible assets	**115**	84	**86**	72
Financial investments and interests in associates and joint ventures	**11**	38	**9**	22
Loan assets and derivatives	**43**	17	**71**	54
Operating and finance lease assets	**1**	1	**–**	1
Set-off of deferred tax liabilities	**(197)**	(232)	**(54)**	(40)
Net deferred tax assets	**826**	520	**493**	470
Operating and finance lease assets	**(176)**	(231)	**(20)**	–
Loan and derivative assets	**(17)**	(37)	**(33)**	(60)
Other assets and liabilities	**(29)**	(26)	**–**	(1)
Financial investments and interests in associates and joint ventures	**(5)**	(2)	**(1)**	–
Property, plant and equipment	**(1)**	–	**–**	–
Intangible assets	**(5)**	(5)	**–**	–
Set-off of deferred tax assets	**197**	232	**54**	40
Net deferred tax liabilities	**(36)**	(69)	**–**	(21)

The above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Company.

Potential tax assets of approximately $98 million (2020: $113 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe that the realisation of the tax assets is probable. Included in this amount are $Nil gross losses (2020: $2 million) that will expire within 2 years; $Nil (2020: $20 million) that will expire in 2–5 years; $4 million (2020: $Nil) that will expire in 5–10 years and $68 million (2020: $128 million) that will expire in 10–20 years. $393 million (2020: $509 million) of gross losses do not expire and can be carried forward indefinitely.

Note 18
Trading liabilities

Equity securities				
Listed	**6,134**	5,358	**6,137**	5,370
Debt Securities				
Corporate loans and securities	**–**	2	**–**	2
Commodities	**–**	3	**–**	23
Total trading liabilities	**6,134**	5,363	**6,137**	5,395

Note 19
Margin money and settlement liabilities

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Margin money	**12,336**	13,871	**10,620**	12,271
Security settlements	**1,929**	3,200	**1,849**	3,123
Commodity settlements	**1,986**	1,981	**1,163**	1,268
Total margin money and settlement liabilities	**16,251**	19,052	**13,632**	16,662

Note 20
Derivative liabilities

Held for trading	**16,801**	37,299	**15,333**	35,770
Designated in hedge relationships[1]	**674**	524	**399**	203
Total derivative liabilities	**17,475**	37,823	**15,732**	35,973

Note 21
Deposits

Interest bearing deposits				
Call	**63,951**	48,231	**63,924**	48,202
Term	**9,247**	12,338	**9,136**	12,314
Non-interest bearing deposits	**10,942**	6,684	**10,934**	6,670
Total deposits	**84,140**	67,253	**83,994**	67,186

Note 22
Other liabilities

Accrued charges, employment-related liabilities and provisions[2]	**2,038**	1,188	**945**	920
Creditors	**674**	812	**382**	507
Commodity-related payables	**604**	314	**492**	259
Lease liabilities[3]	**479**	43	**1**	1
Income tax payable	**396**	262	**102**	77
Life investment linked contracts and other unitholder liabilities[4]	**12**	307	**–**	–
Other	**147**	20	**132**	10
Total other liabilities	**4,350**	2,946	**2,054**	1,774

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 34 *Hedge accounting*.
(2) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current year in each of these matters did not have, and is not currently expected to have, a material impact on the Consolidated Entity and the Company.
(3) Includes lease liabilities and employee related provisions acquired by the Consolidated Entity as part of the acquisition of Macquarie's service entities from MGL. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses*.
(4) Certain liabilities were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

Note 23
Debt issued

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Bonds, NCDs and commercial paper[1]	**42,555**	44,088	**32,562**	31,319
Structured notes[2]	**2,113**	2,834	**2,202**	2,916
Total debt issued[3],[4]	**44,668**	46,922	**34,764**	34,235

The Consolidated Entity and the Company have not had any defaults of principal, interest or other breaches with respect to its debt during the financial years reported.

Reconciliation of debt issued by major currency

(In Australian dollar equivalent)				
Australian dollar	**17,168**	20,023	**7,175**	7,393
United States dollar	**22,146**	19,009	**22,232**	18,911
Euro	**3,195**	4,906	**3,197**	4,906
Swiss franc	**1,031**	1,260	**1,031**	1,260
Pound sterling	**580**	1,028	**580**	1,028
Japanese yen	**168**	214	**168**	213
Norwegian krone	**157**	164	**157**	164
Korean won	**107**	123	**107**	123
Chinese renminbi	**68**	120	**68**	120
Hong Kong dollar	**48**	61	**49**	61
Other	**–**	14	**–**	56
Total debt issued	**44,668**	46,922	**34,764**	34,235

(1) The Consolidated Entity includes $9,994 million (2020: $13,665 million) payable to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security.
(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates, other assets or credit risk of a counterparty.
(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued which are measured at DFVTPL (refer to Note 36 *Measurement categories of financial instruments*) for the Consolidated Entity is $2,136 million (2020: $3,333 million). This amount is based on the final notional amount rather than the fair value.
(4) The Consolidated Entity includes a cumulative fair value loss of $10 million (2020: $103 million gain) due to changes in own credit risk on DFVTPL debt securities recognised directly in OCI.

Note 24
Capital management strategy

The Consolidated Entity and the Company's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The Consolidated Entity's capital management objectives are to:

- continue to support the Consolidated Entity's credit rating
- ensure sufficient capital resources to support the Consolidated Entity's business and operational requirements
- maintain sufficient capital to exceed externally imposed capital requirements
- safeguard the Consolidated Entity's ability to continue as a going concern.

The Consolidated Entity's capital management strategy uses both internal and external measures of capital. Internally, the Consolidated Entity has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify the Company's aggregate level of risk. The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of the Company's risk profile. The economic capital model is used to support business decision-making and has three main applications:

- capital adequacy assessment
- risk appetite setting
- risk-adjusted performance measurement.

The Consolidated Entity is subject to minimum capital requirements externally imposed by Australian Prudential Regulation Authority (APRA), following the guidelines developed by the Basel Committee on Banking Supervision. APRA requires the Consolidated Entity to have an Internal Capital Adequacy Assessment Process (ICAAP) that is Board approved and which meets a range of minimum requirements. The Consolidated Entity reports to APRA under Basel III capital requirements and is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB). Regulatory capital requirements are measured for the Company and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Bank Group (Level 2 reporting). Level 2 consists of the Company, its subsidiaries and its immediate parent less certain subsidiaries of the Company which are deconsolidated for APRA reporting purposes. These include home loans and leasing Structured Entities (SEs) and entities conducting insurance, funds management and non-financial operations.

Under Basel III rules, APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets (RWA) of 8.5% including 2.5% of capital conservation buffer plus an ADI specific countercyclical capital buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels.

The Consolidated Entity's Common Equity Tier 1 capital consists of share capital, retained earnings, and certain reserves, net of deductions. Additional Tier 1 capital consists of hybrid instruments. The hybrid instruments on issue during the current and previous years included Macquarie Additional Capital Securities, Macquarie Bank Capital Notes 2 (issued on 2 June 2020), Macquarie Bank Capital Notes (repaid on 24 March 2020) and Macquarie Income Securities (repaid on 15 April 2020). Information on details of capital instruments is available in the Regulatory Disclosures section of the Macquarie public website. Deductions from Common Equity Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, SEs and non-financial entities are fully deducted from Common Equity Tier 1 capital. The Consolidated Entity's Tier 2 capital includes term subordinated debt, certain reserves and applicable deductions.

The Consolidated Entity and the Company have complied with all internal and external capital management requirements throughout the financial year.

Note 25
Loan capital

Subordinated debt

Subordinated debt comprises of agreements between the Consolidated Entity and its lenders that provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Consolidated Entity.

The table below highlights key capital instruments with conditional payment obligations issued by the Consolidated Entity and the Company:

Contract feature	Macquarie Additional Capital Securities	Macquarie Bank Capital Notes 2
Code	MACS	BCN2[1]
Issuer	Macquarie Bank Limited	Macquarie Bank Limited
Par value	n/a	$100
Currency	USD	AUD
Carrying value at reporting date	$US750 million/($A1,055 million)	$641 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost
Issued date	8 March 2017	2 June 2020
Interest rate	6.125% per annum	180-day BBSW plus a fixed margin of 4.70% per annum, adjusted for franking credits
Interest payment frequency	Semi-annually in arrears	Quarterly in arrears
Interest payment	Discretionary, non-cumulative	Discretionary, non-cumulative
Dividend stopper	MBL only	MBL only
Outstanding notes at reporting date	–[2]	6.41 million
Maturity	Perpetual, redeemable subject to APRA's written approval, and at the discretion of MBL in limited circumstances	Perpetual unless redeemed, resold, converted, exchanged or written-off in accordance with the terms of the instrument
Convertible into ordinary shares	Yes	Yes
Convertible into issuer shares	MGL	MGL
Mandatory conversion date	n/a	21 December 2028
Maximum number of shares on conversion	56,947,286	30,530,834
Optional exchange dates	n/a	• 21 December 2025 • 21 June 2026 • 21 December 2026 or, • earlier in specified circumstances at the discretion of MBL subject to APRA approval
Other exchange events	• acquisition date (where a party acquires control of MBL or MGL) • where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 Capital ratio falls below 5.125%	• acquisition date (where a party acquires control of MBL or MGL) • where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 Capital ratio falls below 5.125%
Capital Treatment	Additional Tier 1 capital	Additional Tier 1 capital

(1) BCN2 is newly issued on 2 June 2020.
(2) The MACS are held by a custodian on behalf of the security holders.

Note 25
Loan capital continued

The Consolidated Entity has also issued subordinated debt denominated in Euros and United States dollars which are eligible Tier 2 capital under APRA's capital standards (including transitional Basel III rules).

The table below discloses the carrying value of Loan Capital at 31 March. Where these instruments are designated in fair value hedge accounting relationships, the carrying value includes the fair value hedge adjustment, refer to Note 34 *Hedge accounting*. The contractual undiscounted cash flows are disclosed in Note 35 *Financial risk management*.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Original contractual maturity of Loan capital:				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	**71**	92	**71**	92
Subordinated debt instruments with fixed repayment obligations:				
21 September 2020	**–**	826	**–**	826
7 April 2021	**1,085**	1,386	**1,085**	1,386
10 June 2025	**1,048**	1,333	**1,048**	1,333
28 May 2030	**750**	–	**750**	–
3 June 2030	**903**	–	**903**	–
3 March 2036	**1,280**	–	**1,280**	–
Instruments with conditional repayment obligations:				
MACS	**1,055**	1,373	**1,055**	1,373
BCN2	**641**	–	**641**	–
	6,833	5,010	**6,833**	5,010
Less: directly attributable issue costs	**(29)**	(13)	**(29)**	(13)
Total loan capital	**6,804**	4,997	**6,804**	4,997
Reconciliation of loan capital by major currency:				
(In Australian dollar equivalent):				
United States dollar	**5,439**	4,158	**5,439**	4,158
Australian dollar	**1,394**	–	**1,394**	–
Euro	**–**	852	**–**	852
	6,833	5,010	**6,833**	5,010
Less: directly attributable issue costs	**(29)**	(13)	**(29)**	(13)
Total loan capital	**6,804**	4,997	**6,804**	4,997

The Consolidated Entity and the Company have not had any defaults of principal, interest or other breaches with respect to their loan capital during the financial years reported.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 26 Contributed equity				
Ordinary share capital	8,288	8,288	8,288	8,288
Other equity	235	220	112	110
MIS	–	391	–	391
Total contributed equity	**8,523**	8,899	**8,400**	8,789

	CONSOLIDATED AND COMPANY			
	2021 Number of shares	2020 Number of shares	**2021 $m**	2020 $m
(i) Ordinary share capital[1]				
Opening balance of fully paid ordinary shares	**634,361,966**	589,276,303	**8,288**	7,288
Issue of shares to parent entity[2] on 23 March 2020 at $22.18 per share	**–**	45,085,663	**–**	1,000
Closing balance of fully paid ordinary shares	**634,361,966**	634,361,966	**8,288**	8,288

(ii) Other equity

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
(a) Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**220**	219	**110**	106
Additional paid up capital	**24**	1	**11**	4
Balance at the end of the financial year	**244**	220	**121**	110

MEREP awards are primarily settled in MGL ordinary shares. Where MEREP awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If the issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP, refer to Note 31 *Employee equity participation*.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
(b) Others				
Balance at the beginning of the financial year	**–**	–	**–**	–
Transaction costs in relation to MIS[3]	**(9)**	–	**(9)**	–
Balance at the end of the financial year	**(9)**	–	**(9)**	–

(iii) MIS[3]

4,000,000 MIS of $100 each	**–**	400	**–**	400
Less: transaction costs for original placement	**–**	(9)	**–**	(9)
Total Macquarie Income Securities	**–**	391	**–**	391

(1) Ordinary shares have no par value.
(2) Macquarie B.H. Pty Limited.
(3) Balance represents transaction cost relating to original issuance of MIS which was transferred to other equity on redemption of MIS during the year. The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020. Distributions on the MIS have been presented in Note 5 *Dividends*.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 27				
Reserves, retained earnings and non-controlling interests				
(i) Reserves				
Foreign currency translation reserve and net investment hedge reserve				
Balance at the beginning of the financial year	**1,197**	631	**(15)**	(28)
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax[1]	**(800)**	566	**(6)**	13
Balance at the end of the financial year	**397**	1,197	**(21)**	(15)
FVOCI reserve				
Balance at the beginning of the financial year	**(33)**	7	**12**	23
Revaluation movement for the year, net of tax	**71**	(46)	**46**	(11)
Changes in ECL allowance, net of tax	**(3)**	6	**1**	–
Balance at the end of the financial year	**35**	(33)	**59**	12
Cash flow hedge reserve				
Balance at the beginning of the financial year	**(157)**	(113)	**(45)**	(33)
Revaluation movement for the financial year, net of tax	**7**	(88)	**(20)**	(24)
Transferred to income statement on realisation, net of tax[2]	**37**	44	**25**	12
Balance at the end of the financial year	**(113)**	(157)	**(40)**	(45)
Cost of hedging reserve[3]				
Balance at the beginning of the financial year	**(10)**	(5)	**(10)**	(5)
Revaluation movement for the financial year, net of tax	**–**	(5)	**–**	(5)
Transferred to income statement on realisation, net of tax	**2**	–	**2**	–
Balance at the end of the financial year	**(8)**	(10)	**(8)**	(10)
Share of reserves of interests in associates and joint ventures				
Balance at the beginning of the financial year	**(6)**	(4)	**–**	–
Share of other comprehensive gains/(losses) of associates and joint ventures during the year, net of tax	**1**	(2)	**–**	–
Balance at the end of the financial year	**(5)**	(6)	**–**	–
Total reserves at the end of the financial year	**306**	991	**(10)**	(58)

(1) The current year movement represents the revaluation of the Group's unhedged investments in foreign operations primarily driven by the appreciation of the Australian dollar against the United States dollar. Refer to Note 35.3 *Market risk* for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.

(2) Includes $0.4 million loss for the Consolidated Entity (2020: $12 million loss for both the Consolidated Entity and Company) related to a previously designated hedge relationship for which the hedged future cash flows are no longer highly probable to occur.

(3) Relates to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m

Note 27
Reserves, retained earnings and non-controlling interests continued

(ii) Retained earnings

Balance at the beginning of the financial year	**4,336**	2,824	**2,080**	1,393
Change attributable to group restructure[1]	**(189)**	–	**–**	–
Profit attributable to the ordinary equity holder of MBL	**1,676**	1,473	**2,423**	637
Distributions paid or provided for on MIS (Note 5)	**–**	(12)	**–**	–
Dividends paid on ordinary share capital (Note 5)	**(500)**	–	**(500)**	–
Gain/(loss) on change in non-controlling ownership interest	**1**	1	**–**	–
Fair value changes attributable to own credit risk on debt classified at DFVTPL, net of tax	**(79)**	50	**(79)**	50
Balance at the end of the financial year	**5,245**	4,336	**3,924**	2,080

(iii) Non-controlling interests[2]

Share capital and partnership interests	**46**	47	**–**	–
Reserve	**4**	4	**–**	–
Accumulated losses	**(50)**	(50)	**–**	–
Total non-controlling interests	**–**	1	**–**	–

(1) Represents adjustment to retained earnings for the difference between purchase price and book value of the net assets acquired during the year as a part of the acquisition of Macquarie's service entities from the Non-Bank Group. Refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses.*

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

Note 28
Notes to the statements of cash flows

(i) Reconciliation of cash and cash equivalents

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Cash and cash equivalents at the end of the financial year are reflected in the related items in the Statements of financial position as follows:				
Cash and bank balances[1],[2]	**13,590**	5,308	**12,387**	4,558
Cash collateral on securities borrowed and reverse repurchase agreements	**15,480**	21,469	**15,014**	21,121
Financial investments	**248**	513	**248**	513
Cash and cash equivalents at the end of the financial year	**29,318**	27,290	**27,649**	26,192

(1) Cash and bank balances includes $946 million (2020: $682 million) (for the Company at 2021: $505 million, 2020: $491 million) of balances held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is subject to certain restrictions.

(2) Amounts excluded from cash and cash equivalents but presented in the Statements of financial position as cash and bank balances primarily relates to $2,294 million (2020: $2,257 million) (for the Company 2021: $1,548 million, 2020: $1,283 million) of funds received from clients which are segregated from the Consolidated Entity and the Company's own funds and are not available to meet the short-term cost commitments.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m

Note 28
Notes to the statements of cash flows continued

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

Profit after income tax	**1,676**	1,473	**2,423**	637
Adjustments to profit after income tax:				
Depreciation and amortisation	**551**	853	**226**	579
Expected credit losses and impairment charges	**333**	472	**88**	190
Investment income and gain on sale of operating lease assets and other non-financial assets	**(133)**	(235)	**(87)**	(310)
Profit from discontinued operations	**–**	(164)	**–**	(164)
Share of net (profits)/losses of associates and joint ventures	**(41)**	(27)	**–**	–
Changes in assets and liabilities:				
Carrying values of associates due to dividends received	**2**	2	**–**	–
Interest, fees and commissions payable	**(45)**	(112)	**(79)**	(137)
Tax balances	**410**	247	**121**	325
Debtors, prepayments, accrued charges and creditors	**415**	(279)	**163**	(304)
Trading assets, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities)(1)	**(4,869)**	1,150	**(6,172)**	(311)
Other assets and liabilities	**(578)**	(466)	**282**	(177)
Loan assets and balances with related body corporates	**(13,629)**	(13,242)	**(17,475)**	(5,170)
Operating lease assets	**(407)**	(516)	**71**	(25)
Deposits	**17,205**	10,916	**17,118**	10,939
Borrowings	**(164)**	1,516	**(36)**	1,276
Debt issued	**2,321**	8,573	**6,425**	2,935
Net cash flows generated from operating activities	**3,047**	10,161	**3,068**	10,283

(iii) Reconciliation of loan capital:

Balance at the beginning of the financial year	**4,997**	4,550	**4,997**	4,550
Cash flows:				
Issuance (2)	**3,694**	–	**3,694**	–
Redemption(3)	**(740)**	(429)	**(740)**	(429)
Non-cash changes:				
Foreign currency translation and other movements	**(1,147)**	876	**(1,147)**	876
Balance at the end of the financial year	**6,804**	4,997	**6,804**	4,997

(1) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.
(2) On 2 June 2020, the Consolidated Entity and the Company issued Macquarie Bank Capital Notes (BCN2) amounting to $641 million. Refer to Note 25 *Loan capital* for further details. The Consolidated Entity also raised $3,053 million through the issue of Tier 2 Loan Capital.
(3) During the year, the Consolidated Entity and the Company redeemed $740 million of loan capital.

Note 29
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.

Transactions between the Company and its subsidiaries and with other related body corporate entities principally arise from the provision of banking and other financial services, the granting of funding arrangements and acceptance of funds on deposit, derivative transactions, the provision of management and administration services; distribution and risk management activities; and the provision of guarantees.

The Master Loan Agreement (the MLA) governs the funding arrangements between various subsidiaries and related body corporate entities which are under the common control of MGL and which have acceded to the MLA. During the current financial year the Tripartite Outsourcing Major Services Agreement (TOMSA) became effective governing the provision of intra-group services between subsidiaries and related body corporate entities other than certain excluded entities.

Ultimate and immediate parent entities

The Consolidated Entity's and Company's ultimate parent entity is MGL and the immediate parent entity is Macquarie B.H. Pty Limited (MBHPL). Both MGL and MBHPL are incorporated in Australia. MGL produces 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 44(vi) *Taxation*. 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 MBHPL are included in Due from related body corporate entities or Due to related body corporate entities, as appropriate, in the Statements of financial position.

Current period transaction under common control

During the current financial year, the Consolidated Entity acquired Macquarie's service entities from the Non-Bank Group. The entities provide services to other entities and recover their costs on either a time and effort allocation basis or a fee service basis. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses*.

Note 29
Related party information continued

The following transactions occurred with the ultimate parent entity during the financial year:

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Interest income	**434**	1,503	**398**	1,369
Interest expense	**(2,357)**	(1,589)	**(2,162)**	(1,323)
Dividend paid	**500,000**	560,000	**500,000**	560,000
Fee and commission income	**2,019**	1,556	**878**	644

The following balances with the ultimate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Off Balance Sheet:				
Due from related body corporates[1]	**501,455**	604,590	**312,944**	527,810
Due to related body corporates[2]	**(293,653)**	(459,281)	**(270,841)**	(435,250)

(1) Due from related body corporates primarily represents the amounts receivable by the Consolidated Entity and the Company, in respect of amounts paid in advance for MEREP awards offered to its employees' net of share-based payment expense (refer to Note 44(xxiii) *Performance based remuneration*), loans and receivables as per the terms of the funding arrangements under the MLA and trading-related balances including derivatives designated in hedge accounting relationships.

(2) Due to related body corporates primarily represents the amount payable by the Consolidated Entity and the Company as per the terms of funding arrangements under MLA, trading-related balances including derivative designated in hedge accounting relationships and payables under other bespoke loans agreements.

Note 29
Related party information continued

Subsidiaries

All transactions undertaken with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the Statement of financial position of the Company except when the parties have the legal right and intention to offset.

Balances may arise from lending and borrowing activities between the Company and its subsidiaries which are either repayable on demand or may be extended on a term basis and where appropriate may be either subordinated or collateralised. The Company also transacts with subsidiaries for trading activities including derivative transactions to manage and hedge market risks.

A list of significant subsidiaries is set out in Note 16 *Investments in subsidiaries*.

The following transactions occurred with subsidiaries during the financial year:

	COMPANY	
	2021 $'000	2020 $'000
Interest income	**364,157**	734,280
Interest expense	**(266,532)**	(454,782)
Fee and commission income	**422,819**	220,974
Other operating expenses[1]	**(559,899)**	(42,275)
Dividends and distributions	**1,368,778**	131,137
Management fees, group service charges and cost recoveries	**293,994**	329,524
Brokerage, commission and trading-related expenses	**(273,000)**	(142,762)
Other income/(expenses)	**703**	(6,623)

The following balances with subsidiaries were outstanding as at the end of the financial year:

On Balance Sheet:		
Due from subsidiaries[2]	**21,499,672**	27,039,802
Due to subsidiaries[3],[4]	**(16,532,680)**	(18,248,934)
Off Balance Sheet:		
Guarantees[5]	**(1,085,573)**	(1,069,879)
Performance related contingencies	**(101,154)**	–
Letter of credit	**(45,329)**	(78,363)

(1) Current financial year includes costs recovered from the Company by service entities acquired from MGL during the year. Before acquisition these cost were disclosed under transactions with other related body corporates.
(2) Due from subsidiaries primarily represents loans and receivables as per the terms of the funding arrangements under MLA, loans and receivables under bespoke funding agreements and trading-related balances including derivatives designated in hedge relationship.
(3) Due to subsidiaries primarily represents payables as per the terms of the funding arrangements under MLA, payables under bespoke funding agreements and trading-related balances including derivative designated in hedge relationship.
(4) The Company enters into repurchase transaction and pledges collateral to its subsidiary Macquarie Bank International Ltd for managing regulatory exposures in relation to over-the-counter derivatives. As at 31 March 2021, the collateral placed was $136,416 thousand (March 2020: $104,197 thousand).
(5) Includes guarantees to counterparties with respect to their exposures to certain subsidiaries. The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 29
Related party information continued

Other related parties

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, may be either subordinated or collateralised.

During the financial year, the following amounts of income/(expense) resulted from transactions with other related body corporate entities during the financial year:

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Interest income	**7,447**	14,318	**5,499**	12,753
Interest expense	**(46,701)**	(293,391)	**(44,801)**	(244,793)
Rental income	**16,469**	22,855	**22,855**	22,855
Fee and commission income/(expense)[1]	**318,852**	(19,406)	**(131,468)**	(115,697)
Other operating expenses[2]	**(655,553)**	(1,673,378)	**(797,507)**	(1,239,243)
Gain on sale of the subsidiaries and businesses[3]	**–**	342,869	**–**	287,512
Other income	**3**	7,570	**869**	7,593

The following balances with other related body corporate entities were outstanding at the reporting date:

On Balance Sheet:				
Due from other related body corporate entities[4]	**1,651,613**	4,673,525	**1,332,316**	4,577,322
Due to other related body corporate entities[5],[6]	**(15,606,943)**	(21,655,062)	**(15,412,352)**	(21,577,514)
Off Balance Sheet:				
Undrawn Credit facilities and securities underwriting	**(21,000)**	–	**(21,000)**	–
Performance related contingencies[7]	**(591,019)**	(763,832)	**(591,019)**	(763,862)
Letter of credit	**(212,025)**	(233,709)	**(212,025)**	(233,709)

Guarantees of $3,445,848 thousand (March 2020: $3,457,568 thousand) were received from a related group entity, Macquarie Financial Holdings Pty Limited (MFHPL) by the Company for certain exposures of the Company with MFHPL, its subsidiaries and the Company's own subsidiaries. MFHPL has placed cash collateral of a similar amount with the Company as per the terms of the guarantee arrangement included in the amounts payable balance above.

(1) Current financial year includes service fees earned by the service entities from the Non-Bank Group after the date of acquisition from MGL.
(2) Current financial year includes the recovery of costs by service entities acquired from MGL till the date of acquisition.
(3) Previous year includes $102,173 thousand gain on sale of CAF's Principal Finance and Transportation Finance businesses to MFHPL and $240,696 thousand gain on sale of Macquarie Specialised Investment Solutions (MSIS) fiduciary businesses to Macquarie Asset Management Holdings Pty Limited (MAMHPL) for the Consolidated Entity.
(4) Due from other related body corporates primarily represents loans and receivables as per the terms of the funding arrangements under MLA, loans and receivables under bespoke funding agreements and trading-related balances including derivatives designated in hedge relationship.
(5) Due to other related body corporates primarily represents payables as per the terms of the funding arrangements under MLA, payables under bespoke funding agreements and trading-related balances including derivative designated in hedge relationship.
(6) Includes $629,946 thousand (2020: $3,500,496 thousand) repurchase agreements under new liquidity arrangement with MFHPL and Macquarie Capital (Europe) Limited (MCEL) wherein the Company has repledged collateral amounting to $571,016 thousand (2020: $3,196,180 thousand).
(7) Includes performance related contingent liability to MFHPL for which collateral of a similar amount has been received.

Note 29
Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans and the provision of management services. Balances may arise from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures which are generally extended on a term basis and where appropriate may be either subordinated or collateralised. During the financial year, the following amounts of income/(expense) arose from transactions with associates and joint ventures:

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Interest income	**706**	1,736	**706**	(512)
Fee and commission income/(expense)	**614**	(7,014)	**(924)**	(7,698)
Other income	**46,586**	29,794	**49,651**	31,888
Brokerage and commission expense	**(14,946)**	(10,500)	**(14,946)**	(10,500)

Dividends and distributions of $3,255 thousand (2020: $2,597 thousand) were received from the Consolidated Entity's associates and joint ventures. Under the equity method of accounting, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 13 *Interests in associates and joint ventures*):

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Amount receivable	**6,659**	4,614	**5,506**	4,614
Amount payable	**(11,373)**	(17,093)	**(11,373)**	(17,093)

Note 30
Key management personnel disclosure

Key management personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2021 and 31 March 2020, unless indicated otherwise:

Executive Voting Directors

S.R. Wikramanayake	Macquarie Group CEO
M.J. Reemst	Macquarie Bank CEO[1]

Non-Executive Directors

P.H. Warne	Chairman
J.R. Broadbent AC	
G.M. Cairns[2]	
P.M. Coffey	
M.J. Coleman	
D.J. Grady AO	
R.J. McGrath	(appointed effective 20 January 2021)
M. Roche	(appointed effective 20 January 2021)
G.R Stevens AC[3]	
N.M. Wakefield Evans	

Former Non-Executive Director

G.R. Banks AO	(retired effective 30 July 2020)
M.J. Hawker AM	(retired effective 30 September 2020)

In addition to the Executive Voting Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MBL during the financial years ended 31 March 2021 and 31 March 2020, unless otherwise indicated.

Current Executives[4]

A.H. Harvey	CFO, Head of FMG
N. O'Kane	Head of CGM
N. Sorbara	COO, Head of COG
P.C. Upfold	CRO, Head of RMG
G.C. Ward	Head of BFS

Former Executives

G.A. Farrell	Former Co Head of Corporate and Asset Finance (ceased to be a member of the Executive Committee on 1 September 2019)

The remuneration arrangements for all of the persons listed above are described on pages 35 to 57 of the Remuneration Report, contained in the Directors' Report.

(1) Ms Mary Reemst will retire as Managing Director and Chief Executive Officer (CEO) of Macquarie Bank (MBL) at close of business on 1 July 2021 and, subject to regulatory approvals, Stuart Green will then become Managing Director and CEO of MBL and join the Executive Committee on 1 July 2021.
(2) Will cease to be a member of the Board effective 7 May 2021.
(3) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.
(4) Except where indicated otherwise, all of the Executives, as well as the CEO were members of the Executive Committee as at 7 May 2021.

Note 30
Key management personnel disclosure continued

Key management personnel remuneration

The following table details the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS				LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		
	Salary and fees (including superannuation) $	Performance related remuneration[1] $	Other benefits $	Total short-term employee benefits $	Restricted profit share including earnings on restricted profit share[2] $	Equity awards[3] $	PSUs[4] $	Total remuneration $
Executive remuneration								
2021	**3,723,231**	**19,683,727**	**–**	**23,406,958**	**3,447,232**	**29,609,864**	**3,299,411**	**59,763,465**
2020	3,790,881	–	–	3,790,881	8,713,979	27,153,374	9,117,494	48,775,728
Non-Executive remuneration								
2021	**909,032**	**–**	**2,000**	**911,032**	**–**	**–**	**–**	**911,032**
2020	969,000	–	12,000	981,000	–	–	–	981,000

Loans to KMP and their related parties

Details of loans provided by the Consolidated Entity to KMP and their related parties are disclosed in aggregate in the following table:

Total for key management personnel and their related parties	Opening balance at 1 April $'000	Additions during the year $'000	Interest charged $'000	Repayments during the year $'000	Write-downs $'000	Closing balance at 31 March[5] $'000
2021	**11,469**	**180**	**135**	**(556)**	**–**	**11,228**
2020	1,309	10,122	109	(71)	–	11,469

Loans and other financial instrument transactions were made by the Consolidated Entity in the ordinary course of business with related parties.

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.
(2) The amount of the retained profit share held via the DPS plan including earnings on notional investments from retained profit share in prior financial years.
(3) The current year amortisation for retained profit share calculated as described in 44(xxiii) *Performance based remuneration.*
(4) The current year amortisation for PSUs calculated as described in Note 44(xxiii) *Performance based remuneration.* The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.
(5) Number of persons included in the aggregate as at 31 March 2021: 5 (31 March 2020: 5).

Note 31
Employee equity participation

MEREP

MBL participates in its ultimate parent company's, Macquarie Group Limited (MGL), share based compensation plans, being the Macquarie Group Employee Retained Equity Plan (the MEREP). In terms of this plan, awards are granted by MGL to qualifying employees for delivery of MGL shares.

Award types under the MEREP

Restricted Share Units (RSUs)

An RSU is a beneficial interest in an MGL ordinary share held on behalf of a MEREP participant by the plan trustee (Trustee).

The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights of the share. The participant also has the right to request the release of the share from the MEREP Trust, subject to the vesting and forfeiture provisions of the MEREP.

	NUMBER OF RSU AWARDS	
	2021	2020
RSUs on issue at the beginning of the financial year	**3,521,083**	3,789,442
Granted during the financial year	**1,263,771**	1,255,720
Forfeited during the financial year	**(67,286)**	(27,367)
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(981,056)**	(1,429,019)
Net transfers from/(to) related body corporate entities[1]	**2,505,118**	(67,693)
RSUs on issue at the end of the financial year	**6,241,630**	3,521,083
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**–**	–

The weighted average fair value of the RSU awards granted during the financial year was $124.40 (2020: $126.99).

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either an MGL share held in the Trust or a newly issued MGL share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or direct the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs.

Generally, where permitted by law, DSUs will provide for cash payments in lieu of dividends paid on MGL ordinary shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of the MGL's shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights with respect to any underlying MGL ordinary shares.

DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs). DSUs have been granted with an expiry period of up to nine years.

	NUMBER OF DSU AWARDS	
	2021	2020
DSUs on issue at the beginning of the financial year	**812,489**	865,164
Granted during the financial year	**276,303**	318,796
Forfeited during the financial year	**(4,288)**	(44,253)
Exercised during the financial year	**(121,363)**	(149,722)
Net transfers from/(to) related body corporate entities[1]	**159,159**	(177,496)
DSUs on issue at the end of the financial year	**1,122,300**	812,489
DSUs exercisable at the end of the financial year	**416,301**	289,474

The weighted average fair value of the DSU awards granted during the financial year was $117.16 (2020: $115.97).

(1) Net transfers from related body corporate entities during the year includes transfers relating to the transfer of employees from Macquarie's service entities to the Consolidated Entity.

Note 31
Employee equity participation continued

Award Types under the MEREP continued

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles related to MGL's performance that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest.

	NUMBER OF PSU AWARDS	
	2021	2020
PSUs on issue at the beginning of the financial year	**291,357**	366,296
Granted during the financial year	**39,217**	65,310
Forfeited during the financial year	**–**	(14,081)
Exercised during the financial year	**(59,857)**	(126,168)
Expired during the Year	**(59,858)**	–
Net transfers from/(to) related body corporate entities[1]	**443,980**	–
PSUs on issue at the end of the financial year	**654,839**	291,357
PSUs exercisable at the end of the financial year	**–**	–

The weighted average fair value of the PSU awards granted during the financial year was $105.09 (2020: $98.99).

Participation in the MEREP is currently provided to the following Eligible Employees:

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie Bank staff with retained commission (Commission Awards)
- new Macquarie Bank staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value (New Hire Awards)
- members of the MBL Executive Committees who are eligible for PSUs (PSU awards)
- in limited circumstances, Macquarie Bank staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of Macquarie Bank upon the acquisition of their employer by a Macquarie entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

(1) Net transfers from related body corporate entities during the year includes transfers relating to the transfer of employees from Macquarie's service entities to the Consolidated Entity.

Note 31
Employee equity participation continued

Award Types under the MEREP continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
Retained DPS Awards	Executive Committee members and Designated Executive Directors	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards	All other Executive Directors	1/3rd in the 3rd, 4th and 5th year following the year of grant(2)
PSU Awards granted in relation to 2012 to 2019	Executive Committee members	50% in the 3rd and 4th years following the year of grant(3)
PSU Awards granted in relation to 2020 and following years	Executive Committee members	100% in the 4th year following the year of grant(3)
Commission Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
New Hire Awards	All Director-level staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation

In limited cases, the application form for awards may set out a different vesting period, in which case that period will be the vesting period for the award. For example, staff in jurisdictions outside Australia may have a different vesting period due to local regulatory requirements.

For Retained Profit Share awards representing 2020 retention, the allocation price was the weighted average price of the shares issued for the 2020 issue period, which was 25 May 2020 to 5 June 2020. That price was calculated to be $112.15 (2019 retention: $122.37).

Performance Share Units (PSUs)

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles related to MGL's performance. Only members of the MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded.

The hurdles are outlined below.

Performance hurdle 1

Hurdle	REFERENCE GROUP
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period compared to a reference group of global financial institutions. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG.

Performance hurdle 2

Hurdle	REQUIRED RESULT
50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.

(1) Vesting will occur during an eligible staff trading window.
(2) Vesting will occur during an eligible staff trading window. If an Executive Director has been on leave without pay (excluding leave) to which the Executive Director may be eligible under local laws for 12 months or more, the vesting period may be extended accordingly.
(3) Subject to achieving certain performance hurdles.

Note 31
Employee equity participation continued

Performance Share Units (PSUs) continued

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recently available year-end financial results. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in no benefit to Executive Committee members.

Assumptions used to determine fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value[1] and for each PSU, the awards expected to vest are measured on the basis of the assumptions below. This amount is recognised as an expense evenly over the respective vesting periods.

RSUs, DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of 2020. The accounting fair value of each of these grants is estimated using the MGL's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 0.2023% per annum
- expected vesting dates of PSUs: 1 July 2024
- dividend yield: 4.33% per annum.

While RSUs DSUs, and PSUs (for Executive Committee members) for FY2021 will be granted during FY2022, the Company begins recognising an expense for these awards (based on an initial estimate) from 1 April 2020 related to these future grants. The expense is estimated using the estimated MEREP retention for FY2021 and applying the amortisation profile to the retained amount.

For PSUs, the estimate also incorporates an interest rate to maturity of 0.44% per annum, expected vesting date of PSUs of 1 July 2025, and a dividend yield of 3.96% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

The Consolidated Entity annually revises its estimates of the number of awards (including those delivered through MEREP) that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the employment expenses in the income statement.

For the financial year ended 31 March 2021, compensation expense relating to the MEREP totalled $204,594 thousand (2020: $191,519 thousand).

Employee Share Plan

MBL also participates in MGL's Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to $1,000 worth of fully paid MGL ordinary shares for no cash consideration.

Shares allocated under the ESP cannot be sold until the earlier of three years after allocation or the time when the participant is no longer employed by MGL or a subsidiary of MGL. In all other respects, shares allocated rank equally with all other fully paid ordinary shares then on issue.

The latest offer under the ESP was made during November 2020. A total of 1,790 (2020: 752) staff participated in this offer. On 9 December 2020, the participants were each allocated 7 (2020: 7) fully paid ordinary shares based on the offer amount of $1,000 and the average market share price of $139.70 (2020: $136.37), resulting in a total of 12,530 (2020: 5,264) shares being allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2021, compensation expense relating to the ESP totalled $1,750 thousand (2020: $710 thousand).

Other plans

MBL operates other local share-based compensation plans, none of which, individually or in aggregate are material.

(1) For employees categorised as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV remuneration requirements, the fair value of the awards granted for performance periods after 1 April 2019 has been adjusted to take into account the prohibition of dividends on unvested awards.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Contingent liabilities exist in respect of:				
Letters of credit	**1,197**	1,206	**1,206**	1,254
Performance-related contingencies[1]	**888**	1,076	**989**	1,075
Guarantees[2]	**195**	144	**1,280**	1,214
Indemnities	**164**	336	**164**	336
Total contingent liabilities[3]	**2,444**	2,762	**3,639**	3,879
Commitments exist in respect of:				
Undrawn credit facilities and securities commitments[4]	**5,865**	4,665	**5,374**	4,173
Other asset developments	**754**	891	**754**	891
Total commitments	**6,619**	5,556	**6,128**	5,064
Total contingent liabilities and commitments	**9,063**	8,318	**9,767**	8,943

Note 32
Contingent liabilities and commitments

The Consolidated Entity and the Company 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 and the Company considers the probability of there being a material adverse effect in respect of litigation or claims that have not been provided for to be remote.

(1) Includes $591 million (31 March 2020: $763 million) in favour of a related party for which collateral of a similar amount has been received.
(2) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.
(3) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(4) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting represents firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Note 33
Structured entities

The Consolidated Entity engages with structured entities (SEs) for securitisation, asset backed financing businesses in order to diversify its sources of funding for asset origination and capital efficiency purposes. SEs are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual agreements. Often, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets, including mortgages, finance leases of the Consolidated Entity or of its clients.

The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Asset-backed financing

Asset-backed financing vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders. The Consolidated Entity engages in raising finance for assets such as vessels, electronic and IT equipment.

Consolidated structured entities

The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

SEs are consolidated when they meet the criteria described in Note 44(i) *Principles of consolidation*.

Interests held in unconsolidated structured entities

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

- creates variability instead of absorbing (for example purchase of credit protection under a credit default swap)
- acts as an underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs
- transfers assets and does not have any other interest deemed to be significant in the SE.

Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to interest, management fees, servicing fees, dividends and gains or losses from revaluing financial instruments.

Note 33
Structured entities continued

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs:

	CONSOLIDATED 2021		CONSOLIDATED 2020	
	Securitisations $m	**Asset-backed financing $m**	Securitisations $m	Asset-backed financing $m
Carrying value of assets				
Trading assets	**113**	**–**	547	–
Derivative assets	**414**	**–**	551	–
Financial investments[1]	**2,088**	**18**	2,056	–
Loan assets	**698**	**2,034**	501	2,769
Total carrying value of assets[2]	**3,313**	**2,052**	3,655	2,769
Maximum exposure to loss[3]				
Debt, equity and derivatives held	**3,313**	**2,052**	3,655	2,769
Undrawn commitments	**180**	**–**	–	–
Total maximum exposure to loss	**3,493**	**2,052**	3,655	2,769

The Consolidated Entity's exposure to securitisation entities in the nature of trading assets, derivatives and debt financial investment positions are acquired for the purpose of trading and liquidity management are typically managed under market risk described in Note 35.3 *Market risk*. For these reasons, information on the size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented.

In respect of the Consolidated Entity's loan assets' exposure in securitisation and asset backed financing entities, the total size of the unconsolidated SEs is $32,075 million (2020: $6,649 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

(1) Securitisations includes $1,336 million (2020: $1,645 million) of investments that are managed by the Consolidated Entity under the liquid assets' holding policy described in Note 35.2 *Liquidity risk*.
(2) Includes non-investment grade interests of $80 million (March 2020: $182 million) in securitisation activities and $1,195 million (March 2020: $1,433 million) in asset-backed financing activities. Of these non-investment grade interests in asset-backed financing activities, the potential loss borne by holders of notes whose interests rank lower is $Nil (2020: $110 million).
(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.

Note 34
Hedge accounting

Hedging strategy

The use of derivative and non-derivative instruments to economically hedge non-traded positions potentially gives rise to income statement volatility as a result of mismatches in the accounting treatment between the derivative and non-derivative instruments and the related exposure. The Consolidated Entity's objective is to reduce the risk of volatility in earnings. This volatility may be managed by allowing hedges to naturally offset one another or, where the earnings volatility exceeds pre-defined thresholds, hedge accounting is considered.

Hedging instruments

Detail on hedging instruments, the nature of hedged risks, as well as the notional and the carrying amount of derivative financial instruments and, in the case of net investment hedges, the notional of foreign currency denominated borrowings, for each type of hedge relationship, is shown in the respective sections. The maturity profile for the hedging instruments' notional amounts are reported based on their contractual maturity. Where a cross currency swap has been dual designated in both a cash flow and a fair value hedge, the notional is shown more than once. Increases in notional profiles of hedging instruments are presented as negative figures, with decreases and maturities presented as positive figures.

Hedging ineffectiveness

In the case of a fair value hedge, hedge ineffectiveness is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item. In the case of a cash flow hedge, hedge ineffectiveness is the extent to which the change in the fair value of the hedging instrument exceeds, in absolute terms, that of the hedged item. In the case of net investment hedge relationships, hedge ineffectiveness is the extent to which the change in the carrying amount of foreign currency denominated borrowings and foreign exchange contracts attributable to the change in exchange rates exceeds, in absolute terms, that of the hedged item. Sources of hedge ineffectiveness primarily arise from basis and timing differences between the hedged items and hedging instruments and designating existing derivatives with a non-zero fair value as hedging instruments. Hedge ineffectiveness is reported in net trading income in the income statement.

IBOR reform

The Consolidated Entity designates hedging relationships where the hedged item and/or hedging instrument reference IBOR. These rates are being transitioned to alternative reference rates (ARRs) as described in Note 1 *Basis of preparation* and Note 35 *Financial risk management*. IBOR reform primarily impacts the Consolidated Entity's hedge relationships referencing USD LIBOR and GBP LIBOR. The hedge relationships disclosed as impacted by IBOR reform includes all those referencing transitioning LIBOR rates at the reporting date and includes relationships that are expected to expire before mandatory transition to ARRs. The majority of these derivatives are subject to the ISDA Fallbacks Protocols for converting LIBORs to ARRs plus a spread when an index cessation event occurs.

The UK Financial Conduct Authority's (FCA) announcement on the future cessation and loss of representativeness of LIBOR benchmarks on 5 March 2021 constituted such an index cessation event which fixed the spread adjustment to be applied to such derivative contracts upon fallback. Despite the announcement uncertainty remains with respect to the timing of transition of the IBOR-based cash flows of these hedging instruments. As markets continue to develop, regulators continue to monitor the progress of transition and have encouraged the proactive transition of positions from IBORs to ARRs rather than reliance on fallback clauses. As a result, the relief afforded to the Consolidated Entity under AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* (Phase 1 relief), which was early adopted during the 31 March 2020 financial year, continues to apply. Certain hedge accounting relationships have transitioned to ARRs during the current period and consequently the Consolidated Entity has made use of the relief provided by AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* (Phase 2 relief) to amend the formal designation of these hedging relationships.

Note 34
Hedge accounting continued

The absolute notional amounts of hedging instruments designated in hedge accounting relationships represent the extent of the risk exposure managed by the Consolidated Entity that are impacted by IBOR reform per the following table:

	NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM					
	USD $m	GBP $m	Other[1] $m	Total $m	Other not affected by reform[2] $m	Total notional[3] $m
						CONSOLIDATED 2021
Cash flow hedges	**1,002**	**1,378[4]**	**731**	**3,111**	**6,845**	**9,956**
Fair value hedges	**11,545**	**–**	**891**	**12,436**	**12,590**	**25,026**
						CONSOLIDATED 2020
Cash flow hedges	1,201	1,969	1,225	4,395	6,713	11,108
Fair value hedges	12,471	–	1,429	13,900	14,459	28,359

	NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM					
	USD $m	GBP $m	Other[1] $m	Total $m	Other not affected by reform[2] $m	Total notional[3] $m
						COMPANY 2021
Cash flow hedges	**1,002**	**2,032[4]**	**731**	**3,765**	**6,664**	**10,429**
Fair value hedges	**11,545**	**–**	**891**	**12,436**	**3,073**	**15,509**
						COMPANY 2020
Cash flow hedges	1,067	2,579	1,225	4,871	4,564	9,435
Fair value hedges	12,337	–	1,429	13,766	2,933	16,699

(1) Other includes balances impacted by the IBOR reform of JPY LIBOR and CHF LIBOR.
(2) The Consolidated Entity has exposure to rates such as BBSW and EURIBOR that are not subject to mandatory replacement and therefore do not make use of the relief (as described in Note 1 *Basis of preparation*).
(3) Where a cross currency swap in a cash flow hedge designation references more than one interest rate, the risk exposure has been shown twice to reflect the absolute risk exposure to different reference rates. For all other hedge accounting disclosures, the notional has been shown once. To reconcile this notional to other hedge accounting disclosures an amount of $3,047 million would need to be deducted from both the Consolidated Entity and Company (2020: $5,050 million and $4,017 million respectively). The notional of commodity swaps and futures shown in the hedging instrument maturity tables on pages 126 and 130 are not included in the notionals disclosed above.
(4) Excludes hedge relationships of $220 million notional which have been synthetically transitioned to SONIA during the current year (making use of the Phase 2 relief) and thus meet the requirement for end of Phase 1 relief.

Note 34
Hedge accounting continued

Cash flow hedges

The cash flow hedge reserve, representing the effective portion of the movements in the hedging instrument, is disclosed in Note 27(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's Statements of comprehensive income. The cumulative gains and losses remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur are $3 million (2020: $Nil) for the Consolidated Entity and $2 million (2020: $Nil) for the Company. These amounts will be reclassified to the income statement as a loss as and when the hedged item affects the income statement.

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Derivative assets						CONSOLIDATED 2021
Cross currency swaps	Foreign exchange	**(20)**	**(48)**	**477**	**1,079**	**1,488**
Interest rate swaps	Interest rate	**–**	**–**	**1,043**	**–**	**1,043**
Derivative liabilities						
Cross currency swaps	Foreign exchange	**–**	**1,038**	**884**	**–**	**1,922**
Interest rate swaps	Interest rate	**(44)**	**522**	**1,222**	**756**	**2,456**
Derivative assets						CONSOLIDATED 2020
Cross currency swaps	Foreign exchange	12	935	2,212	1,353	4,512
Derivative liabilities						
Cross currency swaps	Foreign exchange	–	–	537	–	537
Interest rate swaps	Interest rate	(43)	(141)	198	995	1,009

		CONSOLIDATED CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Cross currency swaps	Foreign exchange	**105**	**82**	697	38
Interest rate swaps	Interest rate	**1**	**101**	–	164

Note 34
Hedge accounting continued

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Derivative assets						COMPANY 2021
Cross currency swaps	Foreign exchange	**(20)**	**(48)**	**477**	**1,079**	**1,488**
Interest rate swaps	Interest rate	**(22)**	**(54)**	**1,216**	**557**	**1,697**
Derivative liabilities						
Cross currency swaps	Foreign exchange	**–**	**1,038**	**884**	**–**	**1,922**
Interest rate swaps	Interest rate	**(44)**	**397**	**1,166**	**756**	**2,275**
Derivative assets						COMPANY 2020
Cross currency swaps	Foreign exchange	(22)	(62)	2,212	1,353	3,481
Interest rate swaps	Interest rate	(24)	(68)	(9)	740	639
Derivative liabilities						
Cross currency swaps	Foreign exchange	–	–	537	–	537
Interest rate swaps	Interest rate	(47)	(152)	(35)	995	761

		COMPANY CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Cross currency swaps	Foreign exchange	**105**	**82**	538	38
Interest rate swaps	Interest rate	**84**	**89**	131	142

Note 34
Hedge accounting continued

Hedge ineffectiveness

In the case of cash flow hedge relationships, hedge ineffectiveness is the extent to which the change in the fair value of the hedging instrument exceeds, in absolute terms, that of the hedged item.

		CONSOLIDATED					
		Gain/(loss) on hedged item		(Loss)/gain on hedging instrument		Hedge ineffectiveness gain/(loss)	
Hedging instruments	Risk category	**2021 $m**	2020 $m	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Cross currency swaps	Foreign exchange	**(27)**	18	**28**	(19)	**1**	(1)
Interest rate swaps	Interest rate	**72**	(103)	**(72)**	107	**–**	4
Total		**45**	(85)	**(44)**	88	**1**	3

		COMPANY					
		(Loss)/gain on hedged item		Gain/(loss) on hedging instrument		Hedge ineffectiveness (loss)/gain	
Hedging instruments	Risk category	**2021 $m**	2020 $m	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Cross currency swaps	Foreign exchange	**(29)**	11	**28**	(13)	**(1)**	(2)
Interest rate swaps	Interest rate	**17**	(17)	**(19)**	21	**(2)**	4
Total		**(12)**	(6)	**9**	8	**(3)**	2

Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments designated in cash flow hedges.

		CONSOLIDATED		COMPANY	
Hedging instruments	Currency pair	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Cross currency swaps	AUD/EUR	**0.62–0.68**	0.62–0.68	**0.62–0.68**	0.62–0.68
	USD/GBP	**0.66**	0.66	**0.66**	0.66
	AUD/CHF	**0.72**	0.72	**0.72**	0.72
	USD/CHF	**0.93**	0.93	**0.93**	0.93
Interest rate swaps	AUD	**0.06–4.96%**	4.00–4.99%	**0.06–0.40%**	n/a
	GBP	**1.54–2.13%**	1.54–2.13%	**1.54–2.17%**	1.54–2.17%

Note 34
Hedge accounting continued

Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives and foreign currency denominated borrowings. Refer to Note 35.3 *Market risk: Non-traded market risk* for further information on the Consolidated Entity's risk management strategy.

In order to reflect the Consolidated Entity's risk management strategy, hedge accounting is applied resulting in foreign exchange gains or losses on the hedging instruments being recognised in the Consolidated Entity's other comprehensive income, within the foreign currency translation reserve. The cumulative gains or losses are reclassified out of the foreign currency translation reserve following the partial disposal or disposal of the foreign operation (refer to Note 44 *Significant accounting policies*). Hedge ineffectiveness is recognised in net trading income in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

		CONSOLIDATED CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Foreign exchange contracts	Foreign exchange	**29**	241	**148**	1
Foreign currency denominated borrowings[1]	Foreign exchange	**–**	–	**6,528**	6,665

		CONSOLIDATED NOTIONAL AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Foreign exchange contracts[2]	Foreign exchange	**1,102**	3,653	**2,879**	112
Foreign currency denominated borrowings	Foreign exchange	**–**	–	**7,054**	7,481

		COMPANY CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Foreign exchange contracts	Foreign exchange	**19**	151	**95**	1
Foreign currency denominated borrowings[1]	Foreign exchange	**–**	–	**3,242**	3,621

		COMPANY NOTIONAL AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Foreign exchange contracts[2]	Foreign exchange	**726**	2,334	**2,057**	103
Foreign currency denominated borrowings	Foreign exchange	**–**	–	**3,907**	4,424

In order to hedge the currency exposure of certain net investments in foreign operations, the Consolidated Entity jointly designates both foreign exchange contracts (from the currency of the underlying foreign operation to USD) and foreign currency denominated borrowings (from USD to AUD). As a result, the notional value of hedging instruments presented by the Consolidated Entity of $11,035 million (2020: $11,246 million) and Company of $6,690 million (2020: $6,861 million) represents the notional of both the derivative hedging instruments and the foreign currency denominated borrowings and hence exceeds the $7,264 million (2020: $7,242 million) and $3,980 million (2020: $4,274 million) notional of the underlying hedged component of the Consolidated Entity's and Company's respective net investment in foreign operations.

Hedge ineffectiveness is the extent to which the absolute change in either the fair value of the derivative or the carrying amount of foreign currency denominated borrowings attributable to the change in exchange rates exceeds that of the hedged item. There was no ineffectiveness recognised in the income statement by the Consolidated Entity or the Company in the current year (2020: $Nil).

(1) The carrying amount of Foreign currency denominated borrowings includes amounts of $310 million and $169 million (2020: $407 million and $Nil) for the Consolidated Entity and the Company which are disclosed in the respective Statements of financial position as 'Due to other related body corporate entities'.
(2) Where the fair value of the derivative is positive/(negative), the notional of the derivative has been similarly included in the table as an asset/(liability).

Note 34
Hedge accounting continued

Fair value hedges

The fair value attributable to the hedged risk is recognised as a fair value adjustment to the hedged item on the balance sheet. In an effective fair value hedge relationship, movements in this fair value adjustment are largely offset by movements in the fair value of the hedging instrument. Any residual is recognised as ineffectiveness in net trading income in the income statement. Executed rates for fair value hedges of interest rate risk and commodity price risk have not been shown as these would represent the market reference rates at the time of designation.

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL AMOUNT				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Derivative assets						CONSOLIDATED 2021
Cross currency swaps	Interest rate	**–**	**–**	**884**	**435**	**1,319**
Interest rate swaps	Interest rate	**1,085**	**783**	**8,385**	**987**	**11,240**
Commodity forward contracts	Commodity price	**1**	**2**	**–**	**–**	**3**
Derivative liabilities						
Interest rate swaps	Interest rate	**938**	**3,622**	**5,395**	**2,512**	**12,467**
Derivative assets						CONSOLIDATED 2020
Cross currency swaps	Interest rate	34	997	1,382	605	3,018
Interest rate swaps	Interest rate	–	3,340	6,595	4,398	14,333
Commodity forward contracts	Commodity price	4	15	4	–	23
Derivative liabilities						
Interest rate swaps	Interest rate	645	3,328	7,035	–	11,008

		CONSOLIDATED CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Cross currency swaps	Interest rate	**56**	**–**	106	–
Interest rate swaps	Interest rate	**388**	**343**	798	313
Commodity forward contracts	Commodity price	**–**	**–**	7	–

Note 34
Hedge accounting continued

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Derivative assets						**COMPANY 2021**
Cross currency swaps	Interest rate	**–**	**–**	**884**	**435**	**1,319**
Interest rate swaps	Interest rate	**1,085**	**783**	**7,464**	**1,017**	**10,349**
Derivative liabilities						
Interest rate swaps	Interest rate	**125**	**230**	**974**	**2,512**	**3,841**
Derivative assets						COMPANY 2020
Cross currency swaps	Interest rate	–	–	1,382	605	1,987
Interest rate swaps	Interest rate	–	3,340	6,640	4,472	14,452
Derivative liabilities						
Interest rate swaps	Interest rate	–	93	167	–	260

The Company designates certain equity investments in foreign currency denominated subsidiaries as hedged items in fair value hedges of foreign exchange risk. The notional of the foreign currency denominated borrowings designated as hedging instruments amounted to $1,002 million (2020: $341 million). These balances change periodically, which results in periodic rebalancing of the hedge designations.

		COMPANY CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Cross currency swaps	Interest rate	**56**	**–**	103	–
Interest rate swaps[1]	Interest rate	**392**	**144**	807	14
Foreign currency denominated borrowings	Foreign exchange	**–**	**610**	–	343

Hedged item

As the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of the fair value hedge adjustments remaining in the Statements of financial positions for hedged items that have ceased to be adjusted for hedging gains and losses is $8 million gain (2020: $9 million loss) for the Consolidated Entity and $16 million gain for the Company (2020: $5 million gain) and have been included in the fair value hedge adjustment in the table that follows. These amounts will be amortised to the income statement on an effective interest rate basis.

(1) The carrying amounts of hedging instrument derivative assets and liabilities includes amounts of $83 million and $11 million (2020: $131 million and $Nil) which are disclosed in the Company's Statement of financial position as 'Due from other related body corporate entities' and 'Due to other related body corporate entities' respectively.

Note 34
Hedge accounting continued

	CONSOLIDATED 2021		CONSOLIDATED 2020	
	Carrying amount[1] $m	Fair value hedge adjustment $m	Carrying amount[1] $m	Fair value hedge adjustment $m
Assets				
Financial investments[2]	**313**	**–**	104	4
Loan assets	**10,166**	**90**	10,646	191
Commodity transportation contracts	**–**	**–**	2	2
Liabilities				
Debt issued	**8,748**	**(246)**	13,210	(462)
Loan capital	**5,372**	**(10)**	4,920	(318)

	COMPANY 2021		COMPANY 2020	
	Carrying amount[1] $m	Fair value hedge adjustment $m	Carrying amount[1] $m	Fair value hedge adjustment $m
Assets				
Financial investments[2]	**313**	**–**	104	4
Loan assets[2]	**1,229**	**–**	162	2
Investments in subsidiaries	**961**	**(34)**	341	32
Liabilities				
Debt issued	**8,855**	**(246)**	12,298	(461)
Loan capital	**5,372**	**(10)**	4,920	(318)

Hedge ineffectiveness

In the case of a fair value hedge, hedge ineffectiveness is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item.

		CONSOLIDATED					
		(Loss)/gain on hedging instrument		Gain/(loss) on hedged item		Hedge ineffectiveness gain/(loss)	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	Interest rate	**(49)**	43	**48**	(45)	**(1)**	(2)
Interest rate swaps and options	Interest rate	**(323)**	598	**381**	(557)	**58**	41
Commodity forward contracts[3]	Commodity price	**(7)**	64	**(2)**	(53)	**(9)**	11
Total		**(379)**	705	**427**	(655)	**48**	50

		COMPANY					
		(Loss)/gain on hedging instrument		Gain/(loss) on hedged item		Hedge ineffectiveness gain/(loss)	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	Interest rate	**(46)**	709	**46**	(707)	**–**	2
Interest rate swaps	Interest rate	**(458)**	(1)	**467**	3	**9**	2
Foreign currency denominated borrowings	Foreign exchange	**66**	(32)	**(66)**	32	**–**	–
Total		**(438)**	676	**447**	(672)	**9**	4

(1) The carrying amounts in the table exclude accrued interest and includes fair value hedge adjustments.
(2) The carrying amount includes debt instruments classified at fair value through other comprehensive income. Where this applies the fair value hedge adjustment for interest rate risk is recognised in the income statement together with changes in the fair value of the hedging instrument.
(3) These hedges remain highly effective despite temporary dislocations in the market during the current period.

Note 35
Financial risk management

Risk Management and Risk Management Group (RMG)

Risk is an integral part of the Consolidated Entity's businesses. The material risks faced by the Consolidated Entity include aggregate, asset, conduct, credit, environmental and social (including climate change), equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic, tax, and work health and safety risks.

The primary responsibility for risk management lies with the business. An important part of the role of all staff throughout the Consolidated Entity is to ensure they manage risks appropriately.

RMG is independent of other areas of the Consolidated Entity. RMG approval is required for all material risk acceptance decisions. RMG reviews and assesses risks and sets limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as the Consolidated Entity's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee. Further details on the Risk Management Framework in the Consolidated Entity can be found in the Risk Management Report of this Annual Report.

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

While specific historical matters leading to these actions have been addressed, Macquarie acknowledges that continued work is required on its risk governance and operating platform and has programs in place to strengthen capital and liquidity reporting and its risk management framework. Macquarie will work closely with APRA on these programs through a period of intensified supervision.

Note 35.1 Credit risk

Credit risk is the risk that a counterparty will fail to complete its contractual obligations when they fall due. The consequential loss is either the amount of the loan or financial obligation not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

Credit risk assessment and approval

Exercise of credit authority within the Consolidated Entity is undertaken under authority delegated by the MGL and MBL Boards directly. Credit risk assessments include comprehensive review of the creditworthiness of the counterparty and related entities, key risk and mitigants, and that the downside risk is properly understood and acceptable.

After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year or more frequently if required. Retail credit exposures are monitored by the business units and overseen by RMG Credit on a portfolio basis.

All credit exposures are monitored regularly against limits. Credit exposures for loan assets are reported at amortised cost. Derivative exposures are measured using high confidence potential future underlying asset prices.

To mitigate credit risk, where appropriate, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit and the purchase of credit default swaps).

Ratings and reviews

Refer to Note 12 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

Wholesale rating

Macquarie wholesale ratings broadly correspond to Standard & Poor's credit ratings as follows:

Credit Profile	Internal Rating	Standard & Poor's Equivalent
Investment grade	MQ1 to MQ8	AAA to BBB-
Non-investment grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

Retail rating

Retail pools are mapped to the credit quality grades based on their PDs.

Mapping retail portfolios to the credit grades has been done for comparability of the overall portfolio presentation and does not reflect the way that the retail portfolio is segmented for management purposes. Management reviews a range of information, including past due status for the portfolio, to assess the credit quality of these assets.

Due from subsidiaries/due from related body corporate entities

Balances with subsidiaries and related body corporate entities are mapped to the rating grades assigned internally to these counterparties for the pricing of internal funding arrangements on an arm's length basis.

Portfolio and country risk

A review of the credit portfolio analysing credit concentrations by counterparty, geography, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is mitigated by political risk insurance.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount[1] of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				CONSOLIDATED 2021
Cash and bank balances	**15,872**	**–**	**–**	**15,872**
Cash collateral on securities borrowed and reverse repurchase agreements	**21,362**	**–**	**–**	**21,362**
Margin money and settlement assets	**6,713**	**–**	**–**	**6,713**
Financial investments	**7,571**	**–**	**–**	**7,571**
Held for sale and other assets	**594**	**–**	**–**	**594**
Loan assets	**46,689**	**1,257**	**–**	**47,946**
Due from related body corporate entities	**1,508**	**–**	**–**	**1,508**
Undrawn credit commitments, letters of credit and financial guarantees	**3,014**	**–**	**–**	**3,014**
Total investment grade	**103,323**	**1,257**	**–**	**104,580**
Non-investment grade				
Cash and bank balances	**94**	**–**	**–**	**94**
Cash collateral on securities borrowed and reverse repurchase agreements	**5,284**	**–**	**–**	**5,284**
Margin money and settlement assets	**1,010**	**5**	**–**	**1,015**
Financial investments	**71**	**–**	**–**	**71**
Held for sale and other assets	**444**	**14**	**–**	**458**
Loan assets	**40,408**	**9,888**	**–**	**50,296**
Undrawn credit commitments, letters of credit and financial guarantees	**3,078**	**76**	**–**	**3,154**
Total non-investment grade	**50,389**	**9,983**	**–**	**60,372**
Default				
Margin money and settlement assets	**–**	**–**	**296**	**296**
Financial investments	**–**	**–**	**–**	**–**
Held for sale and other assets	**–**	**–**	**103**	**103**
Loan assets	**–**	**–**	**1,333**	**1,333**
Loans to associates and joint ventures	**–**	**–**	**5**	**5**
Undrawn credit commitments, letters of credit and financial guarantee contracts	**–**	**–**	**170**	**170**
Total default	**–**	**–**	**1,907**	**1,907**
Total	**153,712**	**11,240**	**1,907**	**166,859**

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

	Stage I[1] $m	Stage II[1] $m	Stage III[1] $m	Total $m
Financial assets by ECL stage				CONSOLIDATED 2021
Cash and bank balances	**15,966**	**–**	**–**	**15,966**
Cash collateral on securities borrowed and reverse repurchase agreements	**26,646**	**–**	**–**	**26,646**
Margin money and settlement assets	**7,723**	**5**	**296**	**8,024**
Financial investments	**7,642**	**–**	**–**	**7,642**
Held for sale and other assets	**1,038**	**14**	**103**	**1,155**
Due from related body corporate entities	**1,508**	**–**	**–**	**1,508**
Loan assets	**87,097**	**11,145**	**1,333**	**99,575**
Loans to associates and joint ventures	**–**	**–**	**5**	**5**
Undrawn credit commitments, letters of credit and financial guarantee contracts	**6,092**	**76**	**170**	**6,338**
Total financial assets ECL by stage	**153,712**	**11,240**	**1,907**	**166,859**

(1) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount[1] of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				COMPANY 2021
Cash and bank balances	14,000	–	–	14,000
Cash collateral on securities borrowed and reverse repurchase agreements	19,378	–	–	19,378
Margin money and settlement assets	5,569	–	–	5,569
Financial investments	7,570	–	–	7,570
Other assets	313	–	–	313
Loan assets	40,739	1,186	–	41,925
Due from related body corporate entities	1,181	–	–	1,181
Due from subsidiaries	17,965	–	–	17,965
Undrawn credit commitments, letters of credit and financial guarantees[3]	2,559	–	–	2,559
Total investment grade	109,274	1,186	–	110,460
Non-investment grade				
Cash and bank balances	12	–	–	12
Cash collateral on securities borrowed and reverse repurchase agreements	4,106	–	–	4,106
Margin money and settlement assets	574	1	–	575
Financial investments	53	–	–	53
Other assets	200	5	–	205
Loan assets	32,406	8,594	–	41,000
Due from subsidiaries	10	–	–	10
Undrawn credit commitments, letters of credit and financial guarantees[3]	3,049	68	–	3,117
Total non-investment grade	40,410	8,668	–	49,078
Default				
Margin money and settlement assets	–	–	294	294
Other assets	–	–	90	90
Loan assets	–	–	962	962
Loans to associates and joint ventures	–	–	4	4
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	–	–	155	155
Total default	–	–	1,505	1,505
Total	149,684	9,854	1,505	161,043
Cash and bank balances	14,012	–	–	14,012
Cash collateral on securities borrowed and reverse repurchase agreements	23,484	–	–	23,484
Margin money and settlement assets	6,143	1	294	6,438
Financial investments	7,623	–	–	7,623
Other assets	513	5	90	608
Loan assets	73,145	9,780	962	83,887
Due from related body corporate entities	1,181	–	–	1,181
Due from subsidiaries	17,975	–	–	17,975
Loans to associates and joint ventures	–	–	4	4
Undrawn credit commitments, letters of credit and financial guarantees[3]	5,608	68	155	5,831
Total financial assets by ECL stage	149,684	9,854	1,505	161,043

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
(3) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Further analysis of credit risk for loan assets, being the Consolidated Entity's most material credit exposure, is presented below:

	Investment grade $m	Non-investment grade $m	Total other than default $m	OF WHICH PAST DUE: Up to 30 days $m	OF WHICH PAST DUE: 31 to <90 days $m	OF WHICH PAST DUE: Total past due but not default[1] $m	Default $m	Total $m
								CONSOLIDATED 2021
Home loans[1]	38,188	32,827	71,015	420	134	554	572	71,587
Asset financing	3,669	9,521	13,190	301	60	361	394	13,584
Corporate, commercial and other lending	4,040	7,732	11,772	55	109	164	367	12,139
Investment lending	2,047	216	2,263	–	–	–	–	2,263
Total[2]	47,944	50,296	98,240	776	303	1,079	1,333	99,573
								COMPANY 2021
Home loans	37,023	31,549	68,572	399	125	524	552	69,124
Asset financing	1,164	3,117	4,281	68	11	79	89	4,370
Corporate, commercial and other lending	3,103	6,236	9,339	55	109	164	321	9,660
Investment lending	635	98	733	–	–	–	–	733
Total	41,925	41,000	82,925	522	245	767	962	83,887

(1) Includes $12,190 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another $39,909 million home loans where the Consolidated Entity has bought risk protection from a global panel of investment grade reinsurers via an excess of loss and quota share structure. Refer to Note 35.1 *Credit risk: Collateral and credit enhancements held* for further details.

(2) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount[1] of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				CONSOLIDATED 2020
Cash and bank balances	7,783	–	–	7,783
Cash collateral on securities borrowed and reverse repurchase agreements	23,432	–	–	23,432
Margin money and settlement assets	9,515	–	–	9,515
Financial investments	7,196	–	–	7,196
Other assets	861	–	–	861
Loan assets	46,862	416	–	47,278
Due from related body corporate entities	2,948	–	–	2,948
Undrawn credit commitments, letters of credit and financial guarantees	2,197	–	–	2,197
Total non-investment grade	100,794	416	–	101,210
Non-investment grade				
Cash and bank balances	64	–	–	64
Cash collateral on securities borrowed and reverse repurchase agreements	6,319	–	–	6,319
Margin money and settlement assets	1,988	104	–	2,092
Financial investments	60	–	–	60
Other assets	503	18	–	521
Loan assets	26,470	13,234	–	39,704
Due from related body corporate entities	1,399	–	–	1,399
Undrawn credit commitments, letters of credit and financial guarantees	2,613	59	–	2,672
Total non-investment grade	39,416	13,415	–	52,831
Default				
Margin money and settlement assets	–	–	87	87
Other assets	–	–	72	72
Loan assets	–	–	1,176	1,176
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments, letters of credit and financial guarantees	–	–	16	16
Total default	–	–	1,356	1,356
Total	140,210	13,831	1,356	155,397
Financial assets by ECL stage				
Cash and bank balances	7,847	–	–	7,847
Cash collateral on securities borrowed and reverse repurchase agreements	29,751	–	–	29,751
Margin money and settlement assets	11,503	104	87	11,694
Financial investments	7,256	–	–	7,256
Other assets	1,364	18	72	1,454
Loan assets	73,332	13,650	1,176	88,158
Due from related body corporate entities	4,347	–	–	4,347
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments, letters of credit and financial guarantees	4,810	59	16	4,885
Total financial assets by ECL stage	140,210	13,831	1,356	155,397

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount[1] of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				COMPANY 2020
Cash and bank balances	6,018	–	–	6,018
Cash collateral on securities borrowed and reverse repurchase agreements	22,677	–	–	22,677
Margin money and settlement assets	8,287	–	–	8,287
Financial investments	7,180	–	–	7,180
Other assets	374	–	–	374
Loan assets	39,002	391	–	39,393
Due from related body corporate entities	2,875	–	–	2,875
Due from subsidiaries	21,093	–	–	21,093
Undrawn credit commitments, letters of credit and financial guarantees[3]	2,025	–	–	2,025
Total investment grade	109,531	391	–	109,922
Non-investment grade				
Cash and bank balances	19	–	–	19
Cash collateral on securities borrowed and reverse repurchase agreements repurchase agreements	5,400	–	–	5,400
Margin money and settlement assets	1,311	68	–	1,379
Financial investments	60	–	–	60
Held for sale and other assets	837	3	–	840
Loan assets	15,857	9,079	–	24,936
Due from subsidiaries	1,379	–	–	1,379
Undrawn credit commitments, letters of credit and financial guarantees[3]	2,280	59	–	2,339
Total non-investment grade	27,143	9,209	–	36,352
Default				
Margin money and settlement assets	–	–	43	43
Other assets	–	–	67	67
Loan assets	–	–	772	772
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees[3]	–	–	13	13
Default total	–	–	900	900
Total	136,674	9,600	900	147,174
Financial assets by ECL stage				
Cash and bank balances	6,037	–	–	6,037
Cash collateral on securities borrowed and reverse repurchase agreements repurchase agreements	28,077	–	–	28,077
Margin money and settlement assets	9,598	68	43	9,709
Financial investments	7,240	–	–	7,240
Other assets	1,211	3	67	1,281
Loan assets	54,859	9,470	772	65,101
Due from related body corporate entities	4,254	–	–	4,254
Due from subsidiaries	21,093	–	–	21,093
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees[3]	4,305	59	13	4,377
Total financial assets by ECL stage	136,674	9,600	900	147,174

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
(3) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Further analysis of credit risk for loan assets being the Consolidated Entity's most material credit exposure is presented below:

				OF WHICH PAST DUE				
	Investment grade – strong $m	Non-investment grade $m	Total other than default $m	Up to 30 days $m	31 to <90 days $m	Total past due but not default[1] $m	Default $m	Total $m
								CONSOLIDATED 2020
Home loans[2]	39,805	15,852	55,657	253	167	420	449	56,106
Asset financing	1,845	14,305	16,150	729	103	832	303	16,453
Corporate, commercial and other lending	3,201	9,414	12,615	60	75	135	424	13,039
Investment lending	2,427	133	2,560	–	–	–	–	2,560
Total[3]	47,278	39,704	86,982	1,042	345	1,387	1,176	88,158
								COMPANY 2020
Home loans	37,256	15,170	52,426	253	158	411	427	52,853
Asset financing	193	2,201	2,394	101	19	120	83	2,477
Corporate, commercial and other lending	1,647	7,565	9,212	60	75	135	262	9,474
Investment lending	297	–	297	–	–	–	–	297
Total	39,393	24,936	64,329	414	252	666	772	65,101

(1) Loan assets of $177 million in the Consolidated Entity and $38 million in the Company, for which borrowers have been meeting their repayment obligations until recently and have applied for payment deferrals as a result of COVID-19, are not considered past due by the Consolidated Entity and the Company.
(2) Includes $14,263 million home loans for which insurance has been obtained from Lenders Mortgage Insurance (LMI) counterparties and another $35,837 million home loans where the Consolidated Entity has bought risk protection from a panel of counterparties via an excess of loss structure. Refer to Note 35.1 *Credit risk: Collateral and credit enhancements held* for further details.
(3) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration of credit risk by significant geographical location and counterparty type of the Consolidated Entity's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Financial investments $m	Margin money and settlement assets $m	Held for sale and other assets $m	Loan assets[1] $m	Due from related body corporate entities[2] $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
										CONSOLIDATED 2021
Australia										
Governments	–	–	16	12	5	42	–	–	11	86
Financial institutions	11,538	2,372	5,114	608	92	2,708	859	1	549	23,841
Other	–	–	583	788	214	90,450	7	4	4,328	96,374
Total Australia	11,538	2,372	5,713	1,408	311	93,200	866	5	4,888	120,301
Asia Pacific										
Governments	–	–	–	12	–	–	–	–	–	12
Financial institutions	889	1,771	571	372	–	–	159	–	5	3,767
Other	–	–	–	158	148	295	4	–	5	610
Total Asia Pacific	889	1,771	571	542	148	295	163	–	10	4,389
Europe, Middle East and Africa										
Governments	–	–	–	12	88	4	–	–	1	105
Financial institutions	879	13,733	892	957	11	578	143	–	84	17,277
Other	–	–	–	2,483	239	1,779	17	–	159	4,677
Total Europe, Middle East and Africa	879	13,733	892	3,452	338	2,361	160	–	244	22,059
Americas										
Governments	–	–	–	21	5	10	–	–	3	39
Financial institutions	2,660	8,770	448	1,127	10	2,437	319	–	175	15,946
Other	–	–	18	1,474	343	1,272	–	–	1,018	4,125
Total Americas	2,660	8,770	466	2,622	358	3,719	319	–	1,196	20,110
Total gross credit risk[3]	15,966	26,646	7,642	8,024	1,155	99,575	1,508	5	6,338	166,859

(1) Loan assets in the Australia region includes home loans of $71,590 million, Asset financing of $12,472 million, Corporate, commercial and other lending of $8,453 million and Investment lending of $685 million.
(2) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are subject to impairment requirements of AASB 9. Financial assets that are subject to risks other than credit risk, such as equity investments and commodities have been excluded from the below table.

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets[1] $m	Due from related body corporate entities[2] $m	Due from subsidiaries[3] $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
											COMPANY 2021
Australia											
Governments	–	–	16	12	–	–	–	–	–	11	39
Financial institutions	11,118	1,895	5,115	586	78	2,593	701	12,829	–	546	35,461
Other	–	–	583	689	194	78,570	4	27	4	4,057	84,128
Total Australia	11,118	1,895	5,714	1,287	272	81,163	705	12,856	4	4,614	119,628
Asia Pacific											
Governments	–	–	–	12	–	–	–	–	–	–	12
Financial institutions	587	1,771	571	306	–	–	80	299	–	–	3,614
Other	–	–	–	147	146	136	3	117	–	5	554
Total Asia Pacific	587	1,771	571	465	146	136	83	416	–	5	4,180
Europe, Middle East and Africa											
Governments	–	–	–	12	–	–	–	–	–	1	13
Financial institutions	703	12,923	892	943	10	460	130	950	–	83	17,094
Other	–	–	–	2,256	53	995	1	3,007	–	149	6,461
Total Europe, Middle East and Africa	703	12,923	892	3,211	63	1,455	131	3,957	–	233	23,568
Americas											
Governments	–	–	–	–	5	9	–	–	–	3	17
Financial institutions	1,604	6,895	446	984	10	198	262	739	–	91	11,229
Other	–	–	–	491	112	926	–	7	–	885	2,421
Total Americas	1,604	6,895	446	1,475	127	1,133	262	746	–	979	13,667
Total gross credit risk[3]	14,012	23,484	7,623	6,438	608	83,887	1,181	17,975	4	5,831	161,043

(1) Loan assets in the Australia region includes home loans of $69,125 million, Asset financing of $4,327 million, Corporate, commercial and other lending of $7,217 million and Investment lending of $494 million.
(2) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before. ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 since they are measured at fair value through the income statement. Financial assets that are subject to risks other than credit risk, such as equity investments and commodities have been excluded from the table below.

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Margin money and settlement assets $m	Held for sale and other assets $m	Loan assets $m	Due from related body corporate entities[1] $m	Loans to associates and joint ventures $m	Total $m
										CONSOLIDATED 2021
Australia										
Governments	–	3,842	10	–	–	–	–	–	–	3,852
Financial institutions	–	1,239	1,553	–	–	–	60	336	–	3,188
Other	–	5	1,470	–	–	9	67	–	–	1,551
Total Australia	–	5,086	3,033	–	–	9	127	336	–	8,591
Asia Pacific										
Governments	–	125	41	–	–	–	–	–	–	166
Financial institutions	264	18	582	105	–	–	–	4	–	973
Other	–	936	692	–	6	335	–	–	–	1,969
Total Asia Pacific	264	1,079	1,315	105	6	335	–	4	–	3,108
Europe, Middle East and Africa										
Governments	–	–	18	–	–	–	38	–	–	56
Financial institutions	2,203	15	4,505	–	–	–	–	6	–	6,729
Other	–	957	5,355	5	–	390	28	36	–	6,771
Total Europe, Middle East and Africa	2,203	972	9,878	5	–	390	66	42	–	13,556
Americas										
Governments	–	402	16	–	–	–	–	–	–	418
Financial institutions	5,438	1	4,058	–	–	–	–	2	–	9,499
Other	4	324	2,252	–	326	532	–	–	–	3,438
Total Americas	5,442	727	6,326	–	326	532	–	2	–	13,355
Total gross credit risk	7,909	7,864	20,552	110	332	1,266	193	384	–	38,610

(1) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are not subject to impairment requirements of AASB 9. Financial assets that are subject to risks other than credit risk, such as equity investments and commodities have been excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets $m	Due from subsidiaries[1] $m	Due from related body corporate entities[1] $m	Loans to associates and joint ventures $m	Total $m
											COMPANY 2021
Australia											
Governments	–	3,841	10	–	–	–	–	–	–	–	3,851
Financial institutions	–	1,239	1,529	–	–	–	6	1,219	332	–	4,325
Other	–	5	1,470	–	–	9	69	6	–	–	1,559
Total Australia	–	5,085	3,009	–	–	9	75	1,225	332	–	9,735
Asia Pacific											
Governments	–	125	41	–	–	–	–	–	–	–	166
Financial institutions	264	18	563	104	–	–	–	154	4	–	1,107
Other	–	936	690	–	4	335	–	–	–	–	1,965
Total Asia Pacific	264	1,079	1,294	104	4	335	–	154	4	–	3,238
Europe, Middle East and Africa											
Governments	–	–	18	–	–	–	38	–	–	–	56
Financial institutions	2,203	15	4,468	–	–	–	–	808	6	–	7,500
Other	–	957	4,672	–	–	388	25	165	37	–	6,244
Total Europe, Middle East and Africa	2,203	972	9,158	–	–	388	63	973	43	–	13,800
Americas											
Governments	–	402	–	–	–	–	–	–	–	–	402
Financial institutions	5,079	1	4,031	–	–	–	32	1,150	2	–	10,295
Other	4	16	1,836	–	–	132	–	–	–	–	1,988
Total Americas	5,083	419	5,867	–	–	132	32	1,150	2	–	12,685
Total gross credit risk	7,550	7,555	19,328	104	4	864	170	3,502	381	–	39,458

(1) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration of credit risk by significant geographical locations and counterparty type of the Consolidated Entity's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets[1] $m	Due from related body corporate entities[2] $m	Loans to associates and joint ventures $m	Undrawn credit commitment and financial guarantees $m	Total $m
										CONSOLIDATED 2020
Australia										
Governments	–	–	186	–	6	109	–	–	–	301
Financial institutions	2,017	2,146	4,007	1,539	88	2,539	1,324	–	272	13,932
Other	–	–	990	1,026	196	75,802	–	4	3,341	81,359
Total Australia	2,017	2,146	5,183	2,565	290	78,450	1,324	4	3,613	95,592
Asia Pacific										
Governments	–	–	–	316	–	–	–	–	–	316
Financial institutions	856	3,231	558	711	–	–	1,010	–	2	6,368
Other	–	–	–	826	438	524	20	1	70	1,879
Total Asia Pacific	856	3,231	558	1,853	438	524	1,030	1	72	8,563
Europe, Middle East and Africa										
Governments	668	–	–	–	151	10	–	–	58	887
Financial institutions	779	13,854	1,259	1,512	27	493	736	–	30	18,690
Other	–	–	–	2,679	361	2,593	–	–	202	5,835
Total Europe, Middle East and Africa	1,447	13,854	1,259	4,191	539	3,096	736	–	290	25,412
Americas										
Governments	–	–	–	23	–	17	–	–	4	44
Financial institutions	3,527	10,520	256	1,612	7	4,381	1,257	–	84	21,644
Other	–	–		1,450	180	1,690	–	–	822	4,142
Total Americas	3,527	10,520	256	3,085	187	6,088	1,257	–	910	25,830
Total gross credit risk[3]	7,847	29,751	7,256	11,694	1,454	88,158	4,347	5	4,885	155,397

(1) Loan assets in the Australia region includes home loans of $56,106 million, Asset financing of $14,813 million, Corporate, commercial and other lending, of $7,361 million and Investment lending of $170 million.
(2) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets[1] $m	Due from related body corporate entities[2] $m	Due from subsidiaries[2] $m	Loans to associates and joint ventures $m	Undrawn credit commitment and financial guarantees $m	Total $m
											COMPANY 2020
Australia											
Governments	–	–	187	–	5	50	–	–	–	–	242
Financial institutions	1,823	2,079	3,994	1,524	68	2,316	1,296	8,199	–	266	21,565
Other	–	–	990	815	541	59,406	–	7,612	4	3,069	72,437
Total Australia	1,823	2,079	5,171	2,339	614	61,772	1,296	15,811	4	3,335	94,244
Asia Pacific											
Governments	–	–	–	316	–	–	–	–	–	–	316
Financial institutions	615	3,231	558	591	–	–	977	678	–	2	6,652
Other	–	–	–	749	434	347	12	17	1	68	1,628
Total Asia Pacific	615	3,231	558	1,656	434	347	989	695	1	70	8,596
Europe, Middle East and Africa											
Governments	668	–	–	–	–	–	–	–	–	58	726
Financial institutions	627	13,393	1,258	1,508	24	329	734	948	–	23	18,844
Other	–	–	–	2,629	125	1,176	–	2,857	–	161	6,948
Total Europe, Middle East and Africa	1,295	13,393	1,258	4,137	149	1,505	734	3,805	–	242	26,518
Americas											
Governments	–	–	–	–	–	17	–	–	–	4	21
Financial institutions	2,304	9,374	253	1,201	7	318	1,235	782	–	3	15,477
Other	–	–	–	376	77	1,142	–	–	–	723	2,318
Total Americas	2,304	9,374	253	1,577	84	1,477	1,235	782	–	730	17,816
Total gross credit risk[3]	6,037	28,077	7,240	9,709	1,281	65,101	4,254	21,093	5	4,377	147,174

(1) Loan assets in the Australia region includes home loans of $52,853 million, Asset financing of $2,460 million, Corporate, commercial and other lending of $6,459 million.
(2) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before. ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to the impairment requirements of AASB 9 since they are measured at fair value through the income statement. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Money margin and settlement assets $m	Other assets $m	Loan assets $m	Due from related body corporate entities[1] $m	Loans to associates and joint ventures $m	Total $m
										CONSOLIDATED 2020
Australia										
Governments	–	4,613	165	–	–	–	–	–	–	4,778
Financial institutions	–	60	6,316	52	–	–	52	567	–	7,047
Other	–	–	1,996	–	3	17	–	–	–	2,016
Total Australia	–	4,673	8,477	52	3	17	52	567	–	13,841
Asia Pacific										
Governments	–	441	28	–	–	–	–	–	–	469
Financial institutions	822	106	578	55	–	–	–	110	–	1,671
Other	–	90	1,617	–	224	278	–	–	–	2,209
Total Asia Pacific	822	637	2,223	55	224	278	–	110	–	4,349
Europe, Middle East and Africa										
Governments	–	–	13	–	–	–	16	–	–	29
Financial institutions	1,782	48	13,004	–	–	–	–	8	–	14,842
Other	–	503	11,605	5	–	477	2	79	–	12,671
Total Europe, Middle East and Africa	1,782	551	24,622	5	–	477	18	87	–	27,542
Americas										
Governments	–	2,014	57	–	3	–	–	–	–	2,074
Financial institutions	5,353	17	6,901	–	12	–	76	40	–	12,399
Other	–	415	2,565	–	313	175	103	–	–	3,571
Total Americas	5,353	2,446	9,523	–	328	175	179	40	–	18,044
Total gross credit risk	7,957	8,307	44,845	112	555	947	249	804	–	63,776

(1) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are not subject to the impairment requirements of AASB 9. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets $m	Due from subsidiaries[1] $m	Due from related body corporate entities[1] $m	Loans to associates and joint ventures $m	Total $m
											COMPANY 2020
Australia											
Governments	–	4,613	165	–	–	–	–	–	–	–	4,778
Financial institutions	–	60	6,196	–	–	–	7	1,111	567	–	7,941
Other	–	–	1,995	–	3	17	–	246	–	–	2,261
Total Australia	–	4,673	8,356	–	3	17	7	1,357	567	–	14,980
Asia Pacific											
Governments	–	423	28	–	–	–	–	–	–	–	451
Financial institutions	822	23	567	55	–	–	–	160	83	–	1,710
Other	–	77	1,613	–	225	278	–	–	–	–	2,193
Total Asia Pacific	822	523	2,208	55	225	278	–	160	83	–	4,354
Europe, Middle East and Africa											
Governments	–	–	13	–	–	–	16	–	–	–	29
Financial institutions	1,782	48	12,847	–	–	–	–	2,017	8	–	16,702
Other	–	503	9,435	–	–	477	2	620	79	–	11,116
Total Europe, Middle East and Africa	1,782	551	22,295	–	–	477	18	2,637	87	–	27,847
Americas											
Governments	–	2,014	–	–	–	–	–	–	–	–	2,014
Financial institutions	5,353	16	6,955	–	–	–	84	1,815	40	–	14,263
Other	–	288	1,790	–	106	9	95	–	–	–	2,288
Total Americas	5,353	2,318	8,745	–	106	9	179	1,815	40	–	18,565
Total gross credit risk	7,957	8,065	41,604	55	334	781	204	5,969	777	–	65,746

(1) Due from subsidiaries have been presented as Financial institution and Others based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet (refer to Note 36 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount and is disclosed in Note 12 *Expected credit losses*.

Collateral and credit enhancements held

Cash collateral on securities borrowed and reverse repurchase agreements

The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of collateral.

Securities borrowed require the deposit of cash collateral with counterparties at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities that have been received as collateral generally in excess of the principal amount.

The fair value of non-cash collateral held not recognised in the Statement of financial position as at 31 March 2021 is $35,045 million (2020: $38,070 million). The Consolidated Entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is $8,796 million (2020: $8,508 million).

For the Company, the fair value of non-cash collateral held not recognised in the Statement of financial position as at 31 March 2021 is $31,131 million (2020: $36,511 million). The Company is allowed to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is $8,707 million (2019: $8,738 million). The value attributed to collateral held is judgemental and is generally subject to valuation movements. Macquarie may also incur additional selling costs when a defaulted position is closed out.

Loan assets

Home loans

Macquarie purchases risk protection for its portfolio of Home Loans. Prior to 2017 this was in the form of Lenders Mortgage Insurance from a well rated Australian LMI provider. Since then Macquarie has diversified its risk protection coverage to a global panel of reinsurers (panel) via an excess of loss structure for all loans whereby Macquarie is exposed to a defined first loss on a pooled basis for each year of home loan origination after which loss protection is in place to certain pre-defined levels and is thereafter exposed to any excess loss. From 1 April 2020 Macquarie began purchasing quota share protection for greater than 80% LVR loans from the panel as well as excess of loss for greater than 70% LVR loans. The panel has diverse lines of business coverage and ratings ranging from AA to A– from external rating agencies. The length of cover is up to 10 years.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

The following table provides information on the loan to collateral value ratio as determined using loan carrying values and the most recent valuation of the home loan collateral:

	AUSTRALIA		AUSTRALIA	
	2021 $m	2020 $m	**2021 $m**	2020 $m
	CONSOLIDATED		**COMPANY**	
<= 25%	**2,162**	1,676	**2,018**	1,505
>25% and <= 50%	**13,288**	10,024	**12,708**	9,346
>50% and <= 70%	**29,528**	22,368	**28,660**	21,287
>70% and <= 80%	**22,187**	17,984	**21,478**	16,994
>80% and <= 90%	**3,653**	3,434	**3,492**	3,179
>90% and <= 100%	**674**	524	**674**	524
Partly collateralised	**29**	34	**29**	34
Total home loans	**71,521**	56,044	**69,059**	52,869

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Title to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $13,241 million (2020: $16,159 million), the credit exposure after considering the depreciated value of collateral is $5,810 million (2020: $7,358 million). For the Company, of the asset finance portfolio of $4,337 million (2020: $2,418 million), the credit exposure after considering the depreciated value of collateral is $1,712 million (2020: $970 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. For the Consolidated Entity, of the term lending of $11,968 million (2020: $12,957 million), the credit exposure after considering the estimated value of collateral and credit enhancements is $1,374 million (2020: $1,524 million). For the Company, of the term lending of $9,547 million (2020: $9,391 million), the credit exposure after the estimated value of collateral and credit enhancements is $1,144 million (2020: $1,257 million).

Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral or holds security by way of a registered pledge over the underlying investment. For the Consolidated Entity and the Company, the investment lending portfolio of $2,262 million (2020: $2,559 million) and $733 million (2020: $297 million) is fully collateralised.

Derivative instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over the Counter (OTC) derivatives. The Consolidated Entity's and Company's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

Exchange traded derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house except for the cases where it is trading through another clearing house member. The clearing house is responsible for managing the risk associated with the process on behalf of their members and providing a high level of confidence that adequate resources exist to fulfil its obligations when they become due.

Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held net exchange traded derivatives with positive replacement values as at 31 March 2021 of $1,354 million (2020: $5,084 million). The Company held exchange traded derivatives with positive replacement values as at 31 March 2021 of $1,282 million (2020: $4,727 million).

For OTC derivative contracts, the Consolidated Entity and Company often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements which, in the event of default, require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis.

The Consolidated Entity and Company also often execute a Credit Support Annexure in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2021, the Consolidated Entity held net OTC contracts with a positive replacement value of $19,198 million (2020: $39,761 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $11,038 million (2020: $24,154 million) and margins and financial collateral held (excluding the impact of over-collateralisation) of $3,053 million (2020: $5,744 million).

As at 31 March 2021, the Company held OTC contracts with a positive replacement value of $18,046 million (2020: $36,877 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $10,565 million (2020: $23,464 million) and margins held (excluding the impact of over-collateralisation) of $3,012 million (2020: $5,583 million).

Financial investments

This classification mainly includes debt securities held by the Consolidated Entity primarily in nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities for liquidity management purposes and other securities for short-term gains.

The Consolidated Entity utilises Credit Default Swaps (CDS), guarantees and other forms of credit enhancements or collateral in order to minimise the exposure to this credit risk.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Margin money and settlement assets

Security and commodity settlements of $1,828 million (2020: $3,207 million) and $1,922 million (2020: $2,134 million) in the Consolidated Entity respectively and $1,457 million (2020: $2,839 million) and $933 million (2020: $1,217 million) respectively, in the Company are included in Margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities (or bought on behalf of a client), other commodities and securities sold. These assets are collateralised with the underlying equity securities, commodities or cash held by the Consolidated Entity until the date of settlement. The period between trade and settlement date varies as per regional regulatory and business norms.

Other assets

Commodity related receivables under other assets are normally collateralised with underlying commodity held by the Consolidated Entity until the date of settlement.

Credit commitments

Undrawn facilities and lending commitments of $3,183 million (2020: $2,256 million) in the Consolidated Entity and $3,110 million (2020: $2,130 million) in the Company are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of $5,865 million (2020: $4,665 million) in the Consolidated Entity and $5,374 million (2020: $4,173 million) in the Company.

Additional collateral

Apart from the collateral detail disclosed above, the Consolidated Entity and the Company also holds other types of collateral, such as unsupported guarantees.

While such mitigants have value as a credit risk mitigant often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

The Consolidated Entity's loan balance includes $11,344 million (2020: $16,402 million) of loans which have been securitised by consolidated SEs.

Note 35.2 Liquidity risk

Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie Bank's liquidity policy is approved by the MBL Board after endorsement by the ALCO and liquidity reporting is provided to the Board on a regular basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Co-Heads of Group Treasury and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

Liquidity policy and risk appetite

The *MBL Liquidity Policy* is designed so that the Bank Group maintains sufficient liquidity to meet its obligations as they fall due.

The *MBL Liquidity Policy* outlines the standalone framework for the Bank Group and its principles are consistent with the *MGL Liquidity Policy.*

Macquarie Bank's liquidity risk appetite is intended to ensure that Macquarie Bank is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets and with only a limited reduction in Macquarie Bank's franchise businesses. MBL is an authorised deposit-taking institution and is funded mainly with capital, long-term liabilities and deposits.

Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan*, which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details:

- factors that may constitute a crisis
- the officers responsible for enacting the plan
- a committee of senior executives responsible for managing a crisis
- the information required to effectively manage a crisis
- a communications strategy
- a high level checklist of possible actions to conserve or raise additional liquidity
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

In addition, Macquarie Bank monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie Bank's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the plan.

The *Liquidity Contingency Plan* is subject to regular review by both Group Treasury and RMG. It is submitted annually to the ALCO and the MGL and MBL Boards for approval.

Macquarie Bank is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the *Liquidity Contingency Plan* contains either a supplement or reference to a separate document providing the specific information required for those branches or subsidiaries.

Funding strategy

Macquarie Bank prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie Bank's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by the ALCO and approved by the MBL Board.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

Scenario analysis

Scenario analysis is central to Macquarie Bank's liquidity risk management framework. In addition to regulatory defined scenarios, Group Treasury models additional liquidity scenarios covering both market-wide and Macquarie Bank name-specific crises.

These scenarios use a range of assumptions, which Macquarie Bank intends to be conservative, regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie Bank name-specific crisis over a twelve month time frame. This scenario assumes no access to wholesale funding markets, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie Bank's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets which are intended to ensure adequate liquidity is available under a range of market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA) or be eligible as collateral in the Reserve Bank of Australia's (RBA) facilities such as the Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions and the funding task and liquidity requirement of the Bank Group. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Undrawn credit lines and facilities

The Consolidated Entity has $Nil (March 2020: $236 million) available undrawn credit lines and facilities at 31 March 2021. On 19 March 2020, the RBA announced that it was establishing a Term Funding Facility (TFF) that would offer authorised deposit-taking institutions three year funding at a rate of 0.25% per annum in response to COVID-19. Subsequent to the Initial and Additional Allowances, the RBA expanded the facility by introducing a Supplementary Allowance and also reduced the rate on subsequent drawdowns to 0.10% (for Additional and Supplementary Allowances). As at March 2021, MBL has been granted a Funding Allowance of $7,625 million (March 2020: $1,911 million) and has drawn $1,723 million (March 2020: $Nil) of this Funding Allowance. MBL has not included the TFF in the available undrawn credit lines and facilities balance.

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on a contractual undiscounted repayment basis and hence would vary from the carrying value as reported in the Statement of financial position at the balance date. Repayments subject to notice are treated as if notice were given immediately. This does not reflect the behaviour of the expected cash flows as indicated by the Consolidated Entity's deposit retention history since the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2021
Cash collateral on securities lent and repurchase agreements[1]	4,542	487	2,183	147	1,736	–	4,553
Trading liabilities[2]	6,134	–	6,134	–	–	–	6,134
Margin money and settlement liabilities	16,251	12,998	2,657	596	–	–	16,251
Derivative liabilities (trading)[2]	16,801	–	16,801	–	–	–	16,801
Derivative liabilities (hedge accounting relationships)[3]	674	–					
Contractual amount payable		–	760	2,301	1,699	192	4,952
Contractual amount receivable		–	(711)	(2,060)	(1,456)	(29)	(4,256)
Deposits	84,140	74,901	6,064	2,995	188	7	84,155
Other liabilities[4]	1,668	135	783	409	359	46	1,732
Borrowings	2,473	410	883	383	819	–	2,495
Debt issued[5]	44,668	121	9,285	9,573	17,514	11,101	47,594
Due to other related body corporate entities	15,878	3,608	8,665	667	2,938	1	15,879
Loan capital[6]	6,804	–	1,129	191	3,245	3,711	8,276
Total	200,033	92,660	54,633	15,202	27,042	15,029	204,566
Contingent liabilities	–	–	2,444	–	–	–	2,444
Commitments	–	–	578	2,172	2,392	1,477	6,619
Total undiscounted contingent liabilities and commitments[7]		–	3,022	2,172	2,392	1,477	9,063

(1) Includes the TFF provided by the RBA.
(2) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently settled in the short-term at fair value.
(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.
(4) Excludes non-contractual accruals and provisions.
(5) Includes $9,994 million payables to SE holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in the loan assets.
(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(7) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2020
Cash collateral on securities lent and repurchase agreements	2,322	1,021	1,082	221	–	–	2,324
Trading liabilities[1]	5,363	–	5,363	–	–	–	5,363
Margin money and settlement liabilities	19,052	13,872	5,180	–	–	–	19,052
Derivative liabilities (trading)[1]	37,299	–	37,299	–	–	–	37,299
Derivative liabilities (hedge accounting relationships)[2]	524						
Contractual amount payable		–	162	208	784	58	1,212
Contractual amount receivable		–	(111)	(9)	(559)	–	(679)
Deposits	67,253	54,840	8,865	3,436	150	11	67,302
Other liabilities[3]	1,314	358	248	668	31	11	1,316
Borrowings	3,047	120	876	559	1,534	–	3,089
Debt issued[4]	46,922	–	5,327	9,896	19,922	18,948	54,093
Due to other related body corporate entities	22,104	5,124	12,608	1,056	3,389	–	22,177
Loan capital[5]	4,997	–	49	1,013	1,882	2,603	5,547
Total	210,197	75,335	76,948	17,048	27,133	21,631	218,095
Contingent liabilities		–	2,762	–	–	–	2,762
Commitments		582	1,618	243	2,176	937	5,556
Total undiscounted contingent liabilities and commitments[6]		582	4,380	243	2,176	937	8,318

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.
(3) Excludes non-contractual accruals and provisions.
(4) Includes $18,237 million payables to SE holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in the loan assets.
(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							COMPANY 2021
Cash collateral on securities lent and repurchase agreements[1]	4,542	487	2,183	147	1,736	–	4,553
Trading liabilities[2]	6,137	–	6,137	–	–	–	6,137
Margin money and settlement liabilities	13,632	10,626	2,534	472	–	–	13,632
Derivative liabilities (trading)[2]	15,333	–	15,333	–	–	–	15,333
Derivative liabilities (hedge accounting relationships)[3]	399						
Contractual amount payable		–	650	1,839	1,341	190	4,020
Contractual amount receivable		–	(630)	(1,733)	(1,208)	(27)	(3,598)
Deposits	83,994	74,874	5,953	2,995	176	7	84,005
Other liabilities[4]	821	56	569	195	40	–	860
Borrowings	1,967	410	815	308	447	–	1,980
Debt issued	34,764	121	9,081	8,937	16,038	1,203	35,380
Due to subsidiaries	16,524	2,978	7,264	–	314	5,970	16,526
Due to related body corporate entities	15,678	3,657	8,417	667	2,938	–	15,679
Loan capital[5]	6,804	–	1,129	191	3,245	3,711	8,276
Total	200,595	93,209	59,435	14,018	25,067	11,054	202,783
Contingent liabilities		–	3,639	–	–	–	3,639
Commitments		–	503	1,951	2,197	1,477	6,128
Total undiscounted contingent liabilities and commitments[6]	–	–	4,142	1,951	2,197	1,477	9,767

(1) Includes the TFF provided by the RBA.
(2) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for disclosure requirements.
(4) Excludes non-contractual accruals and provisions.
(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							COMPANY 2020
Cash collateral on securities lent and repurchase agreements	2,322	1,021	1,082	221	–	–	2,324
Trading liabilities[1]	5,395	–	5,395	–	–	–	5,395
Margin money and settlement liabilities	16,662	12,272	4,390	–	–	–	16,662
Derivative liabilities (trading)[1]	35,770	–	35,770	–	–	–	35,770
Derivative liabilities (hedge accounting relationships)[2]	203						
Contractual amount payable		–	114	79	–	–	193
Contractual amount receivable		–	(102)	(9)	–	–	(111)
Deposits	67,186	54,811	8,840	3,436	137	11	67,235
Other liabilities[3]	685	46	104	534	1	–	685
Borrowings	2,304	120	681	497	1,035	–	2,333
Debt issued	34,235	–	5,026	8,829	17,145	4,899	35,899
Due to subsidiaries	18,249	4,088	6,816	275	204	6,866	18,249
Due to other related body corporate entities	22,013	5,153	12,454	1,056	3,389	37	22,089
Loan capital[4]	4,997	–	49	1,013	1,882	2,603	5,547
Total	210,021	77,511	80,619	15,931	23,793	14,416	212,270
Contingent liabilities		–	3,879	–	–	–	3,879
Commitments		484	1,434	215	2,003	928	5,064
Total undiscounted contingent liabilities and commitments[5]		484	5,313	215	2,003	928	8,943

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.
(3) Excludes non-contractual accruals and provisions.
(4) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile
(5) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35
Financial risk management continued

Note 35.3 Market risk

Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading positions as a result of changes in market conditions. The Consolidated Entity is exposed to the following risks:

- **price:** The risk of loss due to changes in price of a risk factor (interest rates, foreign exchange, commodities etc.)
- **volatility:** The risk of loss due to changes in the volatility of a risk factor
- **basis:** Risk of imperfect correlation between offsetting investments in a hedging strategy
- **correlation:** Risk that the actual correlation between two assets or variables is different from the assumed correlation
- **illiquid market:** Risk of inability to sell assets or close out positions in the thinly-traded markets at close to the last market prices
- **concentration:** Risk of over concentration of trading exposures in certain markets and products
- **valuation adjustments (XVA):** Risk of actual valuation adjustments to derivative positions; specifically Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA).

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than that which has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits:** a statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Note 35
Financial risk management continued

Note 35.3 Market risk continued

Value-at-Risk figures (1 day, 99% confidence level)

The table below shows the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity and Company operate. The VaR shown in the table is based on a one-day holding period, being the mark-to-market that could be incurred over that period. The aggregated VaR is on a correlated basis.

	2021			2020		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
						CONSOLIDATED
Equities	**3.93**	**5.93**	**2.34**	7.68	11.34	3.37
Interest rates	**3.58**	**5.44**	**2.46**	2.33	3.03	1.58
Foreign exchange and bullion	**2.21**	**3.88**	**1.26**	1.82	4.33	0.82
Commodities[1]	**16.09**	**40.96**	**11.33**	16.07	25.46	11.31
Aggregate	**17.62**	**42.05**	**12.77**	18.12	27.62	13.19

	2021			2020		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
						COMPANY
Equities	**3.78**	**5.75**	**2.05**	7.65	11.15	3.32
Interest rates	**3.55**	**5.39**	**2.45**	2.31	3.02	1.61
Foreign exchange and bullion	**4.93**	**11.67**	**1.87**	2.66	6.61	0.82
Commodities[1]	**12.12**	**18.37**	**8.25**	11.23	16.71	7.68
Aggregate	**14.54**	**22.46**	**10.45**	13.99	18.83	8.58

(1) Includes commodity contracts.

Note 35
Financial risk management continued

Note 35.3 Market risk continued

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. The following factors can limit the effectiveness of VaR in predicting future price moves:

- the use of historical data means that current model parameters may not reflect future market conditions, especially when entering a period of heightened volatility. The model utilises exponential weighting to place emphasis on the most recent market movements to more accurately reflect current conditions
- VaR focuses on unexceptional price moves so that is does not account for losses that could occur beyond the 99% level of confidence.

For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Non-traded market risk

The Consolidated Entity and the Company have exposure to non-traded market risks arising from transactions entered into during its normal course of business and as a result of its investments in foreign operations. These risks include:

- **interest rate:** changes in the level, shape and volatility of yield curves, and/or client behaviour given these changes
- **foreign exchange:** changes in the spot exchange rates.

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the Consolidated Entity and Company's *Non-traded market risk policy* is to reduce the sensitivity of regulatory capital ratios to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital. This aligns the currency of capital supply with capital requirements.

As a result of this policy, the Consolidated Entity is therefore partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Apart from this there is no material non-trading foreign exchange risk.

Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 44(x) *Derivative instruments and hedging activities* and Note 34 *Hedge accounting*.

Interest rate risk – Interest Rate Benchmark Reform (IBOR)

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

In addition to the project's scoping and assessments outlined in the Consolidated Entity's annual financial report for the year ended 31 March 2020, and the progress reported in 30 September 2020 interim financial statements, the project achieved several important milestones in line with recommendations from industry working groups that included:

- the Consolidated Entity's successful transition of its internal funding from GBP LIBOR to SONIA
- an increasing range of ARR products becoming available to offer clients, supported by changes to key systems and processes
- several Group entities have adhered to the ISDA Fallbacks Protocol which introduce robust fallbacks for legacy derivatives, and work has progressed on the development of a transition framework for managing client transitions.

Macquarie has identified the following four risks arising from IBOR transitions:

- **Financial Risk:** This includes (i) value transfers during transition to ARRs, or triggering of fallback terms and default interest payment terms, (ii) basis risk from products and currencies moving at different times, (iii) change in accounting treatment impacts including hedge accounting, capital, tax and reported earnings, and (iv) loss in revenue/market share from not being ready to participate in ARR markets
- **Conduct Risk:** This includes (i) real or perceived benefit of information asymmetry between financial institutions and clients during transition, (ii) clients being sold LIBOR contracts today who are unaware of the impending transition or inappropriate advice given to clients, (iii) real or perceived unfair treatment of clients during transition, and (iv) market participants attempt to influence ARRs during transition or misconduct in markets where there is insufficient liquidity
- **Legal Risk:** This includes (i) client disputes over amendment terms, (ii) litigation from clients and counterparties (including potential class actions) due to inappropriate/unenforceable contractual terms or losses from transition

Note 35
Financial risk management continued

Note 35.3 Market risk continued

- **Operational Risk:** This includes (i) infrastructure and processes not ready to support ARR products, (ii) infrastructure and processes that result in errors upon transition, and (iii) reduced model accuracy due to lack of historical data.

Whilst IBOR reforms, including the transition from LIBOR to ARRs, are important changes for the Consolidated Entity, they have not resulted in changes to the Consolidated Entity's risk management strategy and these risks are managed within the existing risk management framework.

Exposure yet to be transited to ARRs:

Notional value information relating to the Consolidated Entity and the Company's financial instruments which have yet to transition to ARRs as at the reporting date includes[1]:

- **Derivatives:** Primarily includes USD LIBOR (Consolidated Entity: $73,472 million; Company: $73,874 million), GBP LIBOR (Consolidated Entity: $27,142 million; Company: $28,343 million), JPY LIBOR (Consolidated Entity: $1,042 million; Company: $1,042 million) and other currencies (Consolidated Entity: $188 million; Company: $188 million)
- **Non-Derivative financial assets:** Primarily includes USD LIBOR (Consolidated Entity: $2,421 million; Company: $251 million) and other currencies (Consolidated Entity: $26 million; Company: $26 million)
- **Non-Derivative financial liabilities:** Primarily includes USD LIBOR (Consolidated Entity: $573 million; Company: $573 million).

The scope of the above mentioned exposures was determined as follows:

- the benchmark will be replaced and the replacement date is known. Only exposures with contractual maturities extending beyond the replacement date have been included
- the gross notional values of both on-balance sheet and off-balance sheet exposures have been included
- for contracts that reference more than one benchmark, such as a cross currency swap, the exposure includes both benchmarks to reflect the absolute exposure to different reference rates
- exposures where a benchmark rate is not subject to mandatory replacement (e.g. BBSW exposures), will be considered in scope only if the Consolidated Entity makes a determination to transition to an ARR
- derivative contracts of (Consolidated Entity: $616 million; Company: $616 million) designated in hedge accounting relationships and synthetically transitioned from GBP LIBOR to SONIA have been excluded.

(1) The notional amounts of hedge items and/or hedging instruments designated in hedge relationship are covered in Note 34 *Hedge accounting*.

Note 35
Financial risk management continued

Note 35.3 Market risk continued

Foreign currency risk

The Consolidated Entity and the Company are active in various currencies globally. The net investment in foreign operations generates capital requirements in foreign currencies and results in sensitivity of the capital ratio to movements in the Australian dollar rate against various foreign currencies. The Consolidated Entity and the Company hedge this exposure by leaving specific investments in foreign operations exposed to foreign currency translation movements, which aligns the currency of capital supply with capital requirements. Refer to Note 44(x) *Derivative instruments and hedging activities* and Note 34 *Hedge accounting* for details regarding the application of hedge accounting to the Consolidated Entity and the Company's net investment in foreign operations.

The sensitivity of the Consolidated Entity's net investment in foreign operation to the most material currencies after considering related hedges is presented in the table below. The sensitivity of the Company's net investment in foreign operations is not material after considering related hedges.

	2021		2020	
	Movement in exchange rates %	**Sensitivity of equity after tax $m**	Movement in exchange rates %	Sensitivity of equity after tax $m
				CONSOLIDATED
United States dollar	**+10**	**(276)**	+10	(342)
Pound sterling	**+10**	**(48)**	+10	(53)
Canadian dollar	**+10**	**(13)**	+10	(15)
Total		**(337)**		(410)
United States dollar	**–10**	**338**	–10	418
Pound sterling	**–10**	**58**	–10	65
Canadian dollar	**–10**	**16**	–10	18
Total		**412**		501

Equity price risk

The Consolidated Entity and the Company is not exposed to significant equity risk on their non-trading investment portfolios.

Note 36
Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of financial instruments of the Consolidated Entity. The descriptions of measurement categories are included in Note 44(vii) *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 37 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	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									CONSOLIDATED 2021
Cash and bank balances	–	–	–	–	15,966	–	15,966	–	15,966
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,909	17,362	9,284	–	34,555	25,271	9,284
Trading assets[1]	21,212	–	–	–	–	–	21,212	21,212	–
Margin money and settlement assets	–	–	332	–	7,970	–	8,302	332	7,970
Derivative assets[2]	19,973	–	579	–	–	–	20,552	20,552	–
Financial investments									
Equity	–	–	206	–	–	–	206	206	–
Debt	–	–	110	7,665	18	–	7,793	7,775	18
Held for sale and other assets[3]	–	1,266	12	–	1,049	739	3,066	1,278	1,049
Loan assets[4]	–	64	129	–	98,799	–	98,992	193	99,177
Due from related body corporate entities[5]	384	–	–	–	1,507	263	2,154	384	1,507
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	281	281	–	–
Loans to associates and joint ventures	–	–	–	–	–	–	–	–	–
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,797	2,797	–	–
Intangible assets	–	–	–	–	–	146	146	–	–
Deferred tax assets	–	–	–	–	–	826	826	–	–
Total assets	41,569	1,330	9,277	25,027	134,593	5,052	216,848	77,203	134,971
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	345	–	–	4,197	–	4,542	345	4,197
Trading liabilities	6,134	–	–	–	–	–	6,134	6,134	–
Margin money and settlement liabilities	–	–	–	–	16,251	–	16,251	–	16,251
Derivative liabilities[2]	16,801	–	674	–	–	–	17,475	17,475	–
Deposits	–	–	–	–	84,140	–	84,140	–	84,157
Other liabilities[6]	–	605	–	–	1,063	2,682	4,350	605	584
Borrowings	–	–	–	–	2,473	–	2,473	–	2,484
Due to related body corporate entities[7]	902	–	–	–	14,976	23	15,901	902	14,976
Debt issued[4]	–	2,113	–	–	42,555	–	44,668	2,113	42,893
Deferred tax liabilities	–	–	–	–	–	36	36	–	–
Loan capital[4]	–	–	–	–	6,804	–	6,804	–	7,072
Total liabilities	23,837	3,063	674	–	172,459	2,741	202,774	27,574	172,614

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting*.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from other related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(6) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables. Fair value of other liabilities excludes the fair value of lease liabilities.
(7) Due to related body corporate entities includes derivatives and trading positions classified as HFT and all other intercompany payables are carried at amortised cost.

Note 36
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									CONSOLIDATED 2020
Cash and bank balances	–	–	–	–	7,847	–	7,847	–	7,847
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,957	23,064	6,687	–	37,708	31,021	6,687
Trading assets[1]	16,251	–	–	–	–	–	16,251	16,251	–
Margin money and settlement assets	–	–	555	–	11,628	–	12,183	555	11,628
Derivative assets[2]	42,988	–	1,857	–	–	–	44,845	44,845	–
Financial investments									
Equity	–	–	154	–	–	–	154	154	–
Debt	–	–	112	7,218	–	–	7,330	7,330	–
Held for sale and other assets[3]	–	947	308	–	1,381	631	3,267	1,255	1,381
Loan assets[4]	–	83	166	–	87,470	–	87,719	249	87,690
Due from other related body corporate entities[5]	804	–	–	–	4,346	128	5,278	804	4,346
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,598	2,598	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	250	250	–	–
Loans to associates and joint ventures	–	–	–	–	1	–	1	–	1
Intangible assets	–	–	–	–	–	185	185	–	–
Deferred tax assets	–	–	–	–	–	520	520	–	–
Total assets	60,043	1,030	11,109	30,282	119,360	4,312	226,136	102,464	119,580
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,030	–	2,322	1,292	1,030
Trading liabilities	5,363	–	–	–	–	–	5,363	5,363	–
Margin money and settlement liabilities	–	–	–	–	19,052	–	19,052	–	19,052
Derivative liabilities[2]	37,299	–	524	–	–	–	37,823	37,823	–
Deposits	–	–	–	–	67,253	–	67,253	–	67,324
Other liabilities[6]	–	622	–	–	692	1,632	2,946	622	649
Borrowings	–	–	–	–	3,047	–	3,047	–	3,065
Due to related body corporate entities[7]	1,811	3,500	–	–	16,793	11	22,115	5,311	16,793
Debt issued[4]	–	2,810	–	–	44,112	–	46,922	2,810	43,592
Deferred tax liabilities	–	–	–	–	–	69	69	–	–
Loan capital[4]	–	–	–	–	4,997	–	4,997	–	4,730
Total liabilities	44,473	8,224	524	–	156,976	1,712	211,909	53,221	156,235

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting.*
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(6) Non financial liabilities primarily represent accrued charges, employee related provisions and tax payables. Fair value of other liabilities excludes the fair value of lease liabilities.
(7) Due to related body corporate entities includes derivatives and trading positions classified as held for HFT and internal repurchase transactions classified as DFVTPL. All other non financial payables include income tax liabilities and all other intercompany payables are carried at amortised cost.

Note 36
Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of financial instruments, including commodities, of the Company. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 37 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	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									COMPANY 2021
Cash and bank balances	–	–	–	–	14,012	–	14,012	–	14,012
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,550	16,896	6,588	–	31,034	24,446	6,588
Trading assets[1]	19,128	–	–	–	–	–	19,128	19,128	–
Margin money and settlement assets	–	–	4	–	6,413	–	6,417	4	6,413
Derivative assets[2]	18,755	–	573	–	–	–	19,328	19,328	–
Financial investments									
Equity	–	–	147	–	–	–	147	147	–
Debt	–	–	104	7,665	–	–	7,769	7,769	–
Held for sale and Other assets[3]	–	864	–	–	535	223	1,622	864	535
Loan assets[4],[5]	–	64	106	2,698	80,808	–	83,676	2,868	80,926
Due from related body corporate entities[6]	381	–	–	–	1,181	83	1,645	381	1,181
Due from subsidiaries[7]	2,478	–	1,024	–	17,960	38	21,500	3,502	17,960
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	40	40	–	–
Loans to associates and joint ventures	–	–	–	–	–	–	–	–	–
Property, plant and equipment and right-of-use assets	–	–	–	–	–	672	672	–	–
Intangible assets	–	–	–	–	–	55	55	–	–
Investments in subsidiaries	–	–	–	–	–	6,618	6,618	–	–
Deferred tax assets	–	–	–	–	–	493	493	–	–
Total assets	40,742	928	9,508	27,259	127,497	8,222	214,156	78,437	127,615
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	345	–	–	4,197	–	4,542	345	4,197
Trading liabilities	6,137	–	–	–	–	–	6,137	6,137	–
Margin money and settlement liabilities	–	–	–	–	13,632	–	13,632	–	13,632
Derivative liabilities[2]	15,333	–	399	–	–	–	15,732	15,732	–
Deposits	–	–	–	–	83,994	–	83,994	–	84,011
Held for sale and other liabilities[8]	–	482	–	–	339	1,233	2,054	482	339
Borrowings	–	–	–	–	1,967	–	1,967	–	1,978
Due to related body corporate entities[9]	899	–	–	–	14,779	6	15,684	899	14,779
Due to subsidiaries[9]	2,830	–	204	–	13,490	8	16,532	3,034	13,490
Debt issued[4]	–	2,202	–	–	32,562	–	34,764	2,202	32,836
Deferred tax liabilities	–	–	–	–	–	–	–		–
Loan capital[4]	–	–	–	–	6,804	–	6,804	–	7,072
Total liabilities	25,199	3,029	603	–	171,764	1,247	201,842	28,831	172,334

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting*.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Following a review of the Company's business model, $64,855 million of loan assets have been classified as at the reporting date as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).
(6) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(7) Due from subsidiaries includes derivatives and trading positions classified as HFT and investment in loans to SEs classified as FVTPL. All other receivables from subsidiaries are carried at amortised cost.
(8) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.
(9) Due to related body corporate entities and subsidiaries includes derivatives and trading positions classified as HFT and continuing involvement in certain securitised SEs at FVTPL. All other payables to related body corporate entities are carried at amortised cost.

Note 36
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									COMPANY 2020
Cash and bank balances	–	–	–	–	6,037	–	6,037	–	6,037
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,957	22,543	5,534	–	36,034	30,500	5,534
Trading assets[1]	14,499	–	–	–	–	–	14,499	14,499	–
Margin money and settlement assets	–	–	334	–	9,681	–	10,015	334	9,681
Derivative assets[2]	39,997	–	1,607	–	–	–	41,604	41,604	–
Financial investments									
Equity	–	–	109	–	–	–	109	109	–
Debt	–	–	55	7,202	–	–	7,257	7,257	–
Other assets[3]	–	781	–	–	1,232	253	2,266	781	1,232
Loan assets[4]	–	83	120	49,206	15,566	–	64,975	49,409	15,692
Due from other related body corporate entities[5]	777	–	–	–	4,254	74	5,105	777	4,254
Due from subsidiaries[6]	5,048	–	921	–	21,071	–	27,040	5,969	21,071
Property, plant and equipment and right-of-use assets	–	–	–	–	–	819	819	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	41	41	–	–
Loans to associates and joint ventures	–	–	–	–	1	–	1	–	1
Intangible assets	–	–	–	–	–	78	78	–	–
Investments in subsidiaries	–	–	–	–	–	5,592	5,592	–	–
Deferred tax assets	–	–	–	–	–	470	470	–	–
Total assets	60,321	864	11,103	78,951	63,376	7,327	221,942	151,239	63,502
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,030	–	2,322	1,292	1,030
Trading liabilities	5,395	–	–	–	–	–	5,395	5,395	–
Margin money and settlement liabilities	–	–	–	–	16,662	–	16,662	–	16,662
Derivative liabilities[4]	35,770	–	203	–	–	–	35,973	35,973	–
Deposits	–	–	–	–	67,186	–	67,186	–	67,257
Other liabilities[7]	–	260	–	–	425	1,089	1,774	260	425
Borrowings	–	–	–	–	2,304	–	2,304	–	2,321
Due to other related body corporate entities[8]	1,811	3,500	–	–	16,702	–	22,013	5,311	16,702
Due to subsidiaries[6]	3,503	603	–	–	14,143	–	18,249	4,106	14,143
Debt issued[4]	–	2,892	–	–	31,343	–	34,235	2,892	30,958
Deferred tax liabilities	–	–	–	–	–	21	21	–	–
Loan capital[4]	–	–	–	–	4,997	–	4,997	–	4,730
Total liabilities	46,479	8,547	203	–	154,792	1,110	211,131	55,229	154,228

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting*.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from other related body corporate entities includes derivatives and trading positions classified as held for trading and all other receivables from related body corporate entities are carried at amortised cost.
(6) Due from subsidiaries includes derivatives and trading positions classified as HFT and investment in loans to SEs classified as FVTPL. All other receivables from subsidiaries are carried at amortised cost.
(7) Non financial liabilities primarily represent accrued charges, employee related provisions and tax payables.
(8) Due to related body corporate entities and subsidiaries includes derivatives and trading positions classified as HFT and repurchase transactions classified as DFVTPL. All other payables to related body corporate entities are carried at amortised cost.

Note 37
Fair value of financial assets and financial liabilities

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

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

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

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

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

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

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

The fair values calculated for financial instruments which are carried in the Statements of financial position at amortised cost (as disclosed in Note 36 *Measurement categories of financial instruments*) are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold for or a liability repurchased in a market-based transaction:

- the fair values of liquid assets and other instruments maturing within three months 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, term deposits 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
- the fair value of issued debt and loan capital, where carried at amortised cost is based on quoted prices in active markets where available. Where quoted prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments
- the fair value of balances due from or to subsidiaries and other related body corporate entities is approximated by their carrying amount as the balances are generally at variable rates.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments 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 at FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of market price and observable market inputs. Unrealised gains and losses on FVOCI debt assets, excluding changes in ECL on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of variable rate loans classified at FVOCI is equal to its carrying value on the basis that the interest rates are reflective of market rates offered on similar loans

Note 37
Fair value of financial assets and financial liabilities continued

- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, an adjustment is incorporated into the valuation
- the Consolidated Entity has incorporated market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

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

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

Note 37
Fair value of financial assets and financial liabilities continued

The following table summarises the fair value of financial assets and financial liabilities measured at amortised cost, including the level within the fair value hierarchy:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2021
Assets				
Loan assets	**–**	**4,310**	**94,867**	**99,177**
Total assets	**–**	**4,310**	**94,867**	**99,177**
Liabilities				
Deposits	**68,600**	**15,557**	**–**	**84,157**
Borrowings	**405**	**1,929**	**150**	**2,484**
Debt issued	**–**	**33,945**	**8,948**	**42,893**
Loan capital	**696**	**6,376**	**–**	**7,072**
Total liabilities	**69,701**	**57,807**	**9,098**	**136,606**
				CONSOLIDATED 2020
Assets				
Loan assets	–	6,054	81,636	87,690
Total assets	–	6,054	81,636	87,690
Liabilities				
Deposits	51,498	15,826	–	67,324
Borrowings	119	2,847	99	3,065
Debt issued	–	31,464	12,128	43,592
Loan capital	5	4,725	–	4,730
Total liabilities	51,622	54,862	12,227	118,711

Note 37
Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities measured at amortised cost:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				COMPANY 2021
Assets				
Loan assets[1]	**–**	**3,163**	**77,763**	**80,926**
Total assets	**–**	**3,163**	**77,763**	**80,926**
Liabilities				
Deposits	**68,462**	**15,549**	**–**	**84,011**
Borrowings	**406**	**1,572**	**–**	**1,978**
Debt issued	**–**	**32,836**	**–**	**32,836**
Loan capital	**696**	**6,376**	**–**	**7,072**
Total liabilities	**69,564**	**56,333**	**–**	**125,897**
				COMPANY 2020
Assets				
Loan assets	–	3,516	12,176	15,692
Total assets	–	3,516	12,176	15,692
Liabilities				
Deposits	51,453	15,804	–	67,257
Borrowings	119	2,196	6	2,321
Debt issued	–	30,958	–	30,958
Loan capital	5	4,725	–	4,730
Total liabilities	51,577	53,683	6	105,266

(1) Following an assessment of the Company's business model, loan assets of $64,855 million were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).

Note 37
Fair value of financial assets and financial liabilities continued

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2021
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	25,271	–	25,271
Trading assets[2]	10,188	10,604	420	21,212
Margin money and settlement assets	–	332	–	332
Derivative assets	232	20,059	261	20,552
Financial investments	507	6,822	652	7,981
Held for sale and other assets	–	1,253	25	1,278
Loan assets	–	138	55	193
Due from related body corporates[3]	–	384	–	384
Total assets	10,927	64,863	1,413	77,203
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	345	–	345
Trading liabilities	6,024	110	–	6,134
Derivative liabilities	224	16,973	278	17,475
Other liabilities	–	605	–	605
Due to related body corporate entities[3]	–	902	–	902
Debt issued	–	2,113	–	2,113
Total liabilities	6,248	21,048	278	27,574
				CONSOLIDATED 2020
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	31,021	–	31,021
Trading assets[2]	10,334	5,607	310	16,251
Margin money and settlement assets	–	555	–	555
Derivative assets	958	43,066	821	44,845
Financial investments	493	6,464	527	7,484
Held for sale and other assets	5	1,250	–	1,255
Loan assets	–	185	64	249
Due from related body corporate entities[3]	–	804	–	804
Total assets	11,790	88,952	1,722	102,464
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	1,292	–	1,292
Trading liabilities	4,988	375	–	5,363
Derivative liabilities	1,040	36,420	363	37,823
Held for sale and other liabilities	3	619	–	622
Due to related body corporate entities[3]	–	5,311	–	5,311
Debt issued	–	2,810	–	2,810
Total liabilities	6,031	46,827	363	53,221

(1) The fair value of non-financial assets and liabilities, where applicable, is disclosed under the respective notes.
(2) Includes commodities measured at fair value which are held for trading purposes.
(3) Includes balances with related body corporates. For details, refer to Note 36 *Measurement categories of financial instruments.*

Note 37
Fair value of financial assets and financial liabilities continued

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				COMPANY 2021
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	24,446	–	24,446
Trading assets[2]	10,161	8,794	173	19,128
Margin money and settlement assets	–	4	–	4
Derivative assets	232	18,944	152	19,328
Financial investments	503	6,820	593	7,916
Held for sale and other assets	–	846	18	864
Loan assets[3]	–	113	2,755	2,868
Due from related body corporate entities[4]	–	381	–	381
Due from subsidiaries[3]	–	2,935	567	3,502
Total assets	10,896	63,283	4,258	78,437
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	345	–	345
Trading liabilities	6,027	110	–	6,137
Derivative liabilities	224	15,365	143	15,732
Other liabilities	–	482	–	482
Due to related body corporate entities[3]	–	899	–	899
Due to subsidiaries[3]	–	2,691	343	3,034
Debt issued	–	2,202	–	2,202
Total liabilities	6,251	22,094	486	28,831
				COMPANY 2020
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	30,500	–	30,500
Trading assets[1]	10,618	3,648	233	14,499
Margin money and settlement assets	–	334	–	334
Derivative assets	946	40,219	439	41,604
Financial investments	491	6,394	481	7,366
Held for sale and other assets	–	781	–	781
Loan assets	–	150	49,260	49,410
Due from related body corporate entities[3]	–	777	–	777
Due from subsidiaries[3]	–	5,041	928	5,969
Total assets	12,055	87,844	51,341	151,240
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	1,292	–	1,292
Trading liabilities	4,923	472	–	5,395
Derivative liabilities	990	34,748	235	35,973
Other liabilities	–	260	–	260
Due to related body corporate entities[3]	–	5,311	–	5,311
Due to subsidiaries[3]	–	3,583	523	4,106
Debt issued	–	2,892	–	2,892
Total liabilities	5,913	48,558	758	55,229

(1) The fair value of non-financial assets and liabilities, where applicable, is disclosed under the respective notes.
(2) Includes commodities measured at fair value which are held for trading purposes.
(3) Following an assessment of the Company's business model, loan assets of $64,855 million were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).
(4) Includes balances with related body corporates and subsidiaries, for details refer to Note 36 *Measurement categories of financial instruments.*

Note 37
Fair value of financial assets and financial 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 financial instruments, including commodities, measured at fair value by the Consolidated Entity.

	Trading assets $m	Financial investments $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Other liabilities $m	Derivative financial instruments (net replacement value)[1] $m	Total $m
							CONSOLIDATED 2020	
Balance as at 1 Apr 19	172	576	–	50	3	–	228	1,029
Purchases and other additions	117	177	3	5	–	–	219	521
Sales and settlements	(18)	(198)	–	–	(3)	–	(110)	(329)
Transfers into Level 3[2]	44	36	–	–	–	–	14	94
Transfers out of Level 3[2]	(16)	(58)	(3)	–	–	–	(2)	(79)
Fair value movements recognised in the income statement								
Net trading income[3],[4]	11	1	–	1	–	–	109	122
Other operating income[5]	–	1	–	8	–	–	–	9
Fair value movements recognised in OCI[3]	–	(8)	–	–	–	–	–	(8)
Balance as at 31 Mar 20	310	527	–	64	–	–	458	1,359
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[3]	11	(1)	–	9	–	–	109	128
							CONSOLIDATED 2021	
Balance as at 1 Apr 20	**310**	**527**	**–**	**64**	**–**	**–**	**458**	**1,359**
Purchases and other additions	**454**	**281**	**22**	**95**	**–**	**–**	**186**	**1,038**
Sales and settlements	**(105)**	**(60)**	**–**	**–**	**–**	**–**	**(279)**	**(444)**
Transfers into Level 3[2]	**116**	**–**	**–**	**–**	**–**	**–**	**5**	**121**
Transfer out of Level 3[2]	**(164)**	**(127)**	**–**	**(28)**	**–**	**–**	**(24)**	**(343)**
Fair value movements recognised in the income statement								
Net trading loss[3],[4]	**(191)**	**(52)**	**–**	**(5)**	**–**	**–**	**(363)**	**(611)**
Other operating income/(loss)[5]	**–**	**46**	**3**	**(71)**	**–**	**–**	**–**	**(22)**
Fair value movements recognised in OCI[3]	**–**	**37**	**–**	**–**	**–**	**–**	**–**	**37**
Balance as at 31 Mar 21	**420**	**652**	**25**	**55**	**–**	**–**	**(17)**	**1,135**
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[3]	**(191)**	**(6)**	**3**	**(64)**	**–**	**–**	**(361)**	**(619)**

(1) The derivative financial instruments in the table above are presented on a net basis. On a gross basis derivative assets are $261 million (2020: $821 million) and derivative liabilities are 278 million (2020: $363 million).
(2) Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the financial year.
(3) The Consolidated Entity employs various hedging techniques in order to manage market risks including foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, that 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 denominated financial instruments that are measured at amortised cost, are not presented in the table above.
(4) Net trading loss for the year for trading assets and derivatives include trading-related gains and losses and foreign exchange gains and losses. For all other Statement of financial position items, trading loss represents foreign exchange losses only.
(5) Includes investment income and impairment charges on financial investments, loan assets.

Note 37
Fair value of financial assets and financial liabilities continued

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

	Trading assets $m	Financial investments $m	Loan assets $m	Due from/to Subsidiaries[1] $m	Loans to associates and joint ventures $m	Other Assets $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
								COMPANY 2020
Balance as at 1 Apr 19	129	522	37,744	736	3	–	171	39,305
Purchases and other additions	102	169	21,670	145	–		129	22,215
Sales and settlements	(18)	(185)	(10,227)	(470)	(3)	–	(93)	(10,996)
Transfers into Level 3[3]	38	36	–	–	–		8	82
Transfers out of Level 3[3]	(14)	(58)	–	–	–	–	1	(71)
Fair value movements recognised in the income statement								
Net trading loss[4],[5]	(4)	–	–	–	–	–	(12)	(16)
Other operating income/(loss)[6]	–	5	10	(6)	–	–	–	9
Fair value movements recognised in OCI[4]	–	(8)	63	–	–	–	–	55
Balance as at 31 Mar 20	233	481	49,260	405	–	–	204	50,583
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[4]	(4)	5	72	(6)	–	–	(12)	55
								COMPANY 2021
Balance as at 1 Apr 20	**233**	**481**	**49,260**	**405**	**–**	**–**	**204**	**50,583**
Purchases and other additions	**454**	**269**	**3,195**	**224**	**–**	**18**	**186**	**4,346**
Sales and settlements	**(105)**	**(51)**	**(404)**	**(585)**	**–**	**–**	**(258)**	**(1,403)**
Transfers into Level 3[3]	**23**	**–**	**–**	**209**	**–**	**–**	**5**	**237**
Transfer out of Level 3[3],[7]	**(164)**	**(127)**	**(49,234)**	**–**	**–**	**–**	**(17)**	**(49,542)**
Fair value movements recognised in income statement								
Net trading loss[4],[5]	**(268)**	**(40)**	**(6)**	**–**	**–**	**–**	**(111)**	**(425)**
Other operating income/(loss)[6]	**–**	**24**	**(61)**	**–**	**–**	**1**	**–**	**(36)**
Fair value movements recognised in OCI[4]	**–**	**37**	**5**	**(30)**	**–**	**–**	**–**	**12**
Balance as at 31 Mar 21	**173**	**593**	**2,755**	**223**	**–**	**19**	**9**	**3,772**
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[4]	**(268)**	**(3)**	**(54)**	**–**	**–**	**1**	**(110)**	**(434)**

(1) The balance due from/to subsidiaries in the table above is presented on a net basis. On a gross basis, due from subsidiaries are $567 million (2020: $928 million) and due to subsidiaries are $343 million (2020: $523 million).
(2) The derivative financial instruments in the table above are presented on a net basis. On a gross basis, derivative assets are $152 million (2020: $439 million) and derivative liabilities are $143 million (2020: $235 million).
(3) 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 financial year.
(4) The Company employs various hedging techniques in order to manage market risks including foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, that 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 denominated financial instruments that are measured at amortised cost, are not presented in the table above.
(5) Net trading loss for the year for trading assets and derivatives include trading-related gains and losses and foreign exchange gains and losses. For all other Statement of financial position items, trading loss represents foreign exchange losses only.
(6) Includes investment income and impairment charges on financial investments, loan assets.
(7) Following a review of the Company's business model, loan assets have been classified as at the reporting date as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).

Note 37
Fair value of financial assets and financial liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Company did not have significant transfers between Level 1 and Level 2.

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

Unrecognised gains or losses

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

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Balance at the beginning of the financial year	**168**	183	**154**	152
Deferrals on new transactions and other adjustments	**5**	44	**(8)**	32
Exchange differences	**(23)**	8	**(20)**	8
Recognised in net trading income during the year[1]	**(75)**	(67)	**(61)**	(38)
Balance at the end of the financial year	**75**	168	**65**	154

Sensitivity analysis of valuations using unobservable inputs

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

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss $m	**Equity $m**	**Profit or loss $m**	**Equity $m**
				CONSOLIDATED 2021
Product type				
Equity and equity-linked products	**4**	–	**(14)**	–
Commodities	**112**	–	**(73)**	–
Interest rate and other products	**11**	–	**(11)**	–
Total	**127**	–	**(98)**	–
				CONSOLIDATED 2020
Product type				
Equity and equity-linked products	7	–	(20)	–
Commodities	162	–	(129)	–
Interest rate and other products	16	–	(19)	–
Total	185	–	(168)	–

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

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

Note 37
Fair value of financial assets and financial liabilities continued

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
				COMPANY 2021
Product type				
Equity and equity-linked products	**2**	**–**	**(12)**	**–**
Commodities	**22**	**–**	**(23)**	**–**
Interest rate and other products	**6**	**–**	**(6)**	**–**
Total	**30**	**–**	**(41)**	**–**
				COMPANY 2020
Product type				
Equity and equity-linked products	5	–	(18)	–
Commodities	101	–	(93)	–
Interest rate and other products	17	3	(19)	(3)
Total	123	3	(130)	(3)

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

Note 37
Fair value of financial assets and financial liabilities continued

Significant unobservable inputs

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

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS Minimum value	RANGE OF INPUTS Maximum value
						CONSOLIDATED 2021
Equity and equity-linked products	**161**	**–**	Market comparability	Price in %[1]		
Commodities	**596**	**278**	Pricing model	Commodity margin curves	**(121.4)**	**1,458**
			Pricing model	Correlation	**(43.0%)**	**100.0%**
			Pricing model	Volatility and related variables	**8.3%**	**290.5%**
Interest rate and other products	**656**	**–**	Pricing model	Correlation	**0%**	**100.0%**
			Pricing model	Model parameter	**0.5%**	**40.8%**
Total	**1,413**	**278**				
						CONSOLIDATED 2020
Equity and equity-linked products	281	–	Market comparability	Price in %[1]		
Commodities	955	363	Pricing model	Commodity margin curves	(126.3)	967.5
			Pricing model	Correlation	(55.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	293.4%
Interest rate and other products	486	–	Pricing model	Correlation	(36.0%)	100.0%
			Pricing model	Model parameter	0.0%	52.3%
Total	1,722	363				

(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 37
Fair value of financial assets and financial 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 into 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 extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.

Inputs for unlisted equity securities

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

Inputs for interest rate products (discount rate)

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

Note 38
Offsetting of financial assets and financial liabilities

The Consolidated Entity and the Company present financial assets and financial liabilities on a net basis in the Statements of financial position when they meet the criteria described in Note 44(vii) *Financial instruments: Offsetting of financial instruments*. The following tables provide information on the impact of offsetting of financial instruments in the Statements of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore are presented gross in the Statements 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 and Company'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, refer to Note 35.1 *Credit risk* for information on credit risk management.

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET[1]				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[2] $m	Cash and other financial collateral[3] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2021
Cash collateral on securities borrowed and reverse repurchase agreements	31,714	(583)	31,131	(26)	(30,656)	449	3,424	34,555
Settlement assets[4]	5,370	(3,611)	1,759	(21)	–	1,738	1,991	3,750
Derivative assets	26,393	(6,421)	19,972	(11,038)	(4,407)	4,527	580	20,552
Due from related body corporate entities	1,104	(950)	154	(18)	–	136	2,000	2,154
Total assets	64,581	(11,565)	53,016	(11,103)	(35,063)	6,850	7,995	61,011
Cash collateral on securities lent and repurchase agreements	(4,669)	583	(4,086)	26	3,964	(96)	(456)	(4,542)
Settlement liabilities[4]	(5,358)	3,611	(1,747)	21	–	(1,726)	(2,168)	(3,915)
Derivative liabilities	(22,689)	6,421	(16,268)	11,038	2,759	(2,471)	(1,207)	(17,475)
Due to related body corporate entities	(10,762)	950	(9,812)	18	–	(9,794)	(6,089)	(15,901)
Total liabilities	(43,478)	11,565	(31,913)	11,103	6,723	(14,087)	(9,920)	(41,833)

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) 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.
(3) 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.
(4) Excludes margin money assets of $4,552 million and liabilities of $12,336 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 38
Offsetting of financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET[1]				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[2] $m	Cash and other financial collateral[3] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2020
Cash collateral on securities borrowed and reverse repurchase agreements	37,309	(944)	36,365	(351)	(35,269)	745	1,343	37,708
Settlement assets[4]	5,434	(4,282)	1,152	–	–	1,152	4,189	5,341
Derivative assets	59,263	(16,901)	42,362	(24,154)	(10,512)	7,696	2,483	44,845
Due from related body corporate entities	780	(553)	227	(81)	–	146	5,051	5,278
Total assets	102,786	(22,680)	80,106	(24,586)	(45,781)	9,739	13,066	93,172
Cash collateral on securities lent and repurchase agreements	(2,851)	944	(1,907)	351	1,433	(123)	(415)	(2,322)
Settlement liabilities[4]	(5,431)	4,282	(1,149)	–	–	(1,149)	(4,122)	(5,271)
Derivative liabilities	(53,274)	16,901	(36,373)	24,154	7,930	(4,289)	(1,450)	(37,823)
Due to related body corporate entities	(10,736)	553	(10,183)	81	–	(10,102)	(11,932)	(22,115)
Total liabilities	(72,292)	22,680	(49,612)	24,586	9,363	(15,663)	(17,919)	(67,531)

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) 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.
(4) Excludes margin money assets of $6,842 million and liabilities of $13,871 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 38
Offsetting of financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET[1]				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[2] $m	Cash and other financial collateral[3] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								COMPANY 2021
Cash collateral on securities borrowed and reverse repurchase agreements	31,247	(583)	30,664	(26)	(30,190)	448	370	31,034
Settlement assets[4]	3,931	(3,003)	928	–	–	928	1,462	2,390
Derivative assets	25,403	(6,412)	18,991	(10,565)	(4,294)	4,132	337	19,328
Due from subsidiaries	21,556	(6,074)	15,482	(1,567)	–	13,915	6,018	21,500
Due from related body corporate entities	988	(948)	40	(15)	–	25	1,605	1,645
Total assets	83,125	(17,020)	66,105	(12,173)	(34,484)	19,448	9,792	75,897
Cash collateral on securities lent and repurchase agreements	(4,669)	583	(4,086)	26	3,964	(96)	(456)	(4,542)
Settlement liabilities[4]	(4,130)	3,003	(1,127)	–	–	(1,127)	(1,885)	(3,012)
Derivative liabilities	(21,343)	6,412	(14,931)	10,565	2,565	(1,801)	(801)	(15,732)
Due to subsidiaries	(8,888)	6,074	(2,814)	1,567	–	(1,247)	(13,718)	(16,532)
Due to related body corporate entities	(10,715)	948	(9,767)	15	–	(9,752)	(5,917)	(15,684)
Total liabilities	(49,745)	17,020	(32,725)	12,173	6,529	(14,023)	(22,777)	(55,502)

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) 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.
(4) Excludes margin money assets of $4,027 million and liabilities of $10,620 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 38
Offsetting of financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS[1]							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[2] $m	Cash and other financial collateral[3] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								COMPANY 2020
Cash collateral on securities borrowed and reverse repurchase agreements	36,788	(944)	35,844	(351)	(34,748)	745	190	36,034
Settlement assets[4]	4,334	(3,751)	583	–	–	583	3,473	4,056
Derivative assets	55,888	(15,919)	39,969	(23,464)	(9,994)	6,511	1,635	41,604
Due from subsidiaries	26,052	(8,073)	17,979	(994)	–	16,985	9,061	27,040
Due from related body corporate entities	716	(553)	163	(81)	–	82	4,942	5,105
Total assets	**123,778**	**(29,240)**	**94,538**	**(24,890)**	**(44,742)**	**24,906**	**19,301**	**113,839**
Cash collateral on securities lent and repurchase agreements	(2,851)	944	(1,907)	351	1,433	(123)	(415)	(2,322)
Settlement liabilities[4]	(4,414)	3,751	(663)	–	–	(663)	(3,728)	(4,391)
Derivative liabilities	(50,551)	15,919	(34,632)	23,464	7,541	(3,627)	(1,341)	(35,973)
Due to subsidiaries	(11,753)	8,073	(3,680)	994	–	(2,686)	(14,569)	(18,249)
Due to related body corporate entities	(10,680)	553	(10,127)	81	–	(10,046)	(11,886)	(22,013)
Total liabilities	**(80,249)**	**29,240**	**(51,009)**	**24,890**	**8,974**	**(17,145)**	**(31,939)**	**(82,948)**

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) 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.
(4) Excludes margin money assets of $5,959 million and liabilities of $12,271 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 39
Pledged assets and transfers of financial assets

Pledged assets

Assets pledged as security for liabilities include the following:

- securities and commodities included under trading assets and off balance sheet collateral securities pledged for repurchase transactions, stock lending arrangements and trading liabilities. These transactions are governed by standard industry agreements
- loan assets held by the consolidated SEs provided as collateral against debt issued
- cash and bank balances, trading assets, financial investments, property, plant and equipment and other assets and provided as collateral for bank borrowings.

The table below represents assets that have been pledged as security for liabilities:

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Balance sheet:				
Cash and bank balances	**1**	139	**–**	124
Trading assets[1]	**3,607**	3,048	**3,389**	2,627
Financial investments	**202**	267	**202**	267
Other assets	**43**	27	**27**	–
Loan assets[2]	**14,045**	17,200	**11,737**	13,045
Property, plant and equipment	**109**	86	**–**	6
Off balance sheet:				
Collateral securities and commodities[3],[4]	**9,367**	11,048	**11,012**	11,278
Total pledged assets	**27,374**	31,815	**26,367**	27,347

(1) For trading securities, the transferee has the right to sell or re-pledge the entire value of securities received. Balance does not include securities amounting to $1,729 million (2020: $1,210 million) for the Consolidated Entity and $1,729 million (2020: $1,210 million) for the Company transferred in return for the loan of other securities where there is no associated liability on the Consolidated Entity's and Company's Statement of financial position.

(2) Includes $2,605 million of SEs securitised bonds that have been pledged against repurchase agreement liabilities, including $505 million (2020: $531 million) relating to a repurchase liability with a related body corporate.

(3) The total collateral received by the Consolidated Entity against reverse repurchase and cash collateral agreements amounts to $35,045 million (2020: $38,070 million) (refer to Note 35.1 *Credit risk*). Out of which the Consolidated Entity re-pledged $8,796 million (2020: $7,852 million) to external clients and $571 million (2020: $3,196 million) to related body corporates.

(4) The total collateral received by the Company against reverse repurchase and cash collateral agreements amounts to $31,131 million (2020: $36,511 million) (refer to Note 35.1 *Credit risk*). Out of which the Company re-pledged $8,707 million (2020: $7,852 million) to external clients, $571 million (2020: $3,196 million) to related body corporates and $1,734 million (2020: $230 million) to its subsidiaries against internal repurchase agreement liabilities.

Note 39
Pledged assets and transfers of financial assets continued

Pledged assets continued

Transfers of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer risks and rewards of financial assets recognised in the Consolidated Entity Statement of financial position to other entities. Depending on the criteria discussed in Note 44(xii) *Financial instruments* the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of its continuing involvement.

Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets in the form of liquidity support, financial guarantees, certain derivatives or retention of part of the securitisation interest through interest rate or basis swaps. The Consolidated Entity does not have any material transfers of financial assets where the Consolidated Entity retained a continuing involvement in the transferred assets. Through interest rate basis swaps, the Company has continuing involvement in certain securitised mortgage assets that were transferred to SEs and this resulted in a continuing involvement asset of $229 million (2020: $421 million) with a corresponding liability of $164 million (2020: $348 million). The maximum exposure to loss of this continuing involvement is $65 million (2020: $73 million).

The Company also has interests in certain SEs (into which the Company has previously transferred securitised mortgage assets) through debt notes amounting to $82 million (2020: $99 million) which is equal to the Company's maximum exposure to loss.

Transferred financial assets that are not derecognised

The Consolidated Entity did not derecognise any financial assets to the extent of continuing involvement in the years ended 31 March 2021 and 31 March 2020. The following transactions typically result in the transferred assets continuing to be recognised in full.

Repurchase and securities lending agreements

Securities and commodities sold under an agreement to repurchase and securities subject to lending agreements continue to be recognised in the Statements of financial position and an associated liability is recognised for the consideration received.

Where securities are transferred in return for loan of other securities, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The Consolidated Entity is unable to use, sell or pledge the transferred assets for the duration of the transaction and remains exposed to interest rate risk and credit risk on these assets.

In certain arrangements the transferee cannot otherwise sell or pledge the transferred securities, however the assets may be substituted if the required collateral is maintained.

Financial investment – Total return swap

Financial assets sold, while concurrently entering into a total return swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold by the transferee.

Interests in securitisations

Financial assets (principally home loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Company is entitled to any residual income of a securitisation vehicle, the Company continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

Other financial transfers

Includes loans and leases sold or lent to an external funder but the Consolidated Entity still has full economic exposure to them. In such instances the Consolidated Entity has a right to receive cash from the lessee and an obligations to pay those cash flows to external funder.

Trading assets under other financial assets not derecognised represents gold and bonds transferred for margins in relation to trading activities.

Note 39
Pledged assets and transfers of financial assets continued

			FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS		
	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	Fair value of transferred assets $m	Fair value of associated liabilities $m	Net fair value $m
					CONSOLIDATED 2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	**3,175**	**(1,434)**	**–**	**–**	**–**
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	**202**	**(182)**	**–**	**–**	**–**
Other financial assets not derecognised:					
Trading assets[2]	**988**	**–**	**–**	**–**	**–**
Loan assets	**96**	**(96)**	**95**	**(96)**	**(1)**
Total financial assets not derecognised	**4,461**	**(1,712)**	**95**	**(96)**	**(1)**
					CONSOLIDATED 2020
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	1,953	(773)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	267	(245)	–	–	–
Other financial assets not derecognised:					
Cash and bank balances[2]	124	–	–	–	–
Trading assets[2]	748	–	–	–	–
Loan assets	267	(266)	268	(266)	2
Total financial assets not derecognised	3,359	(1,284)	268	(266)	2

(1) Includes securities amounting to $1,729 million (2020: $1,210 million) transferred under security swap arrangements.
(2) Includes gold and bonds placed as initial margin for trading activities.

Note 39
Pledged assets and transfers of financial assets continued

			FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS		
	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	Fair value of transferred assets $m	Fair value of associated liabilities $m	Net fair value $m
					COMPANY 2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	**3,175**	**(1,434)**	**–**	**–**	**–**
Due from subsidiaries[2]	**2,605**	**(2,130)**	**–**	**–**	**–**
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	**202**	**(182)**	**–**	**–**	**–**
Financial assets not derecognised due to securitisation:					
Loan assets[3]	**8,205**	**(8,205)**	**8,215**	**(8,253)**	**(38)**
Other financial assets not derecognised					
Trading assets[1]	**988**	**–**	**–**	**–**	**–**
Total financial assets not derecognised	**15,175**	**(11,951)**	**8,215**	**(8,253)**	**(38)**
					COMPANY 2020
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	1,953	(773)	–	–	–
Due from subsidiaries[2]	531	(411)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	267	(245)	–	–	–
Financial assets not derecognised due to securitisation:					
Loan asset[3]	9,411	(9,411)	9,461	(9,270)	191
Other financial assets not derecognised					
Cash and bank balance[4]	124	–	–	–	–
Trading assets[1]	748	–	–	–	–
Total financial assets not derecognised	13,034	(10,840)	9,461	(9,270)	191

(1) Includes securities amounting to $1,729 million (2020: $1,210 million) transferred under security swap arrangements.
(2) Includes the fair value of the SEs securitised bonds pledged against repurchase agreement liabilities.
(3) Excludes $37,693 million (2020: $23,506 million) of securitised assets where the Company holds all of the loan notes issued by the SEs.
(4) Includes gold and bonds placed as initial margin for trading activities.

Note 40
Audit and other services provided by PricewaterhouseCoopers

During the financial year, PricewaterhouseCoopers (PwC) and its network firms, the auditor of the Consolidated Entity and the Company, earned the following remuneration:

	CONSOLIDATED		COMPANY	
	2021 $'000	2020[1] $'000	**2021 $'000**	2020[1] $'000
PwC – Australia				
Audit of the Group and controlled entities[2]	**10,668**	11,548	**8,419**	9,123
Total audit services	**10,668**	11,548	**8,419**	9,123
Other statutory assurance services[3]	**2,037**	1,390	**1,611**	951
Other assurance services[4]	**2,998**	1,939	**731**	–
Advisory services	**5**	210	**3**	–
Taxation	**243**	274	**4**	–
Total non-audit services	**5,283**	3,813	**2,349**	951
Total remuneration paid to PwC Australia	**15,951**	15,361	**10,768**	10,074
Network firms of PwC Australia				
Audit of the controlled entities[2]	**7,580**	8,562	**4,978**	3,165
Total audit services	**7,580**	8,562	**4,978**	3,165
Other statutory assurance services[3]	**356**	88	**36**	–
Other assurance services[4]	**231**	72	**91**	–
Advisory services	**–**	84	**–**	–
Taxation	**1,025**	511	**109**	–
Total non-audit services	**1,612**	755	**236**	–
Total remuneration paid to network firms of PwC Australia	**9,192**	9,317	**5,214**	3,165
Total audit services remuneration paid to PwC	**18,248**	20,110	**13,397**	12,288
Total non-audit services remuneration paid to PwC	**6,895**	4,568	**2,585**	951
Total remuneration paid to PwC	**25,143**	24,678	**15,982**	13,239

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Consolidated Entity's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects and all non-audit services provided by PwC have been approved in accordance with its *Auditor Independence Policy*.

(1) Comparative information has been restated to conform to the presentation in the current year.
(2) Prior period includes:
- Consolidated Entity: additional fees of $2,105 thousand for PwC Australia ($525 thousand for network firms of PwC Australia) that related to the year ended 31 March 2020 but were incurred during the 2021 financial year
- Company: additional fees of $1,574 thousand for PwC Australia ($361 thousand for network firms of PwC Australia) that related to the year ended 31 March 2020 but were incurred during the 2021 financial year.

(3) Other statutory assurance services include audit of Australian Financial Services license requirements and other due diligence activities including comfort letters on debt issuance programmes, generally performed by the auditor of the Consolidated Entity.
(4) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include engagements required under prudential standards, accounting advice, certifications, due diligence and reviews of controls and other agreed upon procedures.

Note 41
Discontinued operations

On 10 December 2018, the Consolidated Entity disposed of its CAF Principal Finance and Transportation Finance businesses (the businesses) to a related group entity MFHPL, that is fully owned by MGL and its subsidiaries.

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

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

Note 42
Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired:

There were no significant entities and businesses where control was obtained during the current financial year.

Other entities and businesses acquired:

During the current financial year, the MGL and MBL Boards approved the transfer of Macquarie's service entities from the Non-Bank Group to the Consolidated Entity, and was executed in November 2020. The transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity acquired a 100% interest in Macquarie Group Services Australia Pty Ltd. (MGSA), which was accounted for by the Company as an investment in a subsidiary at cost, and its subsidiaries from MGL and a 100% interest in Macquarie Global Services Private Limited from Macquarie Global Finance Services (Mauritius) Limited (an indirect subsidiary of MGL).

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

	2021 $m
Carrying value of net assets acquired	
Cash and bank balances	**318**
Other assets[1]	**520**
Property, plant and equipment and right-of-use assets	**590**
Deferred tax assets	**231**
Loan assets	**14**
Other liabilities[2]	**(1,209)**
Deferred tax liabilities	**(38)**
Total carrying value of net assets recognised	**426**
Total carrying value of net assets recognised net of non-controlling interest	**426**
Consideration	
Cash consideration (net of transaction cost)	**615**
Total consideration	**615**
Difference between consideration and net assets recognised within equity	**189**
Net cash flow	
Payments for the acquisition of subsidiaries and businesses	**615**
Less: Cash and cash equivalents acquired	**(318)**
Net cash outflow	**297**

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

Note 42
Acquisitions and disposals of subsidiaries and businesses continued

Significant disposal of entities and businesses

There were no individually significant entities and businesses disposed of or deconsolidated where control was lost during the current and previous financial year other than as disclosed in Note 41 *Discontinued operations*.

Other disposal of entities and businesses:

During the year ended 31 March 2021, the Consolidated Entity disposed of Vestone Capital Limited (formerly Macquarie Equipment Rentals Pty Limited). This was achieved by contributing the net assets of the business to a newly formed joint venture along with a third-party investor, in which the Consolidated Entity holds a 50% interest.

	2021 $m
Carrying value of net assets acquired	
Cash and bank balances	**36**
Other assets	**423**
Loan assets	**9**
Deferred tax and Other liabilities	**(32)**
Total carrying value of net assets	**436**
Consideration	
Cash consideration	**41**
Consideration receivable	**5**
Loan assets	**376**
Interest acquired through contribution to a joint venture	**32**
Total consideration	**454**
Direct costs relating to disposal	**(3)**
Net cash flow	
Cash consideration	**41**
Less: Cash and cash equivalents disposed off or deconsolidated	**(36)**
Net cash inflow	**5**

Note 43
Events after the reporting date

There were no material events subsequent to 31 March 2021 and up until the authorisation of the financial statements for issue, that have not been disclosed elsewhere in the financial statements.

Note 44
Significant accounting policies

(i) Principles of consolidation

Subsidiaries

The consolidated Financial Report reflects the financial performance and financial position of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) which the Consolidated Entity controls. The Consolidated Entity controls an entity where it has:

- power to direct the relevant activities
- exposure, or rights, to significant variable returns, and the ability to utilise power to affect the entity's returns.

The determination of control is based on current facts and circumstances and is continuously assessed. The Consolidated Entity has power over an entity when it has existing substantive rights that provide it with the current ability to direct the entity's relevant activities, being those activities that significantly affect the entity's returns. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates its exposure, or rights, to variable returns by considering the magnitude and variability associated with its economic interests.

All variable returns are considered in making that assessment including, but not limited to, returns from debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

Structured entities

Structured Entities (SEs) are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities of the SE are directed by means of contractual arrangements. When assessing whether the Consolidated Entity controls (and therefore consolidates) a SE, judgement is required as to whether the Consolidated Entity has power over the relevant activities as well as exposure, or rights, to significant variable returns of the SE.

Where the Consolidated Entity has power over the SE's relevant activities, has assessed that its exposure to variable returns (through the residual risk associated with its involvement in SEs) is sufficient, and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements.

Consolidation

The effects of all transactions between subsidiaries in the Consolidated Entity are eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (NCI) in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

Where control of an entity was obtained during the financial year, its results are included in the consolidated income statement from the date on which control was obtained. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The Consolidated Entity determines the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities and the extent of the Consolidated Entity's exposure to the entity's variable returns.

Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its financial statements at cost less accumulated impairments, adjusted for changes in fair value attributable to the spot foreign exchange risk where such subsidiaries are designated in qualifying fair value hedge relationships.

Interests in associates and joint ventures

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control. Existing ownership interests (including in-substance ownership interests) in associates and joint ventures are accounted for under the equity method. In-substance ownership interests are interests that are substantially similar to an investee's ordinary shares. Equity accounting of the ownership interests is applied from the date that the Consolidated Entity has significant influence or joint control and ceases when the Consolidated Entity no longer has significant influence or joint control.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence the financial and operating policies or jointly control the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Note 44
Significant accounting policies continued

(i) Principles of consolidation continued

The equity method of accounting is applied in the consolidated Financial Report and requires the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or loss (including impairments of the associates' or joint ventures' assets) in the consolidated income statement, and the share of the post-acquisition movements in other comprehensive income in the consolidated statement of comprehensive income. Transactions reported directly in equity (besides those reflected in other comprehensive income) are accounted for by the Consolidated Entity in accordance with the substance of the transaction and whether the transaction is dilutive to the Consolidated Entity's ownership interest. Where the transaction is dilutive, the impact is recorded as part of the Consolidated Entity's share of profits or losses of associates and joint ventures.

Equity accounting of losses is restricted to the Consolidated Entity's interests in its associate or joint venture, unless the Consolidated Entity has an obligation or has made payment on behalf of the entity.

Long-term interests in an associate or joint venture, to which the equity method is not applied but in-substance form part of the net investment in the associate or joint venture, are accounted for in accordance with the Consolidated Entity's financial instruments' accounting policies, which includes accounting for expected credit losses, where applicable. Subsequently, the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures* are applied to long-term interests.

At the end of each reporting period, management reviews the Consolidated Entity's investments in associates and joint ventures for indicators of impairment. Where there is an indicator of impairment, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Impairment losses are recognised in other impairment charges/reversals. A reversal of a previously recognised impairment loss is recognised only to the extent that the investment's carrying value does not exceed the carrying amount that would have been determined (including consideration of any equity accounted losses), if no impairment loss had been recognised.

Interests in associates and joint ventures are classified as held for sale when the Consolidated Entity determines that the interest will be recovered principally through a sale transaction rather than through continuing use. Equity accounting is suspended when the interest is classified as held for sale.

On disposal of an investment in an associate or a joint venture, the difference between the sales consideration, any retained interest and the carrying value is recognised as a gain or loss in investment income as part of other operating income and charges together with any gains and losses in OCI that related to the associate or joint venture.

Investments (including in-substance existing ownership interests) in associates and joint ventures held by the Company are carried in its financial statements at cost less accumulated impairment, adjusted for changes in fair value attributable to the spot foreign exchange risk where such investments are designated in qualifying fair value hedge relationships.

Changes in ownership interests

When acquiring additional interests,

- of a financial asset (such that it becomes an associate, joint venture or subsidiary), or
- in an investment in an associate or joint venture (such that it becomes a subsidiary), where the underlying entity constitutes a business,

previously held interests are revalued to their fair value and any gain or loss is recognised in investment income as part other operating income and charges.

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in an associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their fair value and any gain or loss is recognised in investment income as part of other operating income and charges. Retained ownership interests are not revalued where the sale represents a contribution to an associate or joint venture.

Increases and decreases in the Consolidated Entity's interest in a subsidiary (that do not result in the loss of control) are accounted for directly within equity. Increases in the Consolidated Entity's ownership interest in an associate or joint venture are accounted for as an increase in the carrying value of the interest in associate or joint venture. The difference between the reduction in the Consolidated Entity's interest in an associate or joint venture that remains an associate or joint venture and the fair value of consideration received is accounted for as a gain or loss within investment income as part of other operating income and charges. A proportionate amount of associated OCI is reclassified to profit or loss, or reclassified within equity, as would otherwise be required on disposal of the underlying position.

(ii) Business combinations

Distinguishing between whether assets or a business is acquired involves judgement. The Consolidated Entity identifies a business where an acquired integrated set of activities and assets includes an economic resource (input) and a substantive process that together significantly contribute to the ability to provide goods or services to customers, generate investment income or other income from ordinary activities (outputs).

On a transaction-by-transaction basis, the Consolidated Entity may use a practical expedient to determine that an acquired set of activities is not a business. Under this assessment, the transaction is accounted for as an asset acquisition if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Note 44
Significant accounting policies continued

(ii) Business combinations continued

Business combinations are accounted for using the acquisition method. The consideration exchanged is measured as the aggregate of the acquisition-date fair values of assets transferred, equity instruments issued, and liabilities incurred. Transaction costs of a business combination are recognised directly in the consolidated income statement as part of other operating expenses.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. The Consolidated Entity elects, on a transaction-by-transaction basis, to initially measure NCI either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities.

Goodwill is measured as the excess of the consideration exchanged, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the business acquired and is recognised as part of intangible assets in the Statement of financial position. Goodwill is subsequently measured at cost less accumulated impairment.

If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised in investment income as part of other operating income and charges, but only after a reassessment of the identification and measurement of the net assets acquired.

Contingent consideration that is dependent on any subsequent event is measured at fair value with changes in its fair value recognised in investment income as part of other operating income and charges.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the acquisition date. The discount rate used is the Consolidated Entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Combinations between entities or businesses under common control

Common control transactions, which are business combinations involving entities or businesses that are ultimately controlled by the same parent entity, are accounted for at book value.

Where the Consolidated Entity acquires, as part of a common control transaction, assets that meet the definition of a business, the assets and liabilities acquired are recorded using the book values included in the consolidated financial statements of the entity having the highest level within the common control group and, where applicable, are presented gross of any accumulated amortisation, depreciation and impairment. The Consolidated Entity accounts for the difference between the consideration paid and the book value of the assets and liabilities acquired as a restructure reserve in equity, generally in retained earnings.

In the Consolidated Entity's financial statements, to the extent the common control transaction occurred between entities ultimately controlled by Macquarie Bank Limited, the selling entity's gains and losses relating to a common control transaction are eliminated against the amount recorded in the acquirer's equity relating to the common control transaction.

(iii) Foreign currency translation

Functional and presentation currency

The functional currency of each entity in the Consolidated Entity is determined as the currency of the primary economic environment in which the entity operates. The Consolidated Entity and the Company's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

Transactions and balances

At initial recognition, a foreign currency transaction is translated into the entity's functional currency using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- foreign currency monetary assets and liabilities are translated using the closing exchange rate
- non-monetary items (including equity) measured in terms of historical cost in a foreign currency remain translated using the spot exchange rate at the date of the transaction, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date that the fair value was measured.

Foreign exchange gains and losses arising from the settlement or translation of monetary items, or non-monetary items measured at fair value are recognised in net trading income, with one exception. Where such monetary items are designated as hedging instruments in qualifying cash flow hedge or net investment hedge relationships, the foreign exchange gains and losses may be deferred in OCI to the extent the hedge is effective (refer to Note 34 *Hedge accounting* and Note 44(x) *Derivative instruments and hedging activities*).

Subsidiaries and other entities

The results and financial position of all entities that have a functional currency other than Australian dollars are translated into Australian dollars as follows:

- assets and liabilities for each Statement of financial position presented are translated at the closing exchange rate at the date of that Statement of financial position. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate
- income and expenses for each income statement are translated at actual or average exchange rates at the dates of the transactions
- all resulting exchange differences are recognised in OCI within a separate component of reserves, being the foreign currency translation reserve (FCTR).

Note 44
Significant accounting policies continued

(iii) Foreign currency translation continued

Foreign currency gains and losses on intragroup loans are recognised in the income statement except where the loan is in-substance part of the Consolidated Entity's net investment in the foreign operation, in which case the foreign currency gains and losses are recognised in the Consolidated Entity's FCTR.

The exchange gains or losses recognised in FCTR are reclassified to the income statement or reattributed within equity as follows:

- if there is a disposal of a foreign operation, then the accumulated FCTR is reclassified from OCI to investment income within other operating income and charges
- if there is a partial disposal of a foreign operation that is an associate or joint arrangement, without loss of significant influence or joint control, then a proportionate share of the accumulated FCTR is reclassified to investment income
- if there is a partial disposal of a foreign operation that is a subsidiary, without loss of control, then a proportionate share of the accumulated FCTR is reattributed within equity to non-controlling interests.

(iv) Revenue and expense recognition

Net interest income

Interest income and interest expense (with the exception of borrowing costs that are capitalised on a qualifying asset which is not measured at fair value) are recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost, and debt financial assets classified as at fair value through OCI. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in interest income or interest expense, as applicable, over the expected life (or, when appropriate, a shorter period) of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the remeasurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of the EIR does not include ECL, except for financial assets which on initial recognition are classified as purchased or originated credit impaired (POCI). Interest income on these assets is determined using a credit adjusted EIR by discounting the estimated future cash receipts, including credit losses expected at initial recognition, through the expected life of the financial instrument to the net carrying amount of the financial asset.

Interest income on financial assets that are not credit-impaired is determined by applying the financial asset's EIR to the financial asset's gross carrying amount. Interest income on financial assets that are not classified as POCI but are subsequently classified as credit-impaired (stage III), is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying value after deducting the impairment loss).

Interest income and expense on financial assets and liabilities that are classified as FVTPL is accounted for on a contractual rate basis.

Fee and commission income

Revenue earned by the Consolidated Entity from its contracts with customers primarily consists of the following categories of fee and commission income:

Brokerage and other trading-related fee income

The Consolidated Entity enters into contracts with customers to act as an agent to buy and sell securities. The brokerage and commission income related to this service is recognised on trade date and is presented net of any rebates.

Service fee from related body corporates

Service fees for the provision of resources or other ancillary services to other Group entities, when the Company or its subsidiaries performs a service for other entities within the Macquarie Group as per the group shared services agreements, are recognised as and when those services are performed.

Other fee and commission income

Other fee and commission income includes fees earned on a range of banking products and services platforms, wealth services, credit cards, structuring fees, portfolio administration, lending services, stock borrow and lending activities and income on structured products which is recognised when the performance obligation is satisfied.

The revenue recognition policies above are applied to internal fee sharing arrangements between the entities within the Macquarie Group. Management fees and other cost recoveries are recognised as and when the Company performs a service to other entities within the Macquarie Group as per the agreed cost or profit sharing arrangements.

Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term. It comprises operating lease income and supplemental rent and is presented net of the related depreciation expense.

Other operating income and charges

Other operating income and charges includes investment income, and other income.

Investment income includes gains and losses arising from subsequent changes in the fair values of equity and debt investment securities that are classified as FVTPL and dividends or distributions on these securities which represent the return on such investments. Impairment losses/reversal of impairment losses on these financial assets are not reported separately.

Gains or losses on the change of control, joint control and/or significant influence and reclassifications to/from held for sale also forms part of investment income. Refer to Note 44(i) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

Note 44
Significant accounting policies continued

(iv) Revenue and expense recognition continued

Dividends

Dividends or distributions are recognised when the right to receive a dividend or distribution is established, it is probable the economic benefits associated with the dividend will flow to the Consolidated Entity and the dividend can be measured reliably.

Dividends or distributions from HFT assets are recognised in net trading income, as investment income as part of other operating income and charges for other financial assets measured at FVTPL or FVOCI, or as a reduction to the carrying amount of the investment in associates and joint ventures in the Consolidated Entity's Statement of financial position. Where associates and joint ventures are classified as held for sale, dividends or distributions are recognised within other income as part of other operating income and charges.

Judgement is applied in determining whether distributions from subsidiaries, associates and joint ventures are to be recognised as dividend income or as a return of capital. Distributions that represent a return of capital are accounted for by the Company as a reduction to the cost of its investment and are otherwise recognised by the Company within investment income as part of other operating income and charges when the recognition criteria are met.

Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

(v) Segment reporting

Operating segments are identified on the basis of internal reports to Senior Management about components of the Consolidated Entity that are regularly reviewed by Senior Management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to Senior Management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising three reportable segments as disclosed in Note 3 *Segment reporting*.

Information about products and services is based on the financial information used to produce the Consolidated Entity's financial statements. Information about geographical segments is based on the jurisdiction of the respective entities.

(vi) Taxation

The balance sheet approach to tax effect accounting has been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences or tax losses.

Deferred tax liabilities are recognised when such temporary differences give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered, or the liabilities are settled under enacted or substantively enacted tax law.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to either settle on a net basis or realise the asset and settle the liability simultaneously.

Current and deferred taxes attributable to amounts recognised in OCI are also recognised in OCI.

The Consolidated Entity exercises judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery.

Factors considered include the ability to offset tax losses within the tax consolidated group in Australia or groups of entities in overseas jurisdictions, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

The Consolidated Entity undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Consolidated Entity estimates the amount expected to be paid to/(recovered from) tax authorities based on its understanding and interpretation of the law. Uncertain tax positions are presented as current or deferred tax assets or liabilities with reference to the nature of the underlying uncertainty.

Tax consolidation

The Consolidated Entity's Australian tax liabilities are determined according to tax consolidation legislation.

All eligible Australian resident wholly owned subsidiaries of Macquarie Group Limited (MGL, the Company's ultimate parent entity) comprise a tax consolidated group with MGL as the head entity. As a consequence, the Company and the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses.

The tax consolidated group recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB Interpretation 1052 *Tax Consolidation Accounting*. Under the terms and conditions of a tax funding agreement, MGL charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

Note 44
Significant accounting policies continued

(vi) Taxation continued

MGL's group allocation approach is based on a 'standalone taxpayer' approach as defined in UIG 1052 which requires each subsidiary member to record income taxes as though they each continued to be a taxable entity in their own right. Modifications, such as the removal of the standalone tax effect of intra-group dividend income, are then made to this approach wherever it does not appropriately reflect the tax outcome to the tax consolidated group.

Should MGL be in default of its tax payment obligations, or a default is probable, the current tax balances of its subsidiaries will be determined in accordance with the terms and conditions of a tax sharing agreement between the MGL and entities in the tax consolidated group.

Goods and Services tax (GST)

Where GST (or other value added tax) is not recoverable from global tax authorities, it is either capitalised to the Statement of financial position as part of the cost of the related asset or is recognised as part of other operating expenses. Where GST (or other value added tax) is recoverable from or payable to global tax authorities, the amount is recorded as a separate asset or liability in the Statement of financial position.

(vii) Financial instruments

Recognition of financial instruments

Financial instruments are recognised when the Consolidated Entity becomes a party to the contractual provisions of the instrument.

A financial instrument is initially recognised at fair value and is adjusted (in the case of instruments not classified at FVTPL) for transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument, and fees that are an integral part of the effective interest rate. Transaction costs and fees paid or received relating to financial instruments carried at FVTPL are recorded in the income statement.

The best evidence of a financial instruments' 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 inputs from observable markets. Where such alternative evidence exists, the Consolidated Entity recognises profit or loss immediately when the instrument is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in net trading income over the life of the transaction or when the inputs become observable.

Financial instruments arising in multiple transactions are accounted for as a single arrangement if this best reflects the substance of the arrangement. Factors considered in this assessment include whether the financial instruments:

- are entered into at the same time and in contemplation of one another
- have the same counterparty
- relate to the same risk
- there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction, or
- whether each of the financial instruments has its own terms and conditions and may be transferred or settled separately.

Derecognition of financial instruments

Financial assets

Financial assets are derecognised from the Statement of financial position when:

- the rights to cash flows have expired, or
- the Consolidated Entity has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

A financial asset is transferred if, and only if, the Consolidated Entity i) transfers the contractual rights to receive the cash flows of the financial asset, or ii) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement where:

- the Consolidated Entity is not obligated to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- the Consolidated Entity is prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
- the Consolidated Entity is obligated to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Consolidated Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. Any interest in the transferred and derecognised financial asset that is created or retained by the Consolidated Entity is recognised as a separate asset or liability. In transfers where control over the asset is retained, the Consolidated Entity continues to recognise the asset to the extent of its continuing involvement as determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

Financial liabilities are derecognised from the Statement of financial position when the Consolidated Entity's obligation has been discharged, cancelled or has expired.

Gains and losses on the derecognition of debt financial assets and liabilities

Gains and losses arising from the derecognition of debt financial assets or financial liabilities are recognised in:

- net trading income in respect of trading-related balances that are subsequently measured at amortised cost
- investment income within other operating income and charges in respect of financial investments and loans to associates, and
- other income and charges as part of other operating income and charges for all other financial assets and financial liabilities.

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

Financial guarantee contracts issued

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under AASB 9, or
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15 *Revenue from Contracts with Customers*.

Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial asset that is renegotiated is derecognised if the rights to receive cash flows from the existing agreement have expired, either through replacement by a new agreement or the existing terms are modified to that effect. A financial liability that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated financial instrument is a substantially different financial instrument. Where the modification results in derecognition of the original financial instrument, the new financial instrument is recorded initially at its fair value and the resulting difference is recognised in the income statement in accordance with the nature of the financial instrument as described in the derecognition of financial instruments policy.

For financial instruments measured at amortised cost, and for debt financial assets measured at FVOCI, when the modification does not result in derecognition, a gain or loss is recognised in the income statement in accordance with the nature of the financial instrument as described in the derecognition of financial instruments policy. The gain or loss is measured as the adjustment of the gross carrying amount to reflect the renegotiated or modified contractual cash flows, discounted at the instrument's original EIR.

Classification and subsequent measurement

Financial assets

Financial assets are classified based on the business model within which the asset is held and on the basis of the financial asset's contractual cash flow characteristics.

Business model assessment

The Consolidated Entity uses judgement in determining the business model at the level that reflects how groups of financial assets are managed and its intention with respect to its financial assets. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- how the performance of the financial assets held within that business model is evaluated and reported to the Consolidated Entity's Senior Management personnel and senior executives
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed, and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Solely payment of principal and interest (SPPI)

The contractual cash flows of a financial asset are assessed to determine whether these represent SPPI on the principal amount outstanding. This includes an assessment of whether the cash flows primarily reflect consideration for the time value of money and credit risk of the principal outstanding. Interest may also include consideration for other basic lending risks and costs.

Amortised cost

A financial asset is subsequently measured at amortised cost using the EIR method where:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements, and
- the financial asset has not been classified as DFVTPL.

Interest income is determined in accordance with the EIR method and recognised as part of interest and similar income.

Fair value through other comprehensive income

A financial asset is subsequently measured at FVOCI if the following conditions are met:

- the financial asset is held within a business model whose objective is to both collect contractual cash flows and to sell the financial asset,
- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements, and
- the financial asset has not been classified as DFVTPL.

Subsequent changes in fair value are recognised in OCI, with the exception of interest (which is recognised as part of interest income), ECL (which is recognised in credit and other impairment charges/reversal) and foreign exchange gains and losses (which are recognised in net trading income) and is net of any related hedge accounting adjustments. When debt financial assets classified as at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to investment income in respect of debt financial investments and loans to associates, or to other income and charges as part of other operating income and charges for all other financial assets.

Fair value through profit or loss

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are subsequently measured at FVTPL.

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

For the purposes of the Consolidated Entity's financial statements, the FVTPL classification consists of the following:

- financial assets that are held for active trading (held for trading (HFT)). This classification includes all derivative financial assets, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL
- financial assets in a business model whose objective is achieved by managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows (FVTPL)
- financial assets that fail the SPPI test (FVTPL), and
- financial assets that have been designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (DFVTPL).

Equity financial assets that are not held for active trading are measured at FVTPL. Subsequent changes in fair value are recognised as investment income within other operating income and charges.

Subsequent changes in the fair value of debt financial assets measured at FVTPL are presented as follows:

- changes in the fair value of financial assets that are classified as HFT and financial assets managed on a fair value basis are recognised in net trading income
- changes in the fair value of debt financial investments and loans to associates and joint ventures that fail SPPI are recognised in investment income as part of other operating income and charges
- changes in the fair value of all other FVTPL and DFVTPL financial assets are recognised as part of other income and charges within other operating income and charges.

Where applicable, the interest component of these financial assets is recognised as interest and similar income.

Reclassification of financial instruments

The Consolidated Entity reclassifies debt financial assets when and only when its business model for managing those assets changes. Financial assets that are reclassified are subsequently measured based on the financial asset's new measurement category.

The Consolidated Entity does not reclassify financial liabilities after initial recognition.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, unless they are either HFT, or have been designated to be measured at FVTPL (DFVTPL). A financial liability may be DFVTPL if:

- such a designation eliminates or significantly reduces an accounting mismatch that would otherwise have arisen
- a group of financial liabilities, or financial assets and financial liabilities, is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- the liability contains embedded derivatives which must otherwise be separated and carried at fair value.

All derivative financial liabilities are classified as HFT, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL. Refer to Note 44(x) *Derivative instruments and hedging activities* for the detailed hedge accounting policy.

Changes in the fair value of financial liabilities that are not classified as HFT are, with the exception of changes in fair value relating to changes in the Consolidated Entity's own credit risk, that are presented separately in OCI and are not subsequently reclassified to profit or loss, recognised in other income and charges as part of other operating income and charges.

Where applicable, the interest component of these financial liabilities is recognised as interest and similar expense.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of financial position, when there is a current legally enforceable right to offset the amounts and either there is an intention to settle on a net basis or realise the financial asset and settle the financial liability simultaneously.

(viii) Cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements

As part of its trading and financing activities, the Consolidated Entity borrows and lends securities, commodities and other assets ('underlying') on a collateralised basis. The underlying that is subject to the arrangement is not derecognised from the Statement of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

Similar transactions with related body corporates are reported as part of Due to/from related body corporate entities and subsidiaries. Refer to Note 44(xix).

These transactions include:

- reverse repurchase transactions, where the Consolidated Entity purchases an underlying under an agreement to resell
- repurchase transactions, where the Consolidated Entity sells an underlying under an agreement to repurchase.

The Consolidated Entity continually reviews the fair values of the underlying on which the above transactions are based and where appropriate, requests or provides additional collateral to support the transactions, in accordance with the terms of the respective agreements.

Reverse repurchase agreements are measured as follows by the Consolidated Entity:

- agreements that are collateralised with commodities are measured at amortised cost when they are held in a business model to collect contractual cash flows and AASB 9's SPPI criteria are met

Note 44
Significant accounting policies continued

(viii) Cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements continued

- agreements that are held within the Consolidated Entity's cash and liquid assets portfolio are measured at FVOCI as they are held in a business model to both collect contractual cash flows and with the intention to sell
- all other reverse repurchase agreements are measured at FVTPL to reflect the Consolidated Entity's business model to realise fair value gains and losses as opposed to a business model in which the objective is to collect contractual cash flows.

Also refer to Note 36 *Measurement categories of financial instruments*.

Repurchase agreements are subsequently measured at amortised cost, except where they are DFVTPL to eliminate an accounting mismatch created by managing the agreements together with the associated reverse repurchase agreements that are measured at FVTPL.

(ix) Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets and liabilities that are classified as HFT. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised gain or loss arising from revaluing that contract to fair value as part of net trading income, except for interest income on HFT debt financial assets which is recognised in interest income. Refer to Note 44(vii) *Financial Instruments*.

Trading assets (long positions) comprise financial instruments such as debt and equity securities, bank bills, treasury notes, and loans, commodity contracts and commodities purchased with the intent of being actively traded either individually or as part of a portfolio.

Trading liabilities comprise obligations to deliver assets (short positions) across the same trading categories and which the Consolidated Entity intends to actively trade.

Commodity inventory is recognised when the Consolidated Entity controls the commodity, the determination of which includes consideration of price risk, and is measured at fair value less costs to sell in accordance with the broker-trader exemption, on the basis that such assets are acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin.

When the Consolidated Entity becomes party to a sale contract, and the derecognition criteria are met (refer to Note 44(vii) *Financial instruments*), it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

(x) Derivative instruments and hedging activities

Derivative instruments entered into by the Consolidated Entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity, credit and equity markets. These derivative instruments are principally used by the Consolidated Entity for the purposes of risk management of existing financial assets and liabilities and forecast transactions and are also entered into for client trading purposes.

Derivatives are recognised in the Statement of financial position as an asset where they have a positive fair value at the reporting date or as a liability where they have a negative fair value at the reporting date.

Derivatives that may have both positive or negative values must meet both the asset and liability derecognition tests before being derecognised from the Statement of financial position.

Fair values are obtained from quoted prices in active markets where available, or valuation techniques including discounted cash flow models and option pricing models, as appropriate. The accounting for derivatives is subject to the application of the day 1 profit or loss policy as described in Note 44(vii) *Financial instruments*.

The Consolidated Entity applies trade date accounting to the recognition and derecognition of derivative financial instruments.

Hedge accounting

As part of its ongoing business, the Consolidated Entity is exposed to several financial risks, principally that of interest rate, foreign exchange rate and commodity price risk (collectively referred to as the hedged risk or exposure). The Consolidated Entity has limited appetite for such risks and has policies and practices in place to ensure that these risks are effectively managed. The Consolidated Entity mitigates these risks through the use of derivative financial instruments, and, in the case of foreign currency risk, foreign-denominated debt issued (collectively referred to as hedging instruments). The Consolidated Entity applies hedge accounting to manage accounting mismatches arising from the difference in measurement bases or location of the gains and losses recognised between the exposure that is being hedged and the hedging instrument. Refer to details provided in the table on the following page.

Note 44
Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

	Fair value hedge	Cash flow hedge	Net investment hedge
Nature of hedge	The hedge of the fair value risk of a financial or non-financial asset or liability.	The hedge of the change in cash flows of a financial asset or liability.	The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates.
Nature of material hedged risks	• Interest rate risk • Commodity price risk • Foreign exchange risk(1).	• Interest rate risk • Foreign exchange risk.	• Foreign exchange risk.
Material hedged items	• Fixed interest rate financial assets and liabilities • Amount due to/from related body corporates(1) • Commodity transportation contracts • Equity investments in foreign currency denominated subsidiaries.	• Floating interest rate financial liabilities • Foreign currency denominated interest bearing financial liabilities • Amount due to/from related body corporates(1).	• Net investment in foreign operations.
Material hedging instruments	• Interest rate swaps • Cross currency swaps • Commodity forward contracts • Foreign currency denominated borrowings.	• Interest rate swaps • Cross currency swaps.	• Foreign exchange contracts • Foreign currency denominated issued debt.
Designation and documentation	At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that: • an economic relationship exists between the hedged item and the hedging instrument • credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and • the hedge ratio is reflective of the Consolidated Entity's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument.		
Accounting treatment for the hedging instrument	Fair value through the income statement, aligned to the presentation of the hedged item.	Fair value through the cash flow hedge reserve as part of OCI, and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Foreign exchange gains and losses are recognised in the Net Investment Hedge Reserve (NIHR), a separate component of FCTR in OCI.
Accounting treatment for the hedged item	Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis.	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI.

(1) The Company (but not the Consolidated Entity) designates selected hedge accounting relationships that only meet the qualifying criteria for hedge accounting in the Company financial statements.

Note 44
Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

	Fair value hedge	Cash flow hedge	Net investment hedge
Accounting treatment for hedge ineffectiveness	Recognised as part of net trading income in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument.	Recognised as part of net trading income in the income statement to the extent to which changes in the fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item.	
Accounting treatment if the hedge relationship is discontinued	Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an EIR basis.	The gain or loss remains in the cash flow hedge reserve to the extent that the hedged cash flows are still expected to take place and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	The exchange gains or losses recognised in the NIHR within FCTR are reclassified to the income statement or reattributed within equity as follows: • if the hedge is discontinued due to a disposal of the hedged foreign operation, then the accumulated NIHR is reclassified from OCI to investment income within other operating income and charges • if there is a partial disposal of a foreign operation that is an associate or joint arrangement, without loss of significant influence or joint control, then a proportionate share of the accumulated NIHR is reclassified to investment income • if there is a partial disposal of a foreign operation that is a subsidiary, without loss of control, then a proportionate share of the accumulated NIHR is reattributed within equity to non-controlling interests.
Other accounting policies	None	The foreign currency basis spread of the hedging instrument, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the cost of hedging reserve and released to the income statement at the time at which the hedged exposure affects the income statement.	

Note 44
Significant accounting policies continued

(xi) Margin money and settlement assets and liabilities

Margin money and settlement assets and liabilities includes trade settlement balances, margin monies and balances with clearing houses. Margin monies primarily represent deposits placed with clearing houses in relation to futures trading and other derivatives transactions. The balance includes both initial and variance margin which varies based on trading activities. The balance also includes client margin calls which are funded by the Consolidated Entity. Settlement balances represent outstanding trade timing balances as at the reporting date due to the timing difference between trade and settlement date. Balances are carried at amortised cost except for certain margin money balances that are held in money market funds and certain settlement balances which are carried at FVTPL.

(xii) Financial investments

Investment securities in this category include investments in equity or debt securities which are not actively traded by the Consolidated Entity.

Debt investment securities in this category comprise bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities.

Financial investments are initially recognised on trade date at fair value (adjusted for directly attributable transaction costs for debt investments subsequently measured at FVOCI) and subsequently measured in accordance with Note 44(vii) *Financial instruments*.

(xiii) Loan Assets

This category includes loans that are not held for trading purposes and typically includes the Consolidated Entity's lending activities to its customers.

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 44 (vii) *Financial instruments*.

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 44(vii).

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

Property, plant and equipment are stated at historical cost (which includes, where applicable, directly attributable borrowing costs and expenditure directly attributable to the acquisition of the asset) less, accumulated depreciation and, where applicable, accumulated impairment losses.

Right-of-use (ROU) assets are measured at cost and comprise of the amount that corresponds to the amount recognised for the lease liability on initial recognition together with any lease payments made at or before the commencement date (less any lease incentives received), initial direct costs and restoration-related costs.

Property, plant and equipment and right-of-use assets includes assets leased out under operating leases.

Depreciation to allocate the difference between cost and residual values over the estimated useful life is calculated on the following bases:

- diminishing balance method for aviation assets
- unit of production method for certain infrastructure assets
- straight-line basis for all other assets.

A ROU asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Annual depreciation rates are summarised below:

Property, plant and equipment	Depreciation rates
Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements(1)	10 to 20%
Equipment	33 to 50%
Infrastructure assets(2)	2 to 12%
Meters	5 to 15%
Telecommunications	24.5 to 41.4%
Other operating lease assets	2 to 25%

Useful lives, residual values and depreciation methods are reviewed annually and reassessed in the light of commercial and technological developments. Gains and losses on disposal are determined by comparing the proceeds with the asset's carrying amount and are recognised in other income as part of other operating income and charges.

The Consolidated Entity does not recognise a ROU asset for short-term or low value leases, instead the expense is recognised over the lease term as appropriate as part of operating expenses.

(xv) Goodwill and other identifiable intangible assets

Goodwill

Goodwill is measured as the excess of consideration, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the business acquired. Goodwill arising from business combinations is included in intangible assets in the Statement of financial position.

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.
(2) Includes infrastructure assets, for which depreciation is calculated on a unit of production basis.

Note 44
Significant accounting policies continued

(xv) Goodwill and other identifiable intangible assets continued

Other acquired identifiable intangible assets

At the time at which the Consolidated Entity determines that it has acquired a business, the Consolidated Entity identifies intangible assets that are required to be initially recognised at fair value. An intangible asset is considered to have an indefinite useful life where it is expected to contribute to the Consolidated Entity's net cash inflows indefinitely.

The following intangible assets are typically identified and recognised by the Consolidated Entity:

- licences and trading rights: generally carried at cost less accumulated impairment loss. Where no contractual or legal limitation exists, these assets are not amortised because they are considered to have an indefinite useful life
- customer and servicing contracts acquired with a finite useful life: carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated over the period for which the customer relationship is expected to exist
- customer and servicing contracts with an indefinite useful life: carried at cost less accumulated impairment loss.

Certain other intangible assets held for trading, including emission certificates, are measured at fair value less costs to sell in accordance with the broker-trader exemption (on the basis that such assets are acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker traders' margin).

Amortisation of intangible assets held by trading related business is recorded in net trading income and for others is recognised in other operating expenses. Impairments (reversal of impairments) of intangible assets are recognised in other impairment charges/reversal.

Software

Certain internal and external costs directly incurred in acquiring and developing certain computer software programmes are capitalised and amortised over the estimated useful life, usually a period of three to seven years on a straight-line basis. The capitalised software asset is subject to impairment testing on an annual basis.

Costs incurred on the maintenance of software is expensed as incurred and recognised in other operating expenses.

(xvi) Deposits

Deposits include customer deposits, business banking and home loan related deposits, deposits from financial institutions and other balances such as client monies. These deposits are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

(xvii) Other assets and liabilities

Contract assets, contract liabilities and capitalised expenses

Where the Consolidated Entity provides services to clients and the consideration is unconditional, a receivable is recognised. Where the consideration is conditional on something other than the passage of time, a contract asset is recognised. Both receivables and contract assets are assessed for impairment in accordance with AASB 9.

The Consolidated Entity, as permitted by AASB 15, has applied the practical expedient that allows for costs incurred to obtain a contract to be expensed as incurred where the amortisation period for any asset recognised would be less than 12 months. The Consolidated Entity also applies the practical expedient not to adjust consideration for the effects of a significant financing component, where the period between transferring a good or service and when the customer pays for that good or service is expected to be one year or less.

Contract liabilities relate to prepayments received from customers where the Consolidated Entity is yet to satisfy its performance obligation.

Non-current assets and liabilities of disposal groups classified as held for sale

This category includes assets and disposal groups (groups of assets to be disposed in a single transaction and directly attributable liabilities) for which the carrying amount will be recovered principally through a sale or distribution transaction rather than continuing use. This includes assets and liabilities of businesses and subsidiaries, associates and joint ventures, other assets and liabilities, and subsidiaries that are acquired exclusively with a view to sell or distribute.

These assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and the sale or distribution is highly probable, including that the sale or distribution is expected to occur within 12 months. Where there is a planned partial disposal of a subsidiary resulting in loss of control, but the Consolidated Entity retains an interest in the disposed subsidiary, the entire carrying value of the subsidiary's assets and liabilities is classified as held for sale.

Non-current assets and liabilities of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Equity accounting, depreciation and amortisation is suspended when the held for sale criteria are met.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell and is recognised in other impairment charges/reversal. A gain is recognised for any subsequent increase in fair value less costs to sell, limited to the cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of sale.

Financial assets and liabilities that are classified as held for sale are measured in accordance with the Consolidated Entity's financial instruments' policies.

Note 44
Significant accounting policies continued

(xvii) Other assets and liabilities continued

Provisions and contingent liabilities

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, which generally include letters of credit, indemnities, performance-related contingents and guarantees (other than financial guarantees) are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are considered remote.

Employee benefit provisions

Employee benefit provisions are recognised by the Consolidated Entity as and when the service has been rendered after deducting amounts already paid. Liabilities for unpaid salaries, salary-related costs and provisions for annual leave are recorded in the Statement of financial position at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made.

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled or is transferred to another entity and the Company and Consolidated Entity are legally released from the obligation and do not retain a constructive obligation.

Dividends

Where a dividend is declared by the Company's Board of Directors, the provision for the dividend is recognised in the Statement of financial position as a liability, with a corresponding reduction in retained earnings, on the declaration date. Where the Company's Board of Directors determine or resolve to pay a dividend, the liability and the corresponding reduction in retained earnings is recognised on the payment date.

(xviii) Borrowings

Borrowings includes loans and other payables due to banks and financial institutions. These balances are subsequently measured at amortised cost.

(xix) Due to/from related body corporate entities and subsidiaries

Transactions between the Consolidated Entity and other related body corporate entities under common control and between the Company and its subsidiaries, principally arise from the provision of banking and other financial services, lending arrangements and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of financial guarantees, and are accounted for in accordance with Note 44(iv) *Revenue and expense recognition* and Note 44(vii) *Financial instruments*.

Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 44(vii)), such that the net amount is reported in the Statement of financial position.

(xx) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at either amortised cost or are DFVTPL and measured at fair value in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 44(vii).

(xxi) Loan Capital

Loan capital represents issued debt with terms and conditions that qualify for inclusion as capital under Australian Prudential Regulatory Authority (APRA) Standards.

Capital instruments are first assessed to determine whether the Consolidated Entity is required to deliver cash or another financial asset on the occurrence of a contingent event that is considered genuine and beyond the control of both the issuer and the holder (such as Common Equity Tier 1 Trigger Events or Non-Viability Trigger Events). Where such a contingent event exists, then the Consolidated Entity does not have the unconditional right to avoid delivering cash or another financial asset and the capital instrument is classified as a financial liability. The financial liability is initially measured at fair value plus directly attributable transaction costs and is subsequently measured at amortised.

For compound instruments that have both equity and liability features, the liability component is initially measured at fair value plus directly attributable transaction costs (and is thereafter measured at amortised cost using the EIR method), with the residual being accounted for within the Consolidated Entity's equity.

Note 44
Significant accounting policies continued

(xxii) Impairment

Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost or FVOCI, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts issued that are not DFVTPL. The Consolidated Entity applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward-looking and macroeconomic information (FLI).

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 12 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage I – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition, ECL is determined based on the probability of default (PD) over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

(ii) Stage II – Not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for FLI. The Consolidated Entity exercises judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Consolidated Entity's process to determine whether there has been a SICR is provided in Note 12 *Expected credit losses*.

Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based upon the contractual maturity of the financial asset. For revolving facilities, the Consolidated Entity exercises judgement based on the behavioural.

(iii) Stage III – Credit-impaired

Financial assets are classified as stage III where they are determined to be credit impaired, which generally matches the APRA definition of default. This includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. For credit-impaired exposures that are modelled collectively for portfolios of exposures, ECL is measured as the product of the lifetime PD, the loss given default (LGD) and the exposure at default (EAD), adjusted for FLI.

(iv) Purchased or originated credit-impaired financial assets (POCI)

POCI financial assets are initially recognised at fair value with interest income subsequently determined using a credit-adjusted EIR which is the EIR adjusted for ECL on initial recognition.

This ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for FLI or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit adjusted EIR, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in the income statement as a credit impairment charges/reversal.

Presentation of ECL allowances

The ECL allowances are presented in the Statement of financial position as follows:

- loan assets, loans to related body corporate entities and subsidiaries, associates and joint ventures measured at amortised cost – as a deduction to the gross carrying amount
- loan assets, loans to associates and joint ventures, and debt financial investments measured FVOCI – as a reduction in the FVOCI reserve within equity. The carrying amount of the asset is not adjusted as it is measured at fair value
- lease receivables, contract receivables and other assets measured at amortised cost – as a deduction to the gross carrying amount
- undrawn credit commitments and financial guarantees (not measured at FVTPL) – as a provision included in other liabilities.

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from the financial asset, and all possible collateral has been realised, the financial asset is written off, either partially or in full, against the related provision. Recoveries of loans previously written off are recorded based on the cash received.

Impairment of interests in associates and joint ventures

The Consolidated Entity performs an assessment at each reporting date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The main indicators of impairment are significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost.

In making this judgement, the Consolidated Entity evaluates, among other factors, the normal volatility in share price and the period of time for which fair value has been below cost. If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in the associate or joint venture is tested for impairment by comparing the recoverable amount, being the higher of fair value less costs to sell and value-in-use, with its carrying amount.

Note 44
Significant accounting policies continued

(xxii) Impairment continued

Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the income statement if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised. The impairment losses (reversal of impairments) on investments in associates and joint ventures are recognised in the income statement as part of other impairment charges/reversal.

Fair value less costs to sell is estimated using market-based approaches using revenues, earnings and assets under management and multiples based on companies deemed comparable as well as other publicly available information relevant to the business.

Value-in-use is calculated using pre-tax cashflow projections of operating revenue and expenses. Forecasts are extrapolated using a growth rate and discounted using a pre-tax discount rate incorporating market risk determinants, adjusted for specific risks related to the cash generating units, if any, and the environment in which it operates.

Impairment of investments in subsidiaries

Investments in subsidiaries in the Company's financial statements are reviewed annually for indicators of impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognised in other impairment charges/reversal for the amount by which the investment's carrying amount exceeds its recoverable amount, being the higher of fair value less costs to sell and value-in-use. At each reporting date, investments in subsidiaries that have been impaired are reviewed for possible reversal of impairment. The amount of any reversal of impairment recognised must not cause the investment's carrying value to exceed its original cost.

Impairment of goodwill and other intangible assets; property, plant and equipment and right-of-use assets

Intangible assets with indefinite lives (goodwill and certain intangible assets) are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable.

For intangible assets that have a finite useful life and property, plant and equipment and ROU assets, an assessment is made at each reporting date for indications of impairment.

Impairment losses are recognised in other impairment charges as part of other operating income and charges for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date. A reversal is recognised only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments (refer to Note 3 *Segment reporting*) and assessed for impairment.

(xxiii) Performance based remuneration

Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 31 *Employee equity participation*.

The Consolidated Entity accounts for its share-based payments as follows:

Equity settled awards: The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. To the extent that the Consolidated Entity or Company does not compensate the ultimate parent for MEREP awards offered to its employees, a corresponding credit is recognised in contributed equity. To the extent the Consolidated Entity or Company compensates the ultimate parent and the amount is paid in advance, a receivable due from the ultimate parent is recognised. The receivable is amortised to the income statement as share-based payment expense over the vesting period. MEREP receivable amounts are recognised and disclosed in Note 29 *Related party information*.

Performance hurdles attached to Performance Share Units (PSUs) under the MEREP are not taken into account when determining the fair value of the PSUs at the grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

Cash settled awards: The award liability is measured with reference to the number of awards and the fair value of those awards at each reporting date. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. Changes in the value of the liability are recognised in employment expenses.

Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash with reference to the performance period to which the profit share relates.

Note 44
Significant accounting policies continued

(xxiv) Leases

At the inception of a contract, the Consolidated Entity assesses whether a contract is, or contains, a lease. At inception, or on reassessment of a contract that contains a lease component, the Consolidated Entity allocates the consideration in the contract to each lease component unless an election is made to account for the lease and non-lease components as a single lease component.

(i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods of 12 months to 15 years and may include extension options. Leases are recognised as an ROU asset (as explained in Note 44(xiv) *Property, plant and equipment and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

Lease liabilities are initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Lease payments are allocated between principal and interest expense. Interest expense is, unless capitalised on a qualifying asset which is not measured at fair value, recognised as part of interest and similar expense over the lease period on the remaining lease liability balance for each period. Any variable lease payments not included in the measurement of the lease liability are also recognised as net operating lease income in the period in which the event or condition that triggers those payments occurs.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in lease term, an assessment of an option to purchase the underlying asset, an index or rate, or a change in the estimated amount payable under a residual value guarantee.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the ROU asset, or, as net operating lease income, where the carrying value of the ROU asset has been reduced to zero.

Presentation

The Consolidated Entity presents ROU assets in Property, plant and equipment and right-of-use assets (refer to Note 14) and lease liabilities in Other liabilities (refer to Note 22) in the Statement of financial position.

(ii) Accounting where the Consolidated Entity is a lessor

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are classified as operating leases.

Finance lease

Where finance leases are granted to third parties, the present value of the minimum lease payments plus an estimate of the value of any unguaranteed residual value is recognised as a receivable and included in loan assets.

The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Interest income is recognised over the term of the lease using the EIR method, which reflects a constant rate of return. Finance lease income is presented within interest and similar income in the income statement.

Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over its useful life in accordance with the rates specified in Note 44(xiv) *Property, plant and equipment and right-of-use assets*. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment and right-of-use assets.

When the Consolidated Entity is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The lease classification of the sublease is determined with reference to the ROU asset arising from the head lease.

(xxv) Contributed equity

Ordinary shares and other similar instruments are classified as equity. Incremental costs directly attributable to the issue of new shares are recorded in equity as a deduction, net of tax, from the issue proceeds.

(xxvi) Fiduciary assets and client money

The Consolidated Entity engages in trust, fund or other fiduciary activities as well as certain brokerage and other trading-related activities that result in the holding or placing of assets on behalf of third parties. Where such assets are controlled, and future economic benefits are expected to be realised by the Consolidated Entity, such assets and the income thereon are reflected in the Statement of financial position and income statement respectively. Where this is not the case, these assets and the income thereon are excluded from the Consolidated Entity's financial statements as they are not the assets of the Consolidated Entity. Fee income earned by the Consolidated Entity relating to its responsibilities from fiduciary and brokerage and other trading-related activities is included as part of fee and commission income.

(xxvii) Cash and bank balances

Cash and bank balances includes currency on hand, demand deposits and short-term balances with Central and other banks including unallocated precious metal balances. These balances are subsequently measured at amortised cost, except unallocated precious metals which are held at FVTPL.

Note 44
Significant accounting policies continued

(xxviii) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank balances (except unallocated precious metal balances) as well as certain liquid financial investments and non-trading reverse repurchase agreements that have a contractual maturity of three months or less from the date of acquisition and which are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are available to meet the Consolidated Entity's short-term cash commitments. Cash and cash equivalents exclude margin money balances, trading assets and certain client-related balances which are segregated from the Consolidated Entity's own funds and are thus restricted from use.

(xxix) Discontinued operations

A discontinued operation is a component of the entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. The classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operation are presented separately on the face of the income statements. Transactions between continuing operations and the discontinued operation are presented on a gross basis.

The assets and liabilities of the discontinued operations are derecognised on the date of disposal and a realised gain or loss is presented separately in the income statement.

Cash flows generated from the discontinued operation are separately presented in the statement of cash flows.

(xxx) Comparatives

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

(xxxi) Rounding of amounts

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

(xxxii) New Australian Accounting Standards and amendments to Australian Accounting Standards and Interpretations that are not yet effective for the financial year

(i) AASB 17 *Insurance Contracts*

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

(ii) Other amendments made to existing standards

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

Directors' declaration

Macquarie Bank Limited

In the Directors' opinion:

(a) the financial statements and notes set out on pages 61 to 208 are in accordance with the *Corporations Act 2001* (Cth), including;
   (i) complying with Australian accounting standards, and
   (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2021 and their performance for the financial year ended on that date, and

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

Note 1(i) includes a statement that the Financial Report complies with International Financial Reporting Standards.

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

Peter Warne
Independent Director and Chairman

Mary Reemst
Managing Director and Chief Executive Officer

Sydney
7 May 2021

Independent auditor's report

To the member of Macquarie Bank Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Macquarie Bank Limited (the Company) and its controlled entities (together the Consolidated Entity) is in accordance with the *Corporations Act 2001* (Cth), including

- giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2021 and of their financial performance for the year then ended
- complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

What we have audited

The Consolidated Entity and Company financial report comprises

- the Consolidated and Company statements of financial position as at 31 March 2021
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company income statements for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach for the Consolidated Entity

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls and the industry in which it operates.

The Consolidated Entity is structured into two operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram in India, Jacksonville in the United States and Manila in the Philippines, which undertake operational activities that are important to the financial reporting processes.

Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of $112 million, which represents approximately 1% of the Consolidated Entity's net assets.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Consolidated Entity net assets as the benchmark as in our view, net assets represent an important benchmark against which the performance of the Consolidated Entity is measured by relevant stakeholders.

We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Consolidated Entity audit scope

Our audit focused on where the Consolidated Entity made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the two operating groups and the corporate segment. These component audit teams, in consultation with the group audit team, established an audit strategy tailored for each operating group and the corporate segment.

Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other member firms of the PwC global network to perform audit procedures ranging from an audit of financial information to specified procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn instructed.

The work performed by the component audit teams and the overseas audit teams, together with additional audit procedures performed by the group audit team such as procedures over the Consolidated Entity's consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity's financial report as a whole.

Independent auditor's report

To the member of Macquarie Bank Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee. The key audit matters identified below relate to the audit of both the Consolidated Entity and the Company, and references to the Consolidated Entity also apply to the Company.

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loan assets (Refer to Note 12)	
Under the credit impairment model required by AASB 9: *Financial Instruments* (AASB 9), losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic scenarios. The global economic outlook remains uncertain, the impact of COVID 19 has been more pronounced on certain industries, and the economic recovery from the pandemic has been markedly different around the world. As a result, significant judgement was required to be exercised by the Consolidated Entity in calculating the ECL. Specifically, this includes judgements around the use of forward-looking information, including developing macroeconomic scenarios and their associated weightings and the use of post model adjustments in the calculation of the ECL. In order to meet the ECL requirements of AASB 9, the Consolidated Entity has developed models that involve judgement including determining assumptions such as defining a significant increase in credit risk (SICR). The ECL models of the Consolidated Entity rely on numerous data elements and certain post model adjustments are applied based on the Consolidated Entity's judgement. Given the extent of judgement involved, we consider this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the ECL including controls relating to: • review, challenge and approval of certain forward-looking macroeconomic assumptions and scenario weightings, including specifically the consideration of impacts from COVID-19 • monitoring of the effectiveness of models used to support ECL estimates, and the validation of new and revised models implemented • assessment of the credit quality of counterparties • accuracy of certain critical data elements used in key ECL models, and • review and challenge forums to assess the ECL output and post model adjustments. In addition to controls testing, we also performed substantive procedures including: • using PwC credit modelling experts to assess the appropriateness of conclusions reached by the Consolidated Entity from model monitoring performed on key models. This included assessing key model components such as SICR and also involved independent reperformance of certain tests within the model monitoring performed • using PwC credit modelling experts to test the appropriateness of changes to key models • using PwC credit modelling experts to assess whether the list of critical data elements identified by the Consolidated Entity was appropriate for key models • engaging PwC economics experts to assess and challenge the appropriateness of macroeconomic scenarios developed and certain forward-looking economic data developed by the Consolidated Entity, with a particular focus on the impacts of COVID-19 in light of certain available information and consensus views • assessing the appropriateness of individual credit ratings used in ECL models to determine whether these have incorporated the impact of COVID-19 at balance date • testing the completeness and accuracy of certain critical data elements used in key ECL models • assessing certain post model adjustments identified by the Consolidated Entity • considering the impacts on the ECL of events occurring subsequent to balance date. For credit impaired loan (stage III) provisions, we examined a sample of individual loan exposures to consider the appropriateness of provisions adopted. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial assets and liabilities held at fair value with significant unobservable inputs (Level 3 financial instruments) (Refer to Note 37)	
The Consolidated Entity exercises judgement in valuing certain financial assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments. For the Consolidated Entity, these Level 3 financial instruments predominantly consistent of trading assets, financial investments, loan assets and derivative financial instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models and inputs. Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over: • approval and validation of the models adopted • accuracy of inputs to models • the Consolidated Entity's process for testing valuations, and • governance and review. For derivative financial instruments and trading assets, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations. For a sample of financial investments and loan assets, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of the inputs used. For a sample of financial investments we assessed the sensitivity of the valuations to alternative assumptions where appropriate. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.
IT systems and controls over financial reporting	
The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include: • the framework of governance over IT systems • controls over program development and changes • controls over access to programs, data and IT operations, and • governance over generic and privileged user accounts. Given the reliance on the IT systems in the financial reporting process and the impact on relevant controls we seek to rely on as part of our audit, we considered this to be a key audit matter.	Our procedures included evaluating the design and testing the operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we identified design and operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures. We also considered mitigating controls in order to respond to the impact on our overall audit approach.
Valuation of tax payable relating to tax uncertainties and tax receivable (Refer to Note 22 and Note 10)	
The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to and received from tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid and received. Given the extent of judgement involved, we consider this to be a key audit matter.	Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to and received from tax authorities. Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provision for tax and tax receivable. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.

Independent auditor's report

To the member of Macquarie Bank Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Company and the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: **https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf**. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 35 to 57 of the Directors' Report for the year ended 31 March 2021.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2021 complies with section 300A of the *Corporations Act 2001* (Cth).

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
7 May 2021

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04

Further information

The voice of the client – Laura

"We found it to be a really seamless experience, and that was really important to us."

Our Home of Good Borrowers campaign uses real clients to tell their story and why they choose to bank with Macquarie. For Laura, being a good borrower is about building wealth in your home while having the freedom to enjoy the things that matter.

Additional investor information

Calendar

2021

Date	Event
21 June	Payment date for BCN2 distribution
21 September	Payment date for BCN2 distribution
30 September	Financial half-year end
29 October[1]	Half-year result announcement
21 December	Payment date for BCN2 distribution

2022

Date	Event
21 March	Payment date for BCN2 distribution
31 March	Financial year end

Stock exchange listing

Equity or hybrid security	Stock exchange listing	Trading code
Macquarie Additional Capital Securities (MACS)	SGX	6F6B
Macquarie Bank Capital Notes 2 (BCN2)	ASX	MBLPC

Macquarie Bank also has debt securities quoted on exchanges that include the ASX, London Stock Exchange, Luxembourg Stock Exchange (LuxSE), SGX and the Taipei Exchange. Macquarie Bank also has warrants quoted on the LuxSE, SGX, Hong Kong Stock Exchange and certificates listed on the LuxSE.

Securities on issue

The following information is correct as at 31 March 2021.

Fully paid ordinary shares

Voting Rights

At meetings of members or classes of members, each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands, every person present who is a member or a proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

- one vote for each fully paid share held by the member, and
- that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

Macquarie Income Preferred Securities (MIPS)

Voting rights

Unpaid preference shares were issued by MBL as part of the MIPS issue. MIPS have now been fully redeemed, although the unpaid preference shares remain on issue and are held by Macquarie B.H. Pty Ltd, the immediate parent of MBL. While these preference shares remain unpaid, they have no voting rights in respect of meetings of members of MBL. If paid up, these preference shares will have limited voting rights.

Register of holders

MBL issued convertible debentures and 350,000 unpaid preference shares as part of the MIPS. The convertible debentures were fully redeemed on 22 June 2015. The unpaid preference shares are held by Macquarie B.H. Pty Limited. The register in respect of the preference shares is kept at MBL's principal administrative office at 50 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

The remaining unpaid preference shares are expected to be cancelled shortly after the publication of this report.

Macquarie Additional Capital Securities (MACS)

Voting rights

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

Single Shareholder

As at 31 March 2021, the $US750 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

Macquarie Bank Capital Notes 2 (BCN2)

Voting rights

BCN2 are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible. BCN2 holders have no voting rights in respect of MBL or MGL.

(1) These dates are subject to change.

20 largest holders

Registered Holder	Number of BCN2 held	% of BCN2
HSBC Custody Nominees (Australia) Limited	638,134	9.95
J P Morgan Nominees Australia Pty Limited	384,887	6.00
Netwealth Investments Limited <Wrap Services A/C>	141,165	2.20
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	97,079	1.51
BNP Paribas Noms Pty Ltd <DRP>	75,730	1.18
Mutual Trust Pty Ltd	59,876	0.93
National Nominees Limited	59,809	0.93
33 Bank Street Nominees Pty Ltd	37,100	0.58
HSBC Custody Nominees (Australia) Limited – A/C 2	35,816	0.56
Herbert St Investments Pty Ltd	31,080	0.48
Bond Street Custodians Limited <BB9-D74647 A/C>	26,143	0.41
Dimbulu Pty Ltd	25,000	0.39
Citicorp Nominees Pty Limited	23,951	0.37
Diocese Development Fund – Catholic Diocese of Paramatta	23,930	0.37
Berne No 132 Nominees Pty Ltd <684168 A/C>	21,500	0.34
Australian Executor Trustees Limited <No 1 Account>	20,991	0.33
BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP>	19,432	0.30
Vesade Pty Ltd	18,896	0.29
Netwealth Investments Limited <Super Services A/C>	18,746	0.29
Mrs Anne-Marie Hood	16,000	0.25
Total	1,775,265	27.69

Spread of noteholdings

Range	Number of BCN2 holders	Number of BCN2	% of BCN2
1 – 1,000	10,595	2,853,001	44.51
1,001 – 5,000	689	1,352,198	21.09
5,001 – 10,000	50	329,209	5.14
10,001 – 100,000	25	711,676	11.10
100,001 notes and over	3	1,164,186	18.16
Total	11,362	6,410,270	100.00

There were 12 noteholders (representing 14 notes) who held less than a marketable parcel.

Additional investor information

Continued

Enquiries

Investor relations:

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Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333
Email: **macquarie.shareholders@macquarie.com**
Website: **macquarie.com/investors**

Macquarie Bank's Company Secretary, Dennis Leong, can be contacted on the above number and email address.

Website

Annual Reports, presentations and other investor information is available at **macquarie.com/investors**

Glossary

Defined term	Definition
A	
AASB	Australian Accounting Standards Board
the Act	*Corporations Act 2001* (Cth)
ADI	authorised deposit-taking institution
AICD	Australian Institute of Company Directors
ALA	alternative liquid assets
ALCO	Asset and Liability Committee
AMA	advanced measurement approach
Annual Report	MBL's 2021 Annual Report
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ARRs	alternative reference rates
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
B	
BAC	Board Audit Committee
Bank Group	MBL and its subsidiaries
Banking Group	the Banking Group comprises of BFS, certain activities of CGM and certain activities of the Equities business in Macquarie Capital
BBSW	Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc.
BCBS	Basel Committee on Banking Supervision
BCN2	Macquarie Bank Capital Notes 2
BFS	Banking and Financial Services Group
the Board, Macquarie Bank Board	the Board of Voting Directors of Macquarie Bank Limited
BRC	MGL's Board Remuneration Committee
BRiC	MGL's Board Risk Committee
Businesses	the areas within the Operating Groups carrying out various operations
C	
CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
Central Service Groups	the Central Service Groups consist of RMG, LGL, FMG and COG
CEO	Managing Director and Chief Executive Officer
CGM	Commodities and Global Markets Group
CFO	Chief Financial Officer

Defined term	Definition
CLF	committed liquidity facility
COG	Corporate Operations Group
the Company, MBL	Macquarie Bank Limited ABN 46 008 583 542
Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full-year in both FY2020 and FY2019
the Consolidated Entity, Macquarie Bank	MBL and its subsidiaries
Corporate	head office and central Central Support Groups including Group Treasury
CVA	credit valuation adjustments
D	
Deed	Deed of Access, Indemnity, Insurance and Disclosure
Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
DFVTPL	designated as FVTPL
Directors	the Voting Directors of MBL (unless the context indicates otherwise)
Divisions	named divisions within the Macquarie Group
DPS Plan	Directors' Profit Share Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
E	
EAD	exposure at default
ECAM	Economic Capital Adequacy Model
ECL	expected credit loss
EIR	effective interest rate
EMEA	Europe, Middle East and Africa
EPS	earnings per share
ESP	Macquarie Group Employee Share Plan
Executive Director	Macquarie Group's most senior employees including Group Heads, Division Heads and senior business unit managers
Executive Key Management Personnel (Executive KMP)	members of the Executive Committee of MBL
Executive Voting Director	an executive Board member

Glossary

Continued

Defined term	Definition
F–H	
FCTR	foreign currency translation rate
FIRB	Foundation Internal Ratings Based Approach
FLI	forward looking information
FMG	Financial Management Group
FRN	floating rate notes
FVA	funding valuation adjustment
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
GDP	gross domestic product
GST	Goods and Services Tax
HFT	held for trading
HQLA	high quality liquid assets
I–J	
IASB	International Accounting Standards Board
IBOR	Interbank-offered rates
ICAAP	Internal Capital Adequacy Standards Board
IFRS	International Financial Reporting Standards
IRRBB	interest rate risk in the banking book
JSE	Johannesburg Stock Exchange
K	
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of MBL
L	
LGD	loss given default
LMI	lender mortgage insurance
LuxSE	Luxembourg Stock Exchange
LVR	loan to value ratio
M	
Macquarie Bank, the Consolidated Entity	MBL and its subsidiaries
MBL, the Company	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board	the Board of Voting Directors of MGL
MBHPL	Macquarie B.H. Pty Ltd
MFHPL	Macquarie Financial Holdings Pty Limited
MGL ordinary shares, MQG	MGL fully paid ordinary shares
Macquarie Group	MGL and its subsidiaries
MACS	Macquarie Additional Capital Securities

Defined term	Definition
Malus	the ability of the MGL Board or its delegate to reduce or eliminate unvested profit share for certain senior employees in certain circumstances
MAM	Macquarie Asset Management Group
Management	Division Directors and Executive Directors who have management or risk responsibility for a Division or business area
MCN3	Macquarie Group Capital Notes 3
MCN4	Macquarie Group Capital Notes 4
MCN5	Macquarie Group Capital Notes 5
MEREP	Macquarie Group Employee Retained Equity Plan
MFL	Macquarie Finance Limited
MFL Note	an unsecured debt obligation of MFL, issued to a trustee on behalf of the holders of the MIS
MGL	Macquarie Group Limited, ABN 94 122 169 279
MIPS	Macquarie Income Preferred Securities
MGSA	Macquarie Group Services Australia Pty Limited
MIS	Macquarie Income Securities
N	
NCI	non-controlling interests
NED	Non-Executive Director
NIFO	net investment in foreign operations
Non-Bank Group	MGL, MFHPL and its subsidiaries, MAMHPL and its subsidiaries
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital (excluding certain activities of the Equities business), MAM and some business activities of CGM that use certain offshore regulated entities
NPAT	net profit after tax
O	
Operating Groups	the Operating Groups consist of BFS, CGM, MAM and Macquarie Capital
OTC	over-the-counter
P–Q	
PD	probability of default
POCI	purchased or originated credit-impaired
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers

Defined term	Definition
R	
RAS	Risk Appetite Statement
RBA	Reserve Bank of Australia
RMG	Risk Management Group
ROE	return on ordinary equity
ROU	right-of-use
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
S	
Senior Executive	Macquarie Group's combined Division Director and Executive Director population
Senior Management	members of Macquarie Group's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation
SEs	structured entities
SFE	Sydney Futures Exchange
SGX	Singapore Stock Exchange
SICR	significant increase in credit risk
SPEs	special purpose entities
SPPI	solely payment of principal and interest
Statutory Remuneration	statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and as disclosed throughout the Remuneration Report
T–U	
TSR	total shareholder return
V–Z	
VaR	Value-at-Risk
Voting Directors	the Voting Directors of MBL as defined in the MBL Constitution

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