

Macquarie International Finance Limited and its subsidiaries

31 March 2023

Consolidated Annual Report
ACN 092 985 263



Contents

Directors' Report	3
Consolidated Financial Report	
Consolidated income statement	6
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of change in equity	9
Consolidated statement of cash flows	10
Notes to the financial statements	11
1. Basis of preparation.....	11
2. Operating profit before income tax.....	13
3. Income tax expense.....	16
4. Dividends.....	17
5. Trading assets.....	17
6. Margin money and settlement assets.....	17
7. Derivative assets.....	18
8. Other financial assets.....	18
9. Other assets.....	18
10. Loan assets.....	19
11. Expected credit losses.....	20
12. Property, plant and equipment and right-of-use assets.....	26
13. Interest in associate and Joint ventures.....	29
14. Deferred tax assets/(liabilities).....	30
15. Margin money and settlement liabilities.....	30
16. Derivative liabilities.....	30
17. Other financial liabilities.....	31
18. Other liabilities.....	31
19. Borrowings.....	31
20. Capital management.....	32
21. Contributed equity.....	32
22. Reserves, retained earnings and non-controlling interests.....	33
23. Notes to the statements of cash flows.....	34
24. Related party information.....	35
25. Key management personnel disclosure.....	39
26. Employee equity participation.....	40
27. Contingent liabilities and commitments.....	43
28. Hedge accounting.....	44
29. Financial risk management.....	48
30. Measurement categories of financial instruments.....	66
31. Fair value of assets and liabilities.....	68
32. Offsetting of financial assets and financial liabilities.....	76
33. Pledged assets and transfers of financial assets.....	78
34. Audit and other services provided by PricewaterhouseCoopers.....	81
35. Acquisitions and disposals of subsidiaries and businesses.....	82
36. Company Financial Information.....	83
37. Events after the reporting date.....	84
38. Significant accounting policies.....	84
Statutory statements	103
Directors' declaration	103
Independent auditor's report	104

The Financial Report was authorised for issue by the Board of Directors on 28 July 2023.

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

Director's Report

For the financial year ended 31 March 2023

In accordance with a resolution of the Directors of Macquarie International Finance Limited (the Company or MIFL), the Directors submit herewith the financial report of the Company and its subsidiaries (the Consolidated Entity) for the year ended 31 March 2023.

Directors

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

Name of Director	Appointed on	Resigned on
B.N. Milson	19 February 2014	15 May 2023
D. Saad	8 April 2021	
R. Dixon	26 October 2021	
S.J. Dyson	15 May 2023	

Principal activities

The principal activity of the Company is to act as the holding company for the majority of the Non-Extended Licensed Entities ("Non-ELE Group"⁽¹⁾) within the Macquarie Bank Group ("the Bank Group"⁽¹⁾), relating to Commodities & Global Markets (CGM), Banking & Financial Services (BFS) businesses and to act as the rated entity which provides guarantees to external counterparties for the obligations of the Non-ELE Group within the Bank Group. The Company also raises finance from both external and related parties to meet the funding requirements of its subsidiaries and other related entities within the Non-ELE Group.

Result

The consolidated profit after income tax attributable to the ordinary equity holder for the financial year ended 31 March 2023 was \$1,631 million (2022: \$98 million).

Dividends and distributions

Dividends of \$1,200 million (2022: \$Nil) were paid by the Company during the current financial year.

State of affairs

During the current year, the Consolidated Entity acquired Macquarie Corona Energy Holdings Limited, Macquarie Bermuda Limited, Macquarie US Trading LLC and Macquarie Trade & Asset Finance International Limited from Macquarie Bank Limited (MBL) and another Bank Group holding companies for a consideration of \$115 million through a business combination under common control.

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

Review of operations

The profit attributable to the ordinary equity holder of the Consolidated Entity for the year ended 31 March 2023 was \$1,631 million (2022: \$98 million).

Net operating income for the year ended 31 March 2023 was \$4,359 million (2022: \$460 million), which primarily represents net trading income and fee and commission income.

Total operating expenses for the year ended 31 March 2023 were \$2,153 million (2022: \$330 million), which primarily comprise of fee and commission expenses, employment expenses and other expenses.

Current year comprises of full year commercial activities, the prior year Consolidated Income Statement is not comparable as the majority of subsidiaries were acquired by the Company on 4th February 2022.

Events subsequent to balance sheet date

At the date of this report, the Directors are not aware of any matter or circumstances which has arisen that 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 2023 not otherwise disclosed in this report.

Likely developments, business strategies and prospects

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

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

Director's Report

Directors' indemnification

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

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

The indemnity does not apply to the extent that:

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

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

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

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

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

Environmental regulations

The Consolidated Entity has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, those obligations are identified and appropriately addressed. The Directors have determined that there has not been any material breach of those obligations during the financial year.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Act, is set out on page 5 of this report.

Rounding of amounts

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

Company disclosures

All amounts relate to the Consolidated Entity unless otherwise stated.

Stuart Dyson

Director

DocuSigned by:

43F39E2AC1F9445...

Sydney

28 July 2023



Auditor's Independence Declaration

As lead auditor for the audit of Macquarie International Finance Limited for the year ended 31 March 2023, 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* 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 International Finance Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'R. W. McMahon'.

Ryan McMahon
Partner
PricewaterhouseCoopers

Sydney
28 July 2023

Consolidated income statement

For the financial year ended 31 March 2023

	Notes	2023 \$m	2022 \$m
Net trading income	2	3,413	269
Fee and commission income	2	917	136
Net interest (expense)/income		(60)	18
Interest and similar income:			
Effective interest rate method	2	439	47
Other	2	21	-
Interest and similar expense	2	(520)	(29)
Net credit impairment (charges)/reversals	2	(22)	11
Net other impairment charges	2	(34)	(6)
Net other operating income	2	145	32
Net operating income		4,359	460
Employment expenses	2	(901)	(156)
Brokerage, commission, and fee expenses	2	(165)	(25)
Non-salary technology expenses	2	(46)	(5)
Other operating expenses	2	(1,041)	(144)
Total operating expenses		(2,153)	(330)
Operating profit before income tax		2,206	130
Income tax expense	3	(576)	(32)
Profit after income tax		1,630	98
Loss attributable to non-controlling interests		1	-
Profit attributable to the ordinary equity holder of Macquarie International Finance Limited		1,631	98

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

Consolidated statement of comprehensive income

For the financial year ended 31 March 2023

	Notes	2023 \$m	2022 \$m
Profit after income tax		1,630	98
Other comprehensive income/(loss) ⁽¹⁾			
Movements in items that may be subsequently reclassified to the income statement:			
Cash flow hedge reserve, cost of hedging reserve and other reserves:			
Net movement recognised in other comprehensive income (OCI)	22	(12)	-
Transferred to income statement on realisation	22	3	-
Foreign exchange movements on translation and hedge accounting of foreign operations	22	6	(6)
Total other comprehensive income		1,627	92
Total comprehensive loss attributable to non-controlling interests		1	-
Total comprehensive income attributable to the ordinary equity holder of Macquarie International Finance Limited		1,628	92

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

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

Consolidated statement of financial position

As at 31 March 2023

	Notes	2023 \$m	2022 Restated \$m
Assets			
Cash and bank balances		1,423	1,594
Cash collateralised lending and reverse repurchase agreements		66	441
Trading assets	5	1,339	1,585
Margin money and settlement assets	6	4,073	3,419
Derivative assets	7	2,543	2,159
Other financial assets	8	1,728	968
Other assets	9	423	201
Due from related body corporate entities	24	10,273	9,249
Loan assets	10	682	459
Interest in associates and joint ventures	13	330	283
Property, plant and equipment and right-of-use assets	12	702	397
Deferred tax assets	14	216	146
Total assets		23,798	20,901
Liabilities			
Cash collateralised borrowing and repurchase agreements		107	-
Margin money and settlement liabilities	15	1,922	2,197
Derivative liabilities	16	1,931	2,763
Other financial liabilities	17	832	371
Other liabilities	18	1,369	632
Due to related body corporate entities	24	10,090	10,485
Borrowings	19	5,653	2,902
Deferred tax liabilities	14	7	8
Total liabilities		21,911	19,358
Net assets			
Equity			
Contributed equity	21	2,194	2,203
Reserves	22	(843)	(766)
Retained earnings	22	531	101
Total capital and reserves attributable to the ordinary equity holder of Macquarie International Finance Limited		1,882	1,538
Non-Controlling Interest	22	5	5
Total equity		1,887	1,543

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

Consolidated statement of changes in equity

For the financial year ended 31 March 2023

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total	Non-Controlling Interest	Total equity \$m
Balance as at 1 Apr 2021		400	-	3	403	-	403
Profit after income tax		-	-	98	98	-	98
Other comprehensive income, net of tax		-	(6)	-	(6)	-	(6)
Total comprehensive income		-	(6)	98	92	-	92
Transactions with equity holder in their capacity as ordinary equity holder:							
Issue of shares	21	1,709	-	-	1,709	-	1,709
Restructure reserve attributable to group restructure	35	-	(760)	-	(760)	5	(755)
Other equity movements:							
Contribution from ultimate parent entity ⁽¹⁾ under the Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses	21	66	-	-	66	-	66
Contribution from the ultimate parent entity in relation to share based payments ⁽¹⁾	21	28	-	-	28	-	28
		1,803	(760)	-	1,043	5	1,048
Balance as at 31 Mar 2022		2,203	(766)	101	1,538	5	1,543
Profit after income tax		-	-	1,631	1,631	(1)	1,630
Other comprehensive income, net of tax		-	(3)	-	(3)	-	(3)
Total comprehensive income		-	(3)	1,631	1,628	(1)	1,627
Transactions with equity holder in their capacity as ordinary equity holder:							
Dividend paid	4	-	-	(1,200)	(1,200)	-	(1,200)
Restructure reserve attributable to group restructure	35	-	(74)	-	(74)	-	(74)
Movement in Non-Controlling Interest		-	-	(1)	(1)	1	-
Other equity movements:							
Contribution from ultimate parent entity ⁽¹⁾ under the Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses	21	-	-	-	-	-	-
Contribution from the ultimate parent entity in relation to share based payments ⁽¹⁾		(9)	-	-	(9)	-	(9)
		(9)	(74)	(1,201)	(1,284)	1	(1,283)
Balance as at 31 Mar 2023		2,194	(843)	531	1,882	5	1,887

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

(1) Macquarie Group Limited ("MGL") is the ultimate parent Company.

Consolidated statement of cash flows

For the financial year ended 31 March 2023

	Notes	2023 \$m	2022 \$m
Cash flows generated from operating activities			
Interest income and expense:			
Received		429	46
Paid		(505)	(29)
Fees, commissions and other income and charges:			
Received		991	125
Paid		(165)	-
Operating lease income received		195	28
Operating expenses paid:			
Employment expenses		(690)	(58)
Other operating expenses including brokerage, commission and fee expenses		(806)	(16)
Income tax paid		(594)	26
Changes in operating assets:			
Loan assets, receivables and balances with related parties		2,815	(1,581)
Movement in other financial assets and other non-financial assets		(117)	265
Assets under operating lease		(333)	(23)
Trading and related assets, liquid investments and collateralised lending balances (net of liabilities)		(1,075)	(13)
Changes in operating liabilities:			
Borrowings and other funding		2,363	2,799
Movement in other financial liabilities and other non-financial liabilities		119	262
Net cash flows generated from operating activities	23	2,627	1,831
Cash flows (utilised in)/generated from investing activities			
Net (payments for)/ proceeds from financial investments		(587)	-
Subsidiaries and businesses:			
Payments for additional contribution or acquisitions, net of cash acquired		-	(1,720)
Associates and joint ventures			
Payment for acquisitions		(115)	(242)
Proceeds from disposals		26	-
Property, plant and equipment and intangible assets:			
Payments for acquisitions		(23)	(21)
Proceeds from disposals		22	-
Net cash flows (utilised in)/generated from investing activities		(677)	(1,983)
Cash flows (utilised in)/generated from financing activities			
Proceeds from issue of ordinary shares		-	1,709
Dividends and distributions paid		(1,200)	-
Non-controlling interests:			
Receipts from non-controlling interests		1	-
Net cash flows (utilised in)/generated from financing activities		(1,199)	1,709
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the financial year	23	1,515	-
Effect of exchange rate movement on cash and cash equivalents		421	(42)
Cash and cash equivalents at the end of the financial year	23	2,687	1,515

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

Notes to the financial statements

For the financial year ended 31 March 2023

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 International Finance Limited (MIFL) is a for-profit company for the purposes of preparing this Financial Report. MIFL prepares Consolidated financial statements and has provided separate specific disclosures for Company only financial information under Note 36 *Company Financial Information*.

The principal accounting policies adopted in the preparation of this Financial Report are set out in Note 38 *Significant accounting policies*. These policies have been consistently applied to all the financial years presented and are applicable to both the Consolidated Entity (MIFL and its subsidiaries) as well as the Company (MIFL), 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
- 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 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 38(vi))

- assessing whether the cash flows generated by a financial asset constitute solely payments 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 38(vi))
- 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 38(xix) and Note 11)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including the reversal thereof (Note 38(i), Note 38(xix) and Note 13)
- 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 38(vi), Note 38(ix) and Note 31)
- 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 38(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 38(v), Note 3 and Note 14)
- recognition and measurement of provisions related to actual and potential claims and the determination of contingent liabilities (Note 38(xv) and Note 27)
- application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 38(ix) and Note 28)
- determination of the functional currency of the Company (Note 38(iii))
- financial asset derecognition including determination of transfer of substantially all risks and rewards (Note 38(vi))
- determination whether a transaction contains a lease (Note 38(xxii))

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

Notes to the financial statements

For the financial year ended 31 March 2023

Note 1

Basis of preparation continued

estimates could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

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

The amendments made to existing standards that were mandatorily effective or have been early adopted for the annual reporting period beginning on 1 April 2022 did not result in a material impact on this Financial Report. There were no new Australian accounting standards that were mandatorily effective or have been early adopted for the Financial Report.

(v) Other developments

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

IBOR interest rate benchmarks, that are used in a wide variety of financial instruments such as derivatives and lending arrangements, are undergoing reforms. Examples of IBOR include 'LIBOR' (the London Inter-bank Offered Rate), 'EURIBOR' (the Euro Inter-bank Offered Rate), 'CDOR' (the Canadian dollar offered rate) and 'BBSW' (the Australian Bank Bill Swap Rate). 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).

IBOR including the GBP, JPY, EUR and CHF London Inter-bank Offered Rate (LIBOR), and the 1-week and 2-month tenors for USD LIBOR ceased publication on 31 December 2021. The remaining USD LIBOR tenors and some IBOR's for minor currencies, other than CDOR will cease publication on 30 June 2023. CDOR will cease publication on 28 June 2024.

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 ARR. 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 needs 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.

Impacts on financial reporting

AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* 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.

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 require additional quantitative and qualitative disclosures and provide certain reliefs from applying specific requirements related to hedge accounting and the modification of financial instruments 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 2

Operating profit before income tax

	2023	2022
	\$m	\$m
Net trading income/(expense)⁽¹⁾		
Commodities trading ⁽²⁾	3,330	293
Credit, interest rate, foreign exchange and other products	(66)	(42)
Equities trading	149	18
Net trading income	3,413	269
Fee and commission income		
Service fee from related parties	426	63
Portfolio administration fees	225	30
Trusts Management Fee	95	23
Brokerage and other trading-related fees	75	15
Other fee and commission income	96	5
Total fee and commission income	917	136
Net interest (expense)/income		
Interest and similar income		
Effective interest rate method – Amortised Cost	439	47
Others	21	-
Interest and similar expense		
Effective interest rate method – Amortised Cost	(520)	(29)
Net interest (expense)/income	(60)	18

(1) 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 38(ix) *Derivative instruments and hedging activities*.

(2) Includes \$491 million (2022: \$61 million) for transportation, storage and certain other trading related costs and \$11 million (2022: \$2 million) in the Consolidated Entity for depreciation on right-of-use (ROU) assets held for trading-related business.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 2

Operating profit before income tax continued

	2023	2022
	\$m	\$m
Credit and other impairment (charges)/reversals		
Credit impairment (charges)/reversals		
Other assets	(9)	(5)
Loan assets	(7)	6
Due from related corporate body entities	(5)	-
Margin money and settlement assets	2	10
Cash and Bank balances and off balance sheet exposures	(3)	-
Gross credit impairment (charges)/reversals	(22)	11
Net credit impairment (charges)/reversals	(22)	11
Other impairment charges		
Intangible and other non-financial assets	(34)	(6)
Net other impairment charges	(34)	(6)
Total credit and other impairment (charges)/reversals	(56)	5
Net other operating income		
Investment income		
Net (loss)/gain from:		
Financial investments and other assets	(14)	2
Total investment (loss)/income	(14)	2
Net operating lease income		
Rental income	202	27
Depreciation	(121)	(15)
Net operating lease income	81	12
Share of net profits from associates and joint ventures	26	8
Other income	52	10
Total net other operating income	145	32
Net operating income	4,359	460

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 2

Operating profit before income tax continued

	2023	2022
	\$m	\$m
Employment expenses		
Salary and related costs including commissions, superannuation and performance-related profit share	(756)	(131)
Share-based payments	(144)	(24)
Provision for long service leave and annual leave	(1)	(1)
Total employment expenses	(901)	(156)
Brokerage, commission and fee expenses		
Brokerage and other trading-related fee expenses	(146)	(23)
Other fee and commission expenses	(19)	(2)
Total brokerage, commission and fee expenses	(165)	(25)
Non-salary technology expenses		
Information services	(28)	(4)
Depreciation on own use assets: equipment (Note 12)	(1)	-
Service provider and other non-salary technology expenses	(17)	(1)
Total non-salary technology expenses	(46)	(5)
Other operating expenses		
Occupancy expenses		
Lease and other occupancy expenses	(21)	(3)
Depreciation on right-of-use assets: office premises (Note 12)	(2)	-
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements (Note 12)	(1)	(1)
Total occupancy expenses	(24)	(4)
Other expenses		
Service cost recoveries by related parties	(837)	(122)
Professional fees	(44)	(7)
Travel and entertainment expenses	(14)	(2)
Audit fees	(11)	(2)
Indirect and other taxes	(7)	(3)
Other	(104)	(4)
Total other expenses	(1,017)	(140)
Total other operating expenses	(1,041)	(144)
Total operating expenses	(2,153)	(330)
Operating profit before income tax	2,206	130

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 3

Income tax expense

	2023	2022
	\$m	\$m
(i) Income tax (expense)/benefit		
Current tax expense	(637)	(46)
Deferred tax benefit	61	14
Total income tax expense	(576)	(32)
(ii) Reconciliation of income tax expense to <i>prima facie</i> income tax expense		
<i>Prima facie</i> income tax expense on operating profit @30% (2022: 30%)	(662)	(38)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	63	6
Other items	23	-
Total income tax expense	(576)	(32)
(iii) Tax benefit relating to OCI		
Cash flow hedges reserve	1	-
Total tax benefit relating to OCI	1	-
(iv) Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities		
Property, plant and equipment	(4)	-
Intangible assets	(1)	1
Financial investments and interests in associates and joint ventures	2	9
Tax losses	13	2
Operating and finance leases	(9)	(27)
Loan assets and derivatives	7	(2)
Other assets and liabilities	53	31
Total deferred tax benefit represents movement in deferred tax assets and liabilities	61	14

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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 4

Dividends

	2023	2022
	\$m	\$m
Final dividend paid (2023: \$0.569 (2022: \$Nil) per share)	1,200	-
Total dividends paid (Note 22)	1,200	-

Note 5

Trading assets

	2023	2022
	\$m	\$m
Commodities	836	1,237
Commodity contracts	472	290
Listed equity securities	29	58
Debt Securities	2	-
Total trading assets	1,339	1,585

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

Note 6

Margin money and settlement assets

	2023	2022
	\$m	Restated ⁽¹⁾ \$m
Margin money	2,754	1,992
Commodity settlements	1,316	1,360
Security settlements	3	67
Total margin money and settlement assets	4,073	3,419

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

(1) During the financial year, comparatives were restated to correct a prior period error relating to fiduciary assets. For more details, refer Note 24 *Related Party Information*.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 7

Derivative assets

	2023	2022
	\$m	\$m
Held for trading	2,543	2,159
Total derivative assets⁽¹⁾	2,543	2,159

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.

Note 8

Other financial assets

	2023	2022
	\$m	\$m
Commodity-related receivables	856	861
Trade debtors and other receivables	262	96
Financial Investments	610	11
Total other financial assets	1,728	968

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

Note 9

Other assets

	2023	2022
	\$m	\$m
Held for sale assets		
Assets held for sale	6	3
Other non-financial assets		
Income tax receivables	125	66
Prepayments	105	1
Goodwill and other intangible assets	70	49
Indirect tax receivables	61	50
Other	56	32
Total other non-financial assets	417	198
Total other assets	423	201

Of the above amounts, \$252 million (2022: \$152 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

(1) Refer Note 29 *Financial risk management* and Note 32 *Offsetting of financial assets and financial liabilities* for further details

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 10

Loan assets

	2023			2022		
	Gross	ECL allowance	Net	Gross	ECL allowance	Net
	\$m	\$m	\$m	\$m	\$m	\$m
Asset financing	528	(10)	518	386	(8)	378
Commodity related loans	111	(2)	109	20	(3)	17
Corporate, commercial and other lending	58	(3)	55	3	-	3
Home loans	-	-	-	61	-	61
Total loan assets	697	(15)	682	470	(11)	459

Of the above amounts, \$391 million (2022: \$239 million) is expected to be recovered more than 12 months of the balance date by the Consolidated Entity.

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 small plant and equipment, electronic and IT equipment.

The following table represents the maturity profile of the contractual undiscounted cashflows of the Consolidated Entity:

	2023			2022		
	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payments receivable	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payments receivable
	\$m	\$m	\$m	\$m	\$m	\$m
Within one year	185	(25)	160	153	(6)	147
Between one to two years	100	(21)	79	59	(3)	56
Between two to three years	84	(16)	68	34	(1)	33
Between three to four years	59	(11)	48	18	-	18
Between four to five years	68	(4)	64	15	-	15
Later than five years	2	(1)	1	1	-	1
Total	498	(78)	420	280	(10)	270

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 11

Expected credit losses

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

Model inputs

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

The Consolidated Entity has developed several models to predict the ECL. These models incorporate a range of components 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. Wholesale 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.

Significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Qualitative factors include, but are not limited to material change in internal credit rating or 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. 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 exposure's credit risk since

origination. This may result in exposures being classified in stage II that are of a higher credit quality than other exposures that are classified as stage I. Accordingly, while similar increases in the quantum of stage II exposures will suggest a relative deterioration of credit quality, it should not necessarily be inferred that the assets are of a lower credit quality.

Retail exposures

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

Wholesale exposures

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

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

For both retail and wholesale portfolios:

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

Definition of default

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

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 11

Expected credit losses continued

Forward-looking information (FLI)

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

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. The overlays primarily reflect management's assessment of the current economic and credit environment relative to the FLI credit cycle model. These overlays account for the risk that underlying credit risk events have occurred, but observable modelled inputs are yet to reflect those events, as well as risks that are specific to regions, counterparties or industries which are difficult to account for within the modelled outcomes. Over time the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately \$16 million (31 March 2022: \$6 million). These judgements are reviewed by FMG and RMG at each reporting date.

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

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

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

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

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

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

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

These scenarios impact the modelled ECL provisioning levels through determination of 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.

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 11

Expected credit losses continued

Forward-looking information (FLI) 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 ~\$55 million ⁽¹⁾	Probable	<p>Global: The baseline scenario assumes 2023 global GDP growth of around 2.01% year-on-year, slowing from 2.9% in 2022 in the face of inflationary pressures and tighter monetary policy. Interest rates are expected to peak in mid-2023, with rate cuts anticipated in 2024 as inflation eases and growth slows.</p> <p>Australia: Growth is expected to slow materially in 2023 to 1.9% with unemployment increasing by 1 percentage point by Q2 2024, though baseline assumptions are for a recession to be avoided. Policy rate hikes from the Reserve Bank of Australia (RBA) are expected to stop in mid-2023.</p> <p>House prices fell ~8% during 2022 from their peak, and a further ~10% decline is anticipated in 2023 due to pressure on household budgets from high interest rates. Equity prices have been more resilient but are assumed to remain relatively constrained over the next 12 to 18 months.</p> <p>United States: Annual GDP growth is projected to slow in 2023, and contract in late 2023 and early 2024 resulting in an overall peak-to-trough fall in GDP of 1.6% over 12 months. As a result, the unemployment rate is projected to increase by 2 percentage point to 5.5% by the end of 2024, with rate cuts to provide support to the economy in early 2024.</p> <p>Europe: The Eurozone economy outperformed expectations in 2022, despite the impact of the Russia-Ukraine war, but 2023 is expected to bring growth of just 0.1% as tighter monetary policy and high inflation put pressure on the economy.</p>
Downside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$65 million ⁽¹⁾	Possible	<p>Global: The downside scenario projects annual growth in global GDP that is approximately 1 percentage point lower than the baseline until late 2024.</p> <p>Australia: The scenario projects stagnation over the 18 months to September 2024 due to continued inflationary pressure and further monetary tightening. Unemployment rises in the scenario to 5.5% by mid-2024 and recedes slowly in low growth environment. House prices are projected to be impacted by higher interest rates, falling ~23% from 2022 highs.</p> <p>United States: The scenario projects five quarters of negative or zero growth beginning in mid-2023, resulting in a 3% fall in real GDP. Inflation remains sticky, however, and the US Fed delays rate cuts and the possible boost to the economy until disinflationary trends are clear. Unemployment is projected to increase 3 percentage points to 6.6% by mid-2024.</p> <p>Europe: The scenario projects a 2% fall in real GDP over the next 12 months, driving unemployment to around 8%. Equity markets are projected to fall around 7% and fail to recover to prior peaks in the forecast period to 2027.</p>

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 11

Expected credit losses continued

Forward-looking information (FLI) continued

Scenario	Weighting	Expectation
<p>Severe Downside</p> <p>A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$90 million⁽¹⁾</p>	Possible	<p>Global: The scenario projects a sharp slowdown in annual GDP growth, around 3 to 3.5 percentage points lower than the baseline. The global economy is projected to contract by ~2.5% in the next twelve months and stagnate for the subsequent 12 months.</p> <p>Australia: The scenario projects five consecutive quarters of contraction in real GDP, resulting in a 2.5% decline in GDP by mid-2024. Unemployment peaks at 7.5% in late 2024, and house prices fall by 30% from their early 2022 peak.</p> <p>United States: The scenario projects a ~6% fall in GDP to the end of 2024, contracting for seven straight quarters and failing to recover prior output levels by the end of 2027. Unemployment reaches 8.8% by the end of 2024, and house prices fall by over 20%.</p> <p>Europe: The scenario projects a recession that extends until mid-2024, and output falls by 4% from current levels. Unemployment rates are projected to peak at ~9% and recede slowly.</p>
<p>Upside</p> <p>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 ~\$45 million⁽¹⁾</p>	Unlikely	<p>Global: The upside scenario projects annual growth in global GDP that is approximately 1 percentage point higher than the baseline scenario over until late 2024.</p> <p>Australia: The scenario projects a slight slowdown in GDP growth to under 2% annually, but growth remains positive throughout. Unemployment rates increase only modestly, remaining below 4.5%. Interest rate rises are sufficient to calm inflation without sharply impacting growth.</p> <p>United States: The scenario projects slowing GDP growth to 1% annually and the economy avoids any quarterly contractions. The Fed pauses monetary tightening as inflation recedes, engineering a 'soft landing' scenario.</p> <p>Europe: The scenario projects GDP to grow only 0.4% in 2023, including one quarterly contraction. Thereafter growth remains around 2% annually through to 2027 and unemployment stays broadly flat at 6.5-7%</p>

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 11

Expected credit losses continued

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

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost	FVOCI	Other	Gross exposure	Amortised cost	FVOCI	Other	Total ECL allowance
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
								2023
Cash and bank balances	1,424	-	-	1,424	1	-	-	1
Cash collateralised lending and reverse repurchase agreements	66	-	-	66	-	-	-	-
Margin money and settlement assets	3,552	-	-	3,552	5	-	-	5
Other financial assets	895	4	-	899	41	-	-	41
Due from related body corporate entities	7,681	-	-	7,681	2	-	-	2
Loan assets	694	-	-	694	15	-	-	15
Off balance sheet exposures	-	-	197	197	-	-	2	2
Total	14,312	4	197	14,513	64	-	2	66
								2022
Cash and bank balances	1594	-	-	1594	-	-	-	-
Cash collateralised lending and reverse repurchase agreements	441	-	-	441	-	-	-	-
Margin money and settlement assets	2,908	-	-	2,908	7	-	-	7
Other financial assets	158	-	-	158	6	-	-	6
Due from related body corporate entities	4,716	-	-	4,716	1	-	-	1
Loan assets	467	-	-	467	11	-	-	11
Off balance sheet exposures	-	-	86	86	-	-	-	-
Total	10,284	-	86	10,370	25	-	-	25

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 11

Expected credit losses continued

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

	Cash and Bank Balances	Margin money and settlement assets	Other Financial assets	Loan assets	Due from related body corporate entities	Off balance sheet exposures	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance as at 1 Apr 2021	-	-	-	-	-	-	-
Transfer on group restructure	-	17	12	18	4	-	51
Credit impairment charge/(reversal) (Note 2)	-	(10)	4	(6)	1	-	(11)
Amount written off, previously provided for	-	-	-	-	-	-	-
Reclassifications, foreign exchange, and other movements	-	-	(10)	(1)	(4)	-	(15)
Balance as at 31 Mar 2022	-	7	6	11	1	-	25
Credit impairment charge/(reversal) (Note 2)	1	(2)	9	7	5	2	22
Transfer on group restructure	-	-	22	-	-	-	22
Amount written off, previously provided for	-	-	-	(1)	(5)	-	(6)
Reclassifications, foreign exchange, and other movements	-	-	4	(2)	1	-	3
Balance as at 31 Mar 2023	1	5	41	15	2	2	66

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 12

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

	2023			2022		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
	\$m	\$m	\$m	\$m	\$m	\$m
Assets for own use						
Furniture, fittings and leasehold improvements	13	(10)	3	21	(18)	3
Land and buildings	3	-	3	2	-	2
Equipment	10	(8)	2	4	(3)	1
Total assets for own use	26	(18)	8	27	(21)	6
Assets under operating lease						
Semiconductors and IT equipment	487	(85)	402	152	(33)	119
Mining equipment	317	(119)	198	299	(70)	229
Meters	207	(184)	23	219	(188)	31
Telecommunications and others	3	(1)	2	1	(1)	-
Total assets under operating lease	1,014	(389)	625	671	(292)	379
Right-of-use assets						
Commodity storage	77	(45)	32	38	(31)	7
Office premises	23	(9)	14	9	(4)	5
Hydrogen cells	24	(1)	23	-	-	-
Total assets under right-of-use	124	(55)	69	47	(35)	12
Total property, plant and equipment and right-of-use assets	1,164	(462)	702	745	(348)	397

The majority of the above amounts have expected useful lives longer than 12 months after the balance date.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 12

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 and right-of-use assets was as follows:

	Furniture, fittings and leasehold improvements	Land and buildings	Equipment	Total
	\$m	\$m	\$m	\$m
Assets for own use				
Balance as at 1 Apr 2021	-	-	-	-
Transfer on group restructure	4	2	3	9
Disposals and reclassifications	-	-	(2)	(2)
Depreciation expense (Note 2)	(1)	-	-	(1)
Balance as at 31 Mar 2022	3	2	1	6
Acquisitions and additions	1	-	24	25
Disposals	-	-	(22)	(22)
Depreciation expense (Note 2)	(1)	-	(1)	(2)
Foreign exchange movements	-	1	-	1
Balance as at 31 Mar 2023	3	3	2	8

	Semiconductors and IT equipment	Mining equipment	Meters	Telecommunication and other	Total
	\$m	\$m	\$m	\$m	\$m
Assets under operating lease					
Balance as at 1 Apr 2021	-	-	-	-	-
Transfer on group restructure	133	244	37	-	414
Additions	1	15	-	-	16
Disposals and reclassifications	-	(7)	(2)	-	(9)
Depreciation expense (Note 2)	(5)	(9)	(1)	-	(15)
Foreign exchange movements	(10)	(14)	(3)	-	(27)
Balance as at 31 Mar 2022	119	229	31	-	379
Acquisition and additions	335	16	-	2	353
Disposals	(3)	(12)	(2)	-	(17)
Depreciation expense (Note 2)	(53)	(61)	(7)	-	(121)
Foreign exchange movements	4	26	1	-	31
Balance as at 31 Mar 2023	402	198	23	2	625

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 12

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

The movement in the carrying value of the Consolidated Entity's ROU was as follows:

	Commodity storage \$m	Office premises \$m	Hydrogen cells	Total \$m
Right-of-use assets				
Balance as at 1 Apr 2021	-	-	-	-
Transfer on group restructure	10	3	-	13
Additions	-	2	-	2
Depreciation expense	(2)	-	-	(2)
Foreign exchange movements	(1)	-	-	(1)
Balance as at 31 Mar 2022	7	5	-	12
Acquisitions and additions	34	11	24	69
Depreciation expense (Note2)	(11)	(2)	-	(13)
Foreign exchange movements	2	-	(1)	1
Balance as at 31 Mar 2023	32	14	23	69

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

	2023 \$m	2022 \$m
Assets under operating lease		
Within one year	272	95
Between one to two years	195	82
Between two to three years	64	32
Between three to four years	13	17
Between four to five years	9	9
Later than five years	-	6
Total future minimum lease payments receivable	553	241

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 13

Interest in associate and Joint ventures

	2023	2022
	\$m	\$m
Equity investment with no provisions for impairment	282	239
Equity investment with provision for impairment		
Gross carrying value	78	75
Less: provisions for impairment	(30)	(42)
Equity investment with provisions for impairment	48	33
Total equity investments in associates and joint ventures	330	272
Loans to associates and joint ventures	-	11
Total loans to associates and joint ventures	-	11
Total interest in associates and joint ventures^{(1),(2)}	330	283

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

(1) Comprises \$316 million (2022: \$268 million) relating to interests in associates and \$14 million (2022: \$15 million) relating to interests in joint ventures.
(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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 14

Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	2023	2022
	\$m	\$m
Other assets and liabilities	246	140
Tax losses	50	37
Financial investments and interests in associates and joint ventures	25	10
Property, plant and equipment	3	2
Operating and finance lease assets	12	15
Loan and derivative assets	4	-
Intangible assets	11	9
Set-off of deferred tax liabilities	(135)	(67)
Net deferred tax assets	216	146
Other assets and liabilities	(47)	(4)
Financial investments and interests in associates and joint ventures	(15)	(2)
Operating and finance lease assets	(64)	(57)
Loan and derivative assets	(4)	(7)
Property, plant and equipment	(5)	-
Intangible assets	(7)	(5)
Set-off of deferred tax assets	135	67
Net deferred tax liabilities	(7)	(8)

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

Note 15

Margin money and settlement liabilities

	2023	2022
	\$m	\$m
Margin money	918	829
Commodity settlements	998	1,305
Security settlements	6	63
Total margin money and settlement liabilities	1,922	2,197

Note 16

Derivative liabilities

	2023	2022
	\$m	\$m
Held for trading ⁽¹⁾	1,931	2,763
Total derivative liabilities	1,931	2,763

(1) Refer Note 29 *Financial Risk management* and Note 32 *Offsetting of financial assets and financial liabilities* for further details.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 17

Other financial liabilities

	2023	2022
	\$m	\$m
Commodity-related payables	483	169
Creditors	187	88
Security deposits	93	51
Issued debt securities	-	52
Lease liabilities	69	11
Total other financial liabilities⁽¹⁾	832	371

Note 18

Other liabilities

	2023	2022
	\$m	\$m
Employment-related liabilities	566	318
Provisions ⁽²⁾	378	89
Indirect taxes payables	247	27
Income tax payable	115	165
Other	63	33
Total other liabilities	1,369	632

Note 19

Borrowings

	2023	2022
	\$m	\$m
Committed unsecured syndicated loans	3,922	2,799
Secured revolving facility	1,148	-
Other borrowings ⁽³⁾	583	103
Total borrowings	5,653	2,902

Of the above amounts, \$1,310 million (2022: \$45 million) is expected to be settled within 12 months of the balance date by the Consolidated Entity

(1) Refer Note 29 *Financial risk management* and Note 32 *Offsetting of financial assets and financial liabilities* for further details

(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.

(3) Includes \$260 million (2022: \$Nil) that would be contractually required to be paid at maturity to the holders of structured loans classified under 'Other borrowings' which are measured at DFVTPL for the Consolidated Entity. This amount is based on the final notional amount rather than the fair value. Refer to Note 30 Measurement categories of financial instruments for the carrying value of borrowings measured at DFVTPL.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 20

Capital management

Capital management strategy

The Consolidated Entity'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.
- Support external investor and regulatory expectations.
- Safeguard the Consolidated Entity's ability to continue as a going concern.

The Consolidated Entity's capital management strategy assesses specific risk types such as equity, credit, market and operational risk, referencing Macquarie's Economic Capital Adequacy Model (ECAM) where appropriate.

The Consolidated Entity's capital requirements are monitored on a quarterly basis to ensure its objectives are being met.

Capital is being defined as the Consolidated Entity's total equity.

Note 21

Contributed equity

	2023 \$m	2022 \$m
Ordinary share capital	2,109	2,109
Additional paid up capital	85	94
Total contributed equity	2,194	2,203

	2023 Number of shares	2022 Number of shares	2023 \$m	2022 \$m
(i) Ordinary share capital⁽¹⁾				
Balance at the beginning of the financial year	2,109,312,580	400,000,001	2,109	400
Issued fully paid shares to MBL on:				
on 4 February 2022 @ \$1 per share	-	1,709,312,579	-	1,709
Balance at the end of the financial year	2,109,312,580	2,109,312,580	2,109	2,109

(ii) Additional paid-up capital

	2023 \$m	2022 \$m
Tax contribution for business acquired under group restructure ⁽²⁾	66	66
Deferred tax on Employee Retained Equity Plan (MEREP) ⁽³⁾	19	28

(1) Ordinary shares have no par value.

(2) Represents tax balances funded by MGL under the Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses. Recognition of deferred tax balances on acquisition is precluded under AASB 112 Income Taxes and hence the funded amount is treated as an equity contribution.

(3) Macquarie Group Employee Retained Equity Plan (MEREP) awards are primarily settled in shares of MGL. MEREP awards are issued by MGL to employees of the Consolidated Entity and MGL has been subsequently reimbursed by the Consolidated Entity.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Balance at the end of the financial year	85	94
---	-----------	----

Note 22

Reserves, retained earnings and non-controlling interests

	2023	2022
	\$m	\$m
(i) Reserves		
Foreign currency translation reserve		
Balance at the beginning of the financial year	(6)	-
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax ⁽¹⁾	6	(6)
Balance at the end of the financial year	-	(6)
Restructure reserve		
Balance at the beginning of the financial year	(760)	-
Restructure reserve attributable to business acquired ⁽²⁾	(74)	(760)
Balance at the end of the financial year	(834)	(760)
Cash flow hedge reserve		
Balance at the beginning of the financial year	-	-
Net movement recognised in OCI during the financial year, net of tax	(12)	-
Transferred to income statement on realisation, net of tax	3	-
Balance at the end of the financial year	(9)	-
Total reserves at the end of the financial year	(843)	(766)
(ii) Retained earnings		
Balance at the beginning of the financial year	101	3
Profit attributable to the ordinary equity holder of MIFL	1,631	98
Dividends paid on ordinary share capital (Note 4)	(1,200)	-
Movement due to change in non-controlling ownership interest	(1)	-
Balance at the end of the financial year	531	101
(iii) Non-controlling interests⁽³⁾		
Share capital	6	5
Accumulated losses	(1)	-
Total non-controlling interests	5	5

(1) The current year movement represents the revaluation of the Consolidated Entity's unhedged investments in foreign operations primarily driven by the depreciation of the Australian dollar against the foreign currencies. Refer to Note 29.3 *Market risk* for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.

(2) Represents difference between the acquisition price and the book value of the net assets of the Non-ELE Group subsidiaries acquired under common control transactions. For details refer Note 35 *Acquisitions of subsidiaries and businesses*.

(3) Other non-controlling interests represents equity in subsidiaries held by MBL and external party as a minority shareholder and therefore is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 23

Notes to the statements of cash flows

(i) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year are reflected in the relevant items in the Statements of financial position as follows:

	2023	2022
	\$m	\$m
Cash and bank balances ^{(1),(2)}	549	411
Due from related body corporate entities ⁽³⁾	2,138	1,104
Cash and cash equivalents at the end of the financial year	2,687	1,515

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

Profit after income tax	1,630	98
Adjustments to profit after income tax:		
Depreciation and amortisation	136	18
Expected credit losses and other impairment charges	56	(5)
Investment income and gain on sale of operating lease assets and other non-financial assets	16	(6)
Share of net (profits)/losses of associates and joint ventures	(26)	(8)
Changes in assets and liabilities:		
Trading and related assets, liquid investments and collateralised lending balances (net of liabilities)	(4,503)	(284)
Borrowings and other funding	2,363	2,799
Debtors, prepayments, accrued charges and creditors	485	502
Tax balances	(18)	58
Interest, fees and commissions receivable and payable	4	(9)
Assets under operating lease	(333)	(23)
Movement in other financial assets and other non-financial assets	(117)	265
Movement in other financial liabilities and other non-financial liabilities	119	7
Loan assets and balances with related body corporate entities	2,815	(1,581)
Net cash flows generated from operating activities	2,627	1,831

- (1) Includes \$44 million (2022: \$33 million) of balances, that are restricted from use by the Consolidated Entity 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 Statement of financial position as cash and bank balances primarily relates to \$768 million (2022: \$1,147 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of \$106 million (2022: \$36 million) that are not readily available to meet the Consolidated Entity's short-term cash commitments.
- (3) Balance represents cash and short-term deposits with MBL of \$2,138 million (2022: \$1,001 million) and other related body corporate entities of \$Nil (2022: \$103 million) and does not include cash placed as collateral of \$3,733 million (2022: \$2,664 million) with MBL with respect to the Consolidated Entity's guarantees to MBL for MBL's exposures to certain Non-ELE Group subsidiaries as these balances are not considered as an integral part of the Consolidated Entity's cash management.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 24

Related party information

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

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

Transaction under common control

During the current year, the Consolidated Entity acquired Macquarie Corona Energy Holdings Limited, Macquarie Bermuda Limited, Macquarie US Trading LLC and Macquarie Trade & Asset Finance International Limited from Macquarie Bank Limited (MBL) and another Bank Group holding companies through a business combination under common control. For details, refer to Note 35 *Acquisitions and disposals of subsidiaries and businesses*.

Ultimate and immediate parent entities

The Consolidated Entity's ultimate parent entity is MGL, and the immediate parent entity is Macquarie Bank Limited (MBL). Both MGL and MBL are incorporated in Australia. Both MGL and MBL 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 38(v) *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 MBL are included in Due from related body corporate entities or Due to related body corporate entities, as appropriate, separately in the Statements of financial position of the Consolidated entity except when the parties have the legal right and intention to offset.

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

Other related body corporate entities

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

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

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

Notable subsidiaries of the Consolidated Entity

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

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

All notable subsidiaries have a 31 March reporting date.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 24

Related party information continued

The following transactions occurred with the ultimate and immediate parent entities and other related entities during the financial year:

	ULTIMATE PARENT AND IMMEDIATE PARENT ENTITIES		OTHER RELATED ENTITIES	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Interest income	220,507	11,379	14,241	14,316
Interest expense	(236,174)	(15,747)	(73,064)	(3,078)
Net interest (expense)/income	(15,667)	(4,368)	(58,823)	11,238
Net Trading Income ⁽¹⁾⁽²⁾	(3,614,363)	604,263	513,989	46,347
Other Income	622	-	525	50
Fee and commission income	362,978	45,262	143,447	41,099
Other operating expense	(222,716)	(25,874)	(614,084)	(113,850)
Dividends and distributions (Note 4)	(1,200,000)	-	-	-

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 24

Related party information continued

The following balances and off balance sheet arrangements with the ultimate parent and immediate parent entities and other related parties were outstanding as at the financial year end:

	ULTIMATE PARENT AND IMMEDIATE PARENT ENTITIES		OTHER RELATED ENTITIES	
	2023	2022	2023	2022
	\$'000	Restated ⁽¹⁾ \$'000	\$'000	Restated ⁽¹⁾ \$'000
On Balance Sheet:				
Due from related body corporate entities	9,774,494	8,572,497	498,506	676,605
Cash and bank balances ^{(2),(3)}	5,888,119	3,667,749	404	102,766
Cash collateralised lending and reverse repurchase agreements	33,730	40,111	-	-
Trading assets	61,187	56,219	-	-
Margin money and settlement assets ⁽¹⁾	1,259,355	269,406	85,737	21,880
Derivative assets	2,227,959	4,324,275	876	7,390
Loan Asset	-	-	281,287	210,310
Other Financial Assets ⁽²⁾	163,765	112,231	76,270	297,439
Other Assets	140,379	102,506	53,932	36,820
Due to related body corporate entities	7,846,418	8,560,156	2,243,582	1,925,296
Cash collateralised borrowing and repurchase agreements	3,402,251	2,338,468	-	-
Trading liabilities	76,252	70,533	-	-
Margin money and settlement liabilities ⁽¹⁾	602,264	1,457,345	25,373	40,492
Derivative liabilities	2,981,224	3,847,287	1,261	3,193
Other financial liabilities	540,511	469,512	395,500	765,515
Other Liabilities	97,684	130,967	497	44
Borrowings ⁽⁴⁾	146,232	246,044	1,820,951	1,116,052
Off Balance Sheet:				
Guarantees provided ⁽⁵⁾	-	-	49,346	35,086
Guarantees and Letter of Credit received ^{(6),(7)}	902,803	2,367,192	1,537	87,715

- (1) During the financial year, comparatives were restated to correct a prior period error relating to fiduciary assets. The error primarily relates to receivables from external parties being incorrectly presented as net intercompany receivables. The restatement involves increasing Margin money and settlement assets balances by \$1,617,578 thousand, which is offset by a decrease in Due from related body corporate entities by \$1,927,044 thousand and Due to related body corporate entities by \$309,466 thousand. This restatement had no impact on net assets and profit or loss of the consolidated entity. Where necessary, comparative information has been restated to conform to changes in presentation in the current year.
- (2) Balance includes cash and short-term deposits with MBL \$2,138,036 thousand (2022: \$1,000,782 thousand) and other related body corporate entities \$404 thousand (2022: \$102,766 thousand). This balance is also disclosed in Note 23 *Notes to the statement of cash flows* under (i) Reconciliation of cash and cash equivalents as Due from related body corporate entities.
- (3) Includes cash collateral placed of \$3,733,198 thousand (2022: \$2,664,197 thousand) with MBL with respect to the Consolidated Entity's guarantees to MBL for MBL's exposures to certain Non-ELE Group subsidiaries.
- (4) The majority of the balance represents long-term borrowing from MBL of \$147,185 thousand (2022: \$246,044 thousand) and an evergreen loan of \$1,690,657 thousand (2022: \$1,136,106 thousand) from Macquarie Financial Holdings Pty Limited (MFHPL).
- (5) Represents guarantees to related body corporate entities with respect to their exposures to certain related group entities. The guarantee given to counterparties other than related body corporate entities are disclosed in Note 27 Contingent liabilities and commitments.
- (6) Represents guarantees and LCs provided by MBL of \$690,290 thousand (2022: \$2,177,561 thousand) and guarantees by MGL of \$212,513 thousand (2022: \$189,631 thousand) to third parties as the immediate and ultimate parent respectively in relation to the performance and other obligations of the Consolidated Entity. Includes guarantees received from parent and ultimate parent with respect to their exposures to certain subsidiaries having a notional value of \$10,046,978 thousand (2022: \$13,372,791 thousand) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk portion at the reporting date.
- (7) Represents guarantees provided by MFHPL and its subsidiaries of \$1,537 thousand (2022: \$87,715 thousand) to third parties in relation to the performance and other obligations of the Consolidated Entity.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 24

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:

	2023	2022
	\$'000	\$'000
Interest income	4,196	-
Fee and commission income/(expense)	755	(12)
Operating lease income	4,469	-

Dividends and distributions of \$168 thousand (2022: \$12,021 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 and off balance sheet arrangements 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 and joint ventures).

	2023	2022
	\$'000	\$'000
On Balance Sheet:		
Amounts receivable	18,604	4,660
Amounts payable	(833)	-
Off Balance Sheet:		
Guarantee provided	-	-
Undrawn commitments	(23,404)	-

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 25

Key management personnel disclosure

Key management personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2023 and 31 March 2022, unless indicated otherwise:

Directors

D. Saad	(Appointed on 8 April 2021)
R. Dixon	(Appointed on 26 October 2021)
B.N. Milson ⁽¹⁾	

Former Directors

A.J. Lewis	(Resigned on 22 October 2021)
S.D. Green	(Resigned on 8 April 2021)

In addition to the Directors listed above, the following persons, who are members of MBL's Executive Committee, also had authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries during the financial years ended 31 March 2023 and 31 March 2022, unless otherwise indicated.

Current Executives⁽²⁾

S.R. Wikramanayake	Macquarie Group CEO
G.N. Bruce	Head of LGG (appointed to be a member of the Executive Committee effective from 2 March 2022)
A. Cassidy	CRO, Head of RMG (appointed to be a member of the Executive Committee effective from 1 January 2022)
S.D. Green	Macquarie Bank CEO (appointed to be a member of the Executive Committee effective from 1 July 2021)
A.H. Harvey	CFO, Head of FMG
N. O'Kane	Head of CGM
N. Sorbara	COO, Head of COG
G.C. Ward	Deputy Managing Director and Head of BFS

Former Executives

M.J. Reemst	Former Macquarie Bank CEO (ceased to be a member of the Executive Committee effective from 30 June 2021)
P.C. Upfold	Former CRO, Head of RMG (ceased to be a member of the Executive Committee effective from 31 December 2021)

Key management personnel remuneration

The following table details the aggregate remuneration for KMP:

	2023	2022
	\$	\$
Key Management Personnel Remuneration		
Amount paid to Key Management Personnel in relation to their role as KMP of the Consolidated Entity	20,458,737	2,814,733

The KMP did not receive any other benefits or consideration in connection with the management of the Consolidated Entity. All other benefits that were received by the KMP were solely related to other services performed with respect to their employment by MGL and its subsidiaries. During the year, a related body corporate entity within the Macquarie Group paid the amounts disclosed above to the KMP for services rendered to the Consolidated Entity. The compensation was not charged to the Consolidated Entity.

⁽¹⁾ Mr. Milson has retired as a director of MIFL board on 15 May 2023.

⁽²⁾ Except where indicated otherwise, all of the Executives, as well as the CEO were members of the Executive Committee as at 28 July 2023.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 26

Employee equity participation

MEREP

The Consolidated Entity participates in its ultimate parent company's, Macquarie Group Limited (MGL), share based compensation plans, being the Macquarie Group Employee Retained Equity Plan (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 a 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	
	2023	2022
RSUs on issue at the beginning of the financial year	1,730,933	-
Granted during the financial year	954,336	135
Forfeited during the financial year	(31,030)	(6,717)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(583,186)	(501)
Net transfers from related body corporate entities ⁽¹⁾	101,243	-
Transfer on group restructure	-	1,738,016
RSUs on issue at the end of the financial year	2,172,296	1,730,933
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 \$164.14 (2022: \$194.02).

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a 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, DSUs have been granted with an expiry period of up to nine years.

(1) Net transfers from related body corporate entities during the year includes transfers relating to the transfer of employees within Macquarie group entities.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 26

Employee equity participation continued

	NUMBER OF DSU AWARDS	
	2023	2022
DSUs on issue at the beginning of the financial year	274,764	-
Granted during the financial year	83,818	136
Forfeited during the financial year	(3,767)	-
Exercised during the financial year	(35,464)	-
Net transfers from related body corporate entities ⁽¹⁾	2,125	-
Transfer on group restructure	-	274,628
DSUs on issue at the end of the financial year	321,476	274,764
DSUs exercisable at the end of the financial year	75,838	48,521

The weighted average fair value of the DSU awards granted during the financial year was \$163.21 (2022: \$175.31).

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2013 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)
- New Macquarie staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value (New Hire Awards)
- in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Consolidated Entity 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).

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3 rd in the 2 nd , 3 rd and 4 th year following the year of grant ⁽²⁾
Retained DPS Awards	Executive Committee members and Designated Executive Directors	1/5 th in the 3 rd , 4 th , 5 th , 6 th and 7 th year following the year of grant ⁽³⁾
Retained DPS Awards	All other Executive Directors	1/3 rd in the 3 rd , 4 th and 5 th year following the year of grant ⁽³⁾
New Hire Awards	All Director-level staff	1/3 rd in 2 nd , 3 rd and 4 th anniversaries of the date of allocation ⁽²⁾

In limited cases, the invitation or 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 2022 retention, the allocation price was the weighted average price of the shares issued for the 2022 purchase period, which was 16 May 2022 to 21 June 2022. That price was calculated to be \$168.81(2021 retention: 151.73).

(1) Net transfers from related body corporate entities during the year includes transfers relating to the transfer of employees within Macquarie group entities.

(2) Vesting will occur during an eligible staff trading window.

(3) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 26

Employee equity participation continued

Assumptions used to determine fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value⁽¹⁾. This amount is recognised as an expense evenly over the respective vesting periods.

RSUs and DSUs have been granted in the current financial year in respect of the 2022 performance. The accounting fair value of each of these grants is estimated using the MGL's share price on the date of grant.

While RSUs and DSUs for FY2023 will be granted during FY2024, the Consolidated Entity begins recognising an expense for these awards (based on an initial estimate) from 1 April 2022 related to these future grants. The expense is estimated using the estimated MEREP retention for FY2023 and applying the amortisation profile to the retained amount.

In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU and DSU when granted and will use this valuation 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 2023, compensation expense relating to the MEREP totalled \$143,882,770 (2022: \$24,421,494).

(1) For employees categorized as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV and CRD V 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 27

Contingent liabilities and commitments

	2023	2022
	\$m	\$m
Credit Commitments:		
Guarantees and indemnities ⁽¹⁾	60	35
Undrawn credit facilities and debt commitments ⁽²⁾	137	51
Total credit commitments	197	86
Other contingencies & commitments:		
Asset development and purchase commitments	51	6
Performance-related contingencies	10	-
Total other contingencies & commitments:	61	6
Total contingent liabilities and commitments	258	92

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

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

(2) Undrawn credit facilities include fully or partially undrawn commitments against which the clients can borrow money under defined terms and conditions.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 28

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 and non-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. 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 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 28

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 22(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 \$Nil (2022: \$Nil) for the Consolidated Entity. These amounts will be reclassified to the income statement as and when the hedged item affects the income statement.

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
		\$m	\$m	\$m	\$m	\$m
Borrowings						2023
Foreign currency denominated borrowings	Foreign exchange	-	-	188	-	188
Borrowings						2022
Foreign currency denominated borrowings	Foreign exchange	-	-	-	-	-

		CONSOLIDATED CARRYING AMOUNT			
Instrument type	Risk category	2023		2022	
		Asset \$m	Liability \$m	Asset \$m	Liability \$m
Foreign currency denominated borrowings	Foreign exchange	-	188	-	-

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 28

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.

Hedging instruments	Risk category	GAIN/(LOSS) ON HEDGING INSTRUMENT		(LOSS)/GAIN ON HEDGED ITEM		HEDGE INEFFECTIVENESS GAIN/(LOSS)	
		2023 \$m	2022 \$m	2023 \$m	2022 \$m	2023 \$m	2022 \$m
Foreign currency denominated borrowings	Foreign exchange	(9)	-	9	-	-	-
Total		(9)	-	9	-	-	-

Hedge accounting executed rates

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

Hedging instruments	Currency pair	2023	2022
Foreign Currency denominated borrowings	USD/KRW	1,110-1,287	-

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 28

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 29.3 *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 where changes in the derivatives and foreign denominated borrowings are recognised, together with the related foreign currency translation reserve, in the Consolidated Entity's other comprehensive income and is subsequently released to the income statement when the foreign operation is disposed of. Hedge ineffectiveness, if any is recognised 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.

		CONSOLIDATED CARRYING AMOUNT			
		ASSET		LIABILITY	
		2023	2022	2023	2022
Hedging instrument	Risk category	\$m	\$m	\$m	\$m
Foreign exchange contracts and other foreign currency denominated balance sheet items ⁽¹⁾	Foreign exchange	76	7	28	10
Foreign currency denominated borrowings	Foreign exchange	-	-	2,612	2,039
		CONSOLIDATED NOTIONAL AMOUNT			
		ASSET		LIABILITY	
		2023	2022	2023	2022
Hedging instrument	Risk category	\$m	\$m	\$m	\$m
Foreign exchange contracts and other foreign currency denominated balance sheet items ⁽²⁾	Foreign exchange	263	445	1,050	400
Foreign currency denominated borrowings	Foreign exchange	-	-	2,612	2,224

In order to hedge the currency exposure of certain net investment in foreign operations, the Consolidated Entity jointly designates both forward exchange derivative contracts (from the currency of the underlying foreign operation to USD) and foreign denominated debt issued (from USD to AUD). As a result, the notional value of hedging instruments presented by the Consolidated Entity of \$3,925 million (2022: \$3,069million) represents the notional of both the derivative hedging instrument and the foreign denominated borrowings representing underlying hedged component of the Consolidated Entity's a 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 in the current year (2022: \$Nil).

- (1) Foreign exchange contracts which are used for hedging net investment in foreign operations are included in Due to related body corporate entities and Due from 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).

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

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.

Note 29.1 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 the amount of the 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. For limit monitoring, 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 11 *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.

For the purpose of presenting the credit risk associated with assets on the Consolidated Entity's Statements of financial position in accordance with the requirements of AASB 9, the following methodology has been adopted:

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 related body corporate entities

Balances with 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.

MGL 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 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 *Financial Instruments*. 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				2023
Cash and bank balances	1,292	-	-	1,292
Cash collateralised lending and reverse repurchase agreements	63	-	-	63
Margin money and settlement assets	3,178	-	-	3,178
Other financial assets	874	-	-	874
Due from related body corporate entities	7,755	-	-	7,755
Loan assets	414	-	-	414
Off balance sheet exposures	82	-	-	82
Total investment grade	13,658	-	-	13,658
Non-investment grade				
Cash and bank balances	132	-	-	132
Cash collateralised lending and reverse repurchase agreements	3	-	-	3
Margin money and settlement assets	374	-	-	374
Other financial assets	23	1	-	24
Loan assets	240	36	-	276
Off balance sheet exposures	115	-	-	115
Total non-investment grade	887	37	-	924
Default				
Loan assets	-	-	4	4
Total default	-	-	4	4
Total gross credit risk	14,545	37	4	14,586
Total gross credit risk by ECL stage				
Cash and bank balances	1,424	-	-	1,424
Cash collateralised lending and reverse repurchase agreements	66	-	-	66
Margin money and settlement assets	3,552	-	-	3,552
Other financial assets	897	1	-	898
Due from related body corporate entities	7,755	-	-	7,755
Loan assets	654	36	4	694
Off balance sheet exposures	197	-	-	197
Total gross credit risk by ECL stage	14,545	37	4	14,586

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustment and ECL allowance. Accordingly, these exposures will not be equal to the amount presented in the Statements of financial position.

(2) For definitions of stage I, II and III, refer to Note 11 *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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 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 *Financial Instruments*. 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				2022
Cash and bank balances	1,524	-	-	1,524
Cash collateralised lending and reverse repurchase agreements	353	-	-	353
Margin money and settlement assets	2,641	-	-	2,641
Other financial assets	59	-	-	59
Due from related body corporate entities	4,717	-	-	4,717
Loan assets	305	3	-	308
Off balance sheet exposures	51	-	-	51
Total investment grade	9,650	3	-	9,653
Non-investment grade				
Cash and bank balances	70	-	-	70
Cash collateralised lending and reverse repurchase agreements	88	-	-	88
Margin money and settlement assets	262	3	-	265
Other financial assets	81	2	-	83
Loan assets	106	27	-	133
Off balance sheet exposures	35	-	-	35
Total non-investment grade	642	32	-	674
Default				
Other financial assets	-	-	15	15
Loan assets	-	-	25	25
Total default	-	-	40	40
Total gross credit risk	10,292	35	40	10,367
Total gross credit risk by ECL stage				
Cash and bank balances	1,594	-	-	1,594
Cash collateralised lending and reverse repurchase agreements	441	-	-	441
Margin money and settlement assets	2,903	3	-	2,906
Other financial assets	140	2	15	157
Due from related body corporate entities	4,717	-	-	4,717
Loan assets	411	30	25	466
Off balance sheet exposures	86	-	-	86
Total gross credit risk by ECL stage	10,292	35	40	10,367

- (1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustment and ECL allowance. Accordingly, these exposures will not be equal to the amount presented in the Statements of financial position.
- (2) For definitions of stage I, II and III, refer to Note 11 *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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 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 *Financial Instruments*. The geographical location is determined by the country of risk. Counterparty type is based on APRA classification.

	Governments \$m	Financial Institutions \$m	Other \$m	Total \$m
				2023
Australia				
Cash and bank balances	-	2	-	2
Cash collateralised lending and reverse repurchase agreements	-	63	-	63
Other financial assets	7	27	6	40
Margin money and settlement assets	-	24	138	162
Due from related body corporate entities ⁽¹⁾	-	6,980	19	6,999
Off balance sheet exposures	-	-	4	4
Total Australia	7	7,096	167	7,270
Asia Pacific				
Cash and bank balances	-	154	-	154
Other financial assets	-	-	5	5
Margin money and settlement assets	-	45	30	75
Due from related body corporate entities ⁽¹⁾	-	116	-	116
Loan assets	-	-	98	98
Off balance sheet exposures	-	-	2	2
Total Asia Pacific	-	315	135	450
Europe, Middle East and Africa				
Cash and bank balances	-	57	-	57
Other financial assets	-	3	27	30
Margin money and settlement assets	-	-	1,962	1,962
Due from related body corporate entities ⁽¹⁾	-	495	67	562
Loan assets	-	3	117	120
Off balance sheet exposures	-	-	24	24
Total Europe, Middle East and Africa	-	558	2,197	2,755
Americas				
Cash and bank balances	-	1,211	-	1,211
Cash collateralised lending and reverse repurchase agreements	-	3	-	3
Other financial assets	595	199	29	823
Margin money and settlement assets	33	70	1,250	1,353
Due from related body corporate entities ⁽¹⁾	-	73	5	78
Loan assets	10	31	435	476
Off balance sheet exposures	-	25	142	167
Total Americas	638	1,612	1,861	4,111
Total gross credit risk⁽²⁾	645	9,581	4,360	14,586

- (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.
- (2) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statement of financial position.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 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 *Financial Instruments* since they are measured at fair value through profit and loss. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the table below.

	Governments \$m	Financial Institutions \$m	Other \$m	Total \$m
				2023
Australia				
Trading assets	-	1	-	1
Derivative assets	-	6	1	7
Due from related body corporate entities ⁽¹⁾	-	327	-	327
Total Australia	-	334	1	335
Asia Pacific				
Derivative assets	-	1	86	87
Total Asia Pacific	-	1	86	87
Europe, Middle East and Africa				
Derivative assets	-	-	745	745
Other financial assets	-	-	357	357
Due from related body corporate entities ⁽¹⁾	-	626	-	626
Total Europe, Middle East and Africa	-	626	1,102	1,728
Americas				
Trading assets	-	-	473	473
Derivative assets	35	259	1,410	1,704
Margin money and settlement assets	1	-	524	525
Other financial assets	-	-	500	500
Due from related body corporate entities ⁽¹⁾	-	1,376	-	1,376
Loan assets	-	-	3	3
Total Americas	36	1,635	2,910	4,581
Total gross credit risk	36	2,596	4,099	6,731

(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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 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 *Financial Instruments*. The geographical location is determined by the country of risk. Counterparty type is based on APRA classification.

	Governments \$m	Financial Institutions \$m	Other \$m	Total \$m
				2022
Australia				
Cash and bank balances	-	12	-	12
Cash collateralised lending and reverse repurchase agreements	-	353	-	353
Margin money and settlement assets	-	29	228	257
Other financial assets	7	22	5	34
Due from related body corporate entities ⁽¹⁾	-	4,305	23	4,328
Loan assets	-	-	63	63
Total Australia	7	4,721	319	5,047
Asia Pacific				
Cash and bank balances	-	186	-	186
Margin money and settlement assets	-	15	27	42
Due from related body corporate entities ⁽¹⁾	-	80	1	81
Loan assets	-	-	94	94
Off balance sheet exposures	-	-	1	1
Total Asia Pacific	-	281	123	404
Europe, Middle East and Africa				
Cash and bank balances	-	21	-	21
Margin money and settlement assets	-	-	821	821
Other financial assets	-	12	34	46
Due from related body corporate entities ⁽¹⁾	-	82	168	250
Loan assets	-	1	65	66
Off balance sheet exposures	-	35	31	66
Total Europe, Middle East and Africa	-	151	1,119	1,270
Americas				
Cash and bank balances	-	1,375	-	1,375
Cash collateralised lending and reverse repurchase agreements	-	88	-	88
Margin money and settlement assets	44	99	1,643	1,786
Other Financial assets	-	-	77	77
Due from related body corporate entities ⁽¹⁾	-	56	2	58
Loan assets	5	-	238	243
Off balance sheet exposures	-	-	19	19
Total Americas	49	1,618	1,979	3,646
Total gross credit risk⁽²⁾	56	6,771	3,540	10,367

- (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
- (2) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statement of financial position.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 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 *Financial Instruments* since they are measured at fair value through profit and loss. 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.

	Governments \$m	Financial Institutions \$m	Other \$m	Total \$m
				2022
Australia				
Trading assets	-	21	-	21
Derivative assets	-	55	2	57
Other assets	-	-	40	40
Due from related body corporate entities ⁽¹⁾	-	341	-	341
Total Australia	-	417	42	459
Asia Pacific				
Trading assets	-	11	47	58
Derivative assets	-	10	12	22
Margin money and settlement assets	-	-	1	1
Total Asia Pacific	-	21	60	81
Europe, Middle East and Africa				
Derivative assets	-	-	219	219
Other assets	-	-	18	18
Due from related body corporate entities ⁽¹⁾	-	888	-	888
Total Europe, Middle East and Africa	-	888	237	1,125
Americas				
Trading assets	-	-	270	270
Derivative assets	-	121	396	517
Margin money and settlement assets	20	173	1,667	1,860
Other assets	-	-	758	758
Due from related body corporate entities ⁽¹⁾	-	3,164	-	3,164
Loan assets	-	-	3	3
Total Americas	20	3,458	3,094	6,572
Total gross credit risk	20	4,784	3,433	8,237

(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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 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 30 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount except for certain usage-based guarantees in which case the maximum exposure is determined with respect to the fair value of the underlying exposure and is disclosed in Note 11 *Expected credit losses*.

Collateral and credit enhancements held

Cash collateralised lending and reverse repurchase agreements

The Consolidated Entity enters into stock and commodity borrowing and reverse repurchase transactions with counterparties which require lodgement of collateral. These arrangements includes:

- securities and commodities borrowed in return for cash, for which the fair value of the securities and commodities borrowed is equal to or less than the cash deposited with the counterparty
- reverse repurchase agreements (collateralised financing arrangements) for which the fair value of the securities and commodities received as collateral generally in excess of the principal amount
- securities received as collateral in return for the transfer of other securities
- securities borrowed on an unsecured basis in return for a fee.

The non-cash collateral received is not recognised by the Consolidated Entity in the Statements of financial position, as the risks and rewards of ownership remain with the counterparty. The Consolidated Entity is permitted to sell or repledge the securities and commodities received. In the absence of default by the counterparty, the Consolidated Entity has an obligation to return the non-cash collateral received to the counterparty.

For securities and commodities borrowed in return for cash and reverse repurchase arrangements, the fair value of non-cash collateral received by the Consolidated Entity is \$74 million (2022: \$503 million) of which the fair value of non-cash collateral re-pledged is \$Nil (2022: \$Nil).

For securities and commodities borrowed on an unsecured basis, the fair value of securities received by the Consolidated Entity is \$3,942 million (2022: \$2,338 million) of which the fair value of non-cash collateral re-pledged is \$3,388 million (2022: \$2,338 million).

The fair value attributed to non-cash collateral held is judgemental and measured with reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair value are estimated using pricing models or other recognised valuation techniques that maximise the use of quoted prices and observable market inputs.

The value attributed to collateral held is judgemental and generally subject to valuation movements. The Consolidated Entity may also incur additional selling costs when a defaulted position is closed out.

Loan assets

Asset financing

The Consolidated Entity leases assets and provides asset-related financing, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of \$518 million (2022: \$378 million), the credit exposure after considering the depreciated value of collateral is \$309 million (2022: \$230 million).

The collateralised value is based on standard recovery rates for the underlying assets of corporate and retail clients.

Home Loans

MBL purchases risk protection for the Consolidated Entity's Home Loan portfolio of \$Nil (2022: \$61 million). Prior to 2017 this was in the form of Lenders Mortgage Insurance (LMI) from a well rate Australian LMI provider. Since then, Macquarie has diversified its risk protection coverage to a global panel of reinsurers with diverse lines of business coverage and ratings ranging from AA+ to A- from external rating agencies. The length of risk protection cover is up to 10 years from the year of origination with the type of cover including excess of loss and quota share.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.1 Credit risk continued

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 \$164 million (2022: \$20 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$81 million (2022: \$Nil).

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 derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

The Consolidated Entity's approach to financial risk management includes entering into margining and collateralisation arrangements and enforceable master netting arrangements (MNA) with counterparties. The MNAs allow for net settlement with counterparties in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's financial position in that circumstance is to settle these contracts as one arrangement.

Refer Note 32 *Offsetting of financial assets and financial liabilities* for impact of master netting arrangements and margins and other financial collateral held against the positions as at balance date.

Financial investments

Debt securities held by the Consolidated Entity carrying a credit risk are primarily in nature of securities for liquidity management purposes and other securities for short-term gains.

Settlement assets

Security and commodity settlements of \$3 million (2022: \$67 million) and \$1,316 million (2022: \$1,360 million) respectively included in Margin money and settlement assets represent amounts owed by the 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 financial assets

Commodity related receivables under other financial assets are typically either collateralised with underlying commodity held by the Consolidated Entity until the date of settlement or short-term receivables with standard credit terms which would be backed by a bank guarantee where required to remain within credit limits.

Credit commitments

Undrawn facilities and lending commitments of \$197 million (2022: \$86 million) are secured through collateral and credit enhancement. The remaining credit exposure after considering the estimated value of collateral is \$77 million (2022: \$ 36 million)

Additional collateral

Apart from the collateral detail disclosed above, the Consolidated Entity 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.

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 did not have any material amounts of such collateral recognised in its Statements of financial position.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.2 Liquidity risk

Governance and oversight

Macquarie International Finance Limited (MIFL) is fully integrated within the broader liquidity risk management framework of Macquarie Bank Limited (MBL).

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

Liquidity management is performed centrally by Group Treasury, with oversight from the MBL Asset and Liability Committee (ALCO), the MBL Board 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 MBL ALCO includes the MGL CEO, MBL CEO, CFO, CRO, COO, Group General Counsel, Co-Heads of Group Treasury and relevant 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* for MBL, 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 MBL ALCO and MBL Board 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.2 Liquidity risk continued

Funding strategy

Macquarie Bank prepares a *Funding Strategy for MBL* on an annual basis and monitors progress against the strategy throughout the year.

The *Funding Strategy* aims to maintain Macquarie Bank's diversity of funding sources, ensure ongoing compliance with all liquidity requirements and facilitate forecast asset growth.

The *Funding Strategy* is reviewed by the MBL ALCO and approved by the MBL Board.

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 analysis 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 cash balances (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets and other Reserve Bank of Australia (RBA) repo eligible securities. 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 funding costs arising from business actions and the separate funding tasks and liquidity requirements 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.

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 Statements 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.2 Liquidity risk continued

	Statements of financial position carrying value	On demand	0 to 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
							2023
Cash collateralised borrowing and repurchase agreements	107	-	1	-	112	-	113
Margin money and settlement liabilities	1,922	918	1,004	-	-	-	1,922
Derivative liabilities ⁽¹⁾	1,931	-	1,931	-	-	-	1,931
Other financial liabilities	832	82	449	255	34	16	836
Due to other related body corporate entities	10,090	183	877	6,069	2,480	686	10,295
Borrowings	5,653	45	1,254	311	4,797	-	6,407
Total	20,535	1,228	5,516	6,635	7,423	702	21,504
Total undiscounted contingent liabilities and commitments⁽²⁾	-	-	128	23	105	2	258

(1) Derivative 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.

(2) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.2 Liquidity risk continued

	Statements of financial position carrying value	On demand	0 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
							2022
Cash collateralised borrowing and repurchase agreements	-	-	-	-	-	-	-
Margin money and settlement liabilities	2,197	832	1,216	149	-	-	2,197
Derivative liabilities ⁽¹⁾	2,763	-	2,763	-	-	-	2,763
Deposits	-	-	-	-	-	-	-
Other financial liabilities	370	51	121	102	47	66	387
Due to other related body corporate entities	10,485	696	7,001	1,620	1,042	19	10,378
Borrowings	2,902	-	19	64	2,943	-	3,026
Total	18,717	1,579	11,120	1,935	4,032	85	18,751
Total undiscounted contingent liabilities and commitments⁽²⁾	-	-	77	-	-	15	92

(1) Derivative 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.

(2) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.3 Market risk

Macquarie's balance sheet includes a **'trading book'**, which is defined in accordance with APRA's traded market risk prudential statement (APS116), and subject to the traded market risk framework. Any position not deemed to be trading book is considered to be **'banking book'**, and covered by either the non-traded market risk or equity risk frameworks.

Market risk exposures in MIFL are measured as part of MBL processes, and constrained as part of the MBL limit frameworks.

Traded market risk

Market risk is the risk of adverse changes in the value of trading positions as a result of changes in market conditions. MIFL 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 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:** Risk of actual valuation adjustments to derivative positions; specifically Credit Valuation Adjustment, Debit Valuation Adjustment and Funding Valuation Adjustment (FVA).

It is recognised that all trading activities contain calculated elements of risk taking. MBL 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 MBL 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 at an MBL level:

- **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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.3 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 MIFL operates. The VaR shown in the table is based on a one-day holding period, being the mark-to-market loss that could be incurred over that period. The aggregated VaR is on a correlated basis.

	2023			2022		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
Interest rates	1.09	4.87	0.37	0.80	0.99	0.48
Foreign exchange and bullion	17.88	56.66	3.74	3.95	6.13	1.91
Commodities ⁽¹⁾	45.64	117.43	25.80	27.49	36.15	21.27
Aggregate	49.51	123.19	26.98	27.84	36.20	21.42

(1) Includes commodity contracts.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.3 Market risk continued

Value-at-Risk

MBL's VaR model uses a Monte Carlo simulation where price and volatility paths are derived from multiple normal distributions, 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 the 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 it does not account for losses that could occur beyond the 99% level of confidence.

Non-traded market risk

MIFL has 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.

MBL 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 independent monitoring performed by RMG and FMG.

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 difference in accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 38(ix) *Derivative instruments and hedging activities* and Note 28 *Hedge accounting*.

Interest rate risk in the banking book (IRRBB)

Macquarie measures and monitors interest rate risk on both an economic value and earnings basis, which are modelled as the worst-case contingent loss from a set of six severe interest rate shocks, including both parallel and non-parallel shocks. Aggregate IRRBB exposures for MBL are constrained on both measures:

- **Economic Value Sensitivity (EVS):** The EVS metric measures the change in the net present value of the interest-bearing portfolios in the banking book as a result of changes in interest rates

- **Earnings at Risk (EaR):** The EaR model constrains the impact on reported net income over 12 months for a change in interest rates.

A central objective of Macquarie's *Non-traded Market Risk Policy* is to reduce earnings volatility to interest rate movements. A key component of this arises where shareholders equity invested in interest bearing assets are managed by holding a portfolio of 'receive fixed' interest rate swaps. The duration of this hedging program is governed as part of the capital management strategy, and subject to independent oversight by RMG.

Interest rate risk – Interest Rate Benchmark Reform (IBOR)

During 2018, MGL initiated a group-wide project, 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 and comprised of senior executives from the MGL's Operating Groups, Financial Management Group (FMG), Risk Management Group (RMG), Corporate Operations Group (COG) and Legal and Governance Group (LGG).

MGL's reform project oversaw the successful transition of contracts referencing LIBORs that ceased publication on 31 December 2021 in accordance with industry and regulatory guidance.

The remaining transition focus is on the USD LIBOR tenors and IBOR for other minor currencies that will cease publication on 30 June 2023. The Consolidated Entity has actively begun to engage with clients to support them through the transition from USD LIBOR to SOFR.

Whilst the transition of legacy USD LIBOR contracts continues to expose the Consolidated Entity to inherent risks (including those outlines below), the remaining IBOR transition efforts and risk has significantly reduced. The Consolidated Entity's IBOR transition governance was decentralised from 1 April 2022, commensurate with the risk. Under the decentralised governance model, central oversight was reduced and operating groups manager remaining IBOR transition risks within the Consolidated Entity's existing risk management framework.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.3 Market risk continued

The Consolidated Entity is exposed to inherent risks arising from transition of legacy USD LIBOR contracts, including but not limited to:

- **financial Risk:** This includes
 - (i) value transfers during transition to ARR, s,
 - (ii) basis risk from products and currencies transitioning at different times,
 - (iii) impacts arising from a change in accounting treatment including hedge accounting, capital, tax and reported earnings
 - (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) real or perceived unfair treatment of clients during transition
 - (iii) 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
- **operational Risk:** This includes
 - (i) infrastructure and processes that result in errors upon transition
 - (ii) 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 transitioned to ARRs: Notional value information relating to the Consolidated Entity's financial instruments which are yet to transition to ARRs as at the reporting date includes:

- **non-derivative financial assets** exposure in USD LIBOR \$Nil (2022: \$13.35 million)
- **non-derivative financial liabilities** exposure in USD LIBOR \$34.52 million (2022: \$34.95 million).

The scope of the above-mentioned exposures has been 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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 29

Financial risk management continued

Note 29.3 Market risk continued

Foreign exchange risk

The table below presents the sensitivity of the Consolidated Entity's net investment in foreign operations. These movements will not have a material impact on the capital ratios.

	2023		2022	
	Movement in exchange rates	Sensitivity of other comprehensive income after tax	Movement in exchange rates	Sensitivity of other comprehensive income after tax
	%	\$m	%	\$m
Canadian dollar	+10	-	+10	(10)
Total		-		(10)
Canadian dollar	-10	-	-10	13
Total		-		13

Equity price risk

The Consolidated Entity is not exposed to significant equity risk on their non-trading investment portfolios.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 30

Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of assets and liabilities of the Consolidated Entity. The descriptions of measurement categories are included in Note 38(vi) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 31 *Fair value of assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT						Statement of financial position total	FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE				Amortised cost	Non-financial instruments		Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Assets									2023
Cash and bank balances	-	-	-	-	1,423	-	1,423	-	1,423
Cash collateralised lending and reverse repurchase agreements	-	-	-	-	66	-	66	-	66
Trading assets ⁽¹⁾	503	-	-	-	-	836	1,339	1,339	-
Margin money and settlement assets	-	-	526	-	3,547	-	4,073	526	3,547
Derivative assets	2,543	-	-	-	-	-	2,543	2,543	-
Other financial assets	-	-	870	4	854	-	1,728	874	854
Other assets	-	-	-	-	-	423	423	-	-
Loan assets	-	-	3	-	679	-	682	3	675
Due from related body corporate entities ⁽²⁾	2,288	-	112	-	7,679	194	10,273	2,400	7,679
Property, plant and equipment and right-of-use	-	-	-	-	-	702	702	-	-
Interests in associates and joint ventures	-	-	-	-	-	330	330	-	-
Deferred tax assets	-	-	-	-	-	216	216	-	-
Total assets	5,334	-	1,511	4	14,248	2,701	23,798	7,685	14,244
Liabilities									
Cash collateralised borrowing and repurchase agreements	-	106	-	-	1	-	107	106	1
Margin money and settlement liabilities	-	-	-	-	1,922	-	1,922	-	1,922
Derivative liabilities	1,931	-	-	-	-	-	1,931	1,931	-
Other financial liabilities	-	483	-	-	349	-	832	483	349
Other liabilities ⁽³⁾	-	-	-	-	-	1,369	1,369	-	-
Due to related body corporate entities ⁽²⁾	3,031	-	42	-	6,920	97	10,090	3,073	6,920
Borrowings	-	260	-	-	5,393	-	5,653	260	5,407
Deferred tax liabilities	-	-	-	-	-	7	7	-	-
Total liabilities	4,962	849	42	-	14,585	1,473	21,911	5,853	14,599

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

(2) Due from related body corporate entities and due to related body corporate entities includes derivatives and trading positions classified as HFT.

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 30

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT					Non-financial instruments	Statement of financial position total	FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE				Amortised cost			Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI					
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
Assets									2022
Cash and bank balances	-	-	-	-	1,594	-	1,594	-	1,594
Cash collateralised lending and reverse repurchase agreements	-	-	-	-	441	-	441	-	441
Trading assets ⁽¹⁾	348	-	-	-	-	1,237	1,585	1,585	-
Margin money and settlement assets	-	-	518	-	2,901	-	3,419	518	2,901
Derivative assets	2,159	-	-	-	-	-	2,159	2,159	-
Other financial assets	-	-	816	-	152	-	968	816	152
Other assets	-	-	-	-	-	201	201	-	-
Loan assets	-	-	3	-	456	-	459	3	460
Due from other related body corporate entities ⁽²⁾	4,381	-	14	-	4,715	139	9,249	4,395	4,855
Interests in associates and joint ventures	-	-	11	-	-	272	283	11	-
Property, plant and equipment and right-of-use assets	-	-	-	-	-	397	397	-	-
Deferred tax assets	-	-	-	-	-	146	146	-	-
Total assets	6,888	-	1,362	-	10,259	2,392	20,901	9,487	10,403
Liabilities									
Margin money and settlement liabilities	-	-	-	-	2,197	-	2,197	-	2,197
Derivative liabilities	2,763	-	-	-	-	-	2,763	2,763	-
Other financial liabilities	-	169	-	-	202	-	371	169	46
Other liabilities ⁽³⁾	-	-	-	-	-	632	632	-	-
Due to related body corporate entities ⁽²⁾	3,912	236	11	-	6,198	128	10,485	4,159	6,327
Borrowings	-	-	-	-	2,902	-	2,902	-	2,908
Deferred tax liabilities	-	-	-	-	-	8	8	-	-
Total liabilities	6,675	405	11	-	11,499	768	19,358	7,091	11,478

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

(2) Due from related body corporate entities and due to related body corporate entities includes derivatives and trading positions classified as HFT.

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities

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

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

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

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

Level 1: unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

AASB 13 Fair Value Measurement requires the use of the price within the bid-offer spread that is most representative of fair value. Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all of the residual net exposure to market risks were closed, on a portfolio basis.

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

ASSET OR LIABILITY	VALUATION TECHNIQUES, INPUTS AND OTHER SIGNIFICANT ASSUMPTIONS
Cash and bank balances, Cash collateralised lending and reverse repurchase agreements, Cash collateralised borrowing and repurchase agreements	The fair value of cash and bank balance, cash collateralised lending and reverse repurchase agreements, cash collateralised borrowing and repurchase agreements approximates their carrying amounts as these are highly liquid and short-term in nature.
Loan assets and Deposits	<p>The fair value of fixed rate loan assets and term deposits is determined with reference to changes in interest rates and credit spreads.</p> <p>The fair value of variable rate loan assets and deposits approximates their carrying amounts, subject to any adjustment for changes in the credit spreads.</p> <p>The fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand.</p>
Financial investments	<p>The fair value of liquid assets and other instruments maturing within three months are approximate to their carrying amounts.</p> <p>The fair value of fixed rate debt investments is estimated by reference to current market rates offered on similar securities and the creditworthiness of the borrower.</p> <p>The fair value of variable rate investments approximate their carrying amounts.</p>
Borrowings	The fair value of borrowings is based on quoted prices in active markets where available. Where quoted prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread.
Margin money, settlement assets and settlement liabilities	The fair value of margin money, settlement assets, settlement liabilities, other financial assets and financial liabilities approximate their carrying amounts.
Other financial assets and financial liabilities	

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities continued

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

ASSET OR LIABILITY	VALUATION TECHNIQUES, INPUTS AND OTHER SIGNIFICANT ASSUMPTIONS
Trading assets, Trading liabilities and Derivatives	<p>Trading assets, including commodities and commodity contracts, trading liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example, listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of other recognised valuation techniques.</p> <p>The Consolidated Entity has incorporated the market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.</p>
Financial investments	<p>Financial investments classified as FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example, listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of other recognised valuation techniques that maximise the use of quoted prices and observable market inputs.</p>
Loan assets and Issued debt securities	<p>Fair values of loans and issued debt securities are measured by reference to quoted prices in active markets where available. If quoted prices are not available in active markets, the fair values are estimated with reference to current market rates.</p>
Other financial assets and financial liabilities	<p>Fair values of other financial assets and financial liabilities are based upon data or valuation techniques appropriate to the nature and type of the underlying instruments.</p>

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 valuations.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. The output of a valuation technique is always an estimate of a fair value that cannot be measured with complete certainty. All models are reviewed before they are used. Models are calibrated periodically to test the outputs and reflect the prices from observable current market transactions in same instrument or other available observable market data.

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities continued

Assets and Liabilities measured at amortised cost

The fair values calculated for financial instruments which are carried in the Statements of financial position at amortised cost are for disclosure purposes only. The 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.

The following table summarises the levels of the fair value hierarchy of financial assets and financial liabilities measured at amortised cost except where the carrying value is approximately equal to the fair value:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
				2023
Assets				
Loan assets	-	127	548	675
Due from related body corporate entities	-	7,679	-	7,679
Total assets	-	7,806	548	8,354
Liabilities				
Borrowings	-	5,084	323	5,407
Due to related body corporate entities	-	6,920	-	6,920
Other financial liabilities	-	-	-	-
Total liabilities	-	12,004	323	12,327
				2022
Assets				
Loan assets	-	81	379	460
Due from related body corporate entities	-	4,855	-	4,855
Total assets	-	4,936	379	5,315
Liabilities				
Borrowings	-	2,805	103	2,908
Due to related body corporate entities	-	6,327	-	6,327
Other financial liabilities	31	15	-	46
Total liabilities	31	9,147	103	9,281

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities continued

Assets and liabilities measured at fair value

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
				2023
Assets				
Trading assets	9	862	468	1,339
Margin money and settlement assets	-	526	-	526
Derivative assets	-	2,102	441	2,543
Other financial assets	3	828	43	874
Loan assets	-	-	3	3
Due from related body corporate entities ⁽¹⁾	-	2,400	-	2,400
Total assets	12	6,718	955	7,685
Liabilities				
Derivative liabilities	-	1,354	577	1,931
Other financial liabilities	-	475	8	483
Due to related body corporate entities ⁽¹⁾	-	3,073	-	3,073
Total liabilities	-	4,902	585	5,487
				2022
Assets				
Trading assets	9	1,210	366	1,585
Margin money and settlement assets	-	518	-	518
Derivative assets	-	1,873	286	2,159
Other financial assets	2	748	66	816
Loan assets	-	-	3	3
Due from related body corporate entities ⁽¹⁾	-	4,394	-	4,394
Total assets	11	8,743	721	9,475
Liabilities				
Derivative liabilities	-	1,913	850	2,763
Other financial liabilities	-	169	-	169
Due to related body corporate entities ⁽¹⁾	-	4,158	-	4,158
Total liabilities	-	6,240	850	7,090

(1) Includes balances with related body corporates. For details, refer to Note 30 *Measurement categories of financial instruments*

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

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

	Trading assets \$m	Margin Money and settlement assets \$m	Other financial assets \$m	Loan Assets \$m	Derivative financial instruments (net fair value) \$m	Other liabilities \$m	Total \$m
Balance as at 1 Apr 2021	-	-	-	-	-	-	-
Purchases, originations, issuances and other additions	187	-	105	3	19	-	314
Sales, settlements and repayments	(6)	-	(26)	-	14	-	(18)
Transfers into Level 3 ⁽¹⁾	18	-	-	-	18	-	36
Transfers out of Level 3 ⁽¹⁾	(31)	-	-	-	(5)	-	(36)
Fair value movements recognised in the income statement:							
Net trading income/(loss) ⁽²⁾	198	-	-	-	(610)	-	(412)
Other income/(loss)	-	-	(8)	-	-	-	(8)
Balance as at 31 Mar 2022	366	-	71	3	(564)	-	(124)
Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽²⁾	197	-	-	-	(564)	-	(367)
Balance as at 1 Apr 2022	366	-	71	3	(564)	-	(124)
Purchases, originations, issuances and other additions	127	1	19	8	290	-	445
Sales, settlements and repayments	(5)	-	(74)	(12)	99	4	12
Transfers into Level 3 ⁽¹⁾	76	-	24	3	86	(15)	174
Transfer out of Level 3 ⁽¹⁾	(91)	-	(3)	-	53	-	(41)
Fair value movements recognised in the income statement:							
Net trading income/(loss) ⁽²⁾	(5)	-	2	1	(100)	-	(102)
Other income/(loss)	-	(1)	4	-	-	3	6
Balance as at 31 Mar 2023	468	-	43	3	(136)	(8)	370
Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽²⁾	(3)	-	11	-	(100)	1	(91)

(1) Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the financial year.

(2) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity did not have significant transfers between Level 1 and Level 2.

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

Unrecognised gains or losses

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

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

	2023 \$m	2022 \$m
Balance at the beginning of the financial year	(10)	-
Deferred gains/(losses) on new transactions and other adjustments	(131)	(15)
Foreign exchange movements	(4)	-
Recognised in net trading income during the year ⁽¹⁾	25	5
Balance at the end of the financial year	(120)	(10)

Sensitivity analysis of valuations using unobservable inputs

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

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
				2023
Product type				
Commodities	64	-	(58)	-
Interest rate and other products	-	-	-	-
Equity and equity-linked products	1	-	(1)	-
Total	65	-	(59)	-
				2022
Product type				
Commodities	74	-	(82)	-
Interest rate and other products	2	-	(1)	-
Equity and equity-linked products	1	-	(2)	-
Total	77	-	(85)	-

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities continued

The favourable and unfavourable changes from 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 reasonably possible estimates.

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair value. The range of values represent the highest and lowest input used in the valuation techniques. 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.

	Fair value of assets \$m	Fair value of liabilities \$m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS	
					Minimum value	Maximum value
2023						
Commodities	941	585	Pricing model	Commodity margin curves	(97.3%)	626.9%
			Pricing model	Correlations	(72.0%)	100.0%
			Pricing model	Volatility and related variables	1.3%	153.5%
Interest rate and other products	14	-	Discounted cash flows	Discount rates	1.0%	10.0%
			Pricing model	Bond yields	0.8%	3.8%
			Comparable transactions	Price in %	1.01%	97.2%
Equity and equity-linked products	-	-	Market comparability	Price in % ⁽¹⁾	-	-
Total	955	585				
2022						
Commodities	650	850	Pricing model	Volatility and related variables	(12.6%)	90.9%
Interest rate and other products	59	-	Discounted cash flows	Discount rate	1.0%	10.0%
			Pricing model	Bond yields	2.7%	3.5%
Equity and equity-linked products	18	-	Market comparability	Price in % ⁽¹⁾	-	-
Total	727	850				

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 31

Fair value of assets and liabilities continued

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

Commodities

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

Correlation: Correlation is a measure of the relationship between the movements of 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 the extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.

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

Inputs for interest rate products (discount rate): Loans are generally valued using discount rates. Significant unobservable inputs may include interest rates and credit spreads of counterparties and original issue discounts on primary debt issuances.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 32

Offsetting of financial assets and financial liabilities

The Consolidated Entity present financial assets and financial liabilities on a net basis in the Statements of financial position when they meet the criteria described in Note 38(vi) *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 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 29.1 *Credit risk* for information on credit risk management.

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS IN THE EVENT OF DEFAULT ⁽¹⁾		Other collaterals for exposures not subject to enforceable netting arrangements ⁽³⁾	Net exposure
	Gross amount ^{(2),(5)}	Amounts offset on Statement of financial position	Net amounts reported on the Statement of financial position	Other recognised financial instruments	Cash and other financial collateral		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
							2023
Cash collateralised lending and reverse repurchase agreements	66	-	66	-	(63)	(3)	-
Settlement assets ⁽⁴⁾	2,077	(758)	1,319	(53)	-	-	1,266
Derivative assets	3,275	(732)	2,543	(693)	(133)	-	1,717
Due from related body corporate entities ⁽⁵⁾	9,239	(527)	8,712	(2,123)	(4,035)	-	2,554
Total assets	14,657	(2,017)	12,640	(2,869)	(4,231)	(3)	5,537
Cash collateralised borrowings and repurchase agreements	(107)	-	(107)	-	-	-	(107)
Settlement liabilities ⁽⁴⁾	(1,762)	758	(1,004)	180	-	106	(718)
Derivative liabilities	(2,662)	732	(1,931)	566	281	-	(1,084)
Due to related body corporate entities ⁽⁵⁾⁸⁴	(9,822)	527	(9,295)	2,123	4,441	-	(2,731)
Total liabilities	(14,353)	2,017	(12,337)	2,869	4,722	106	(4,640)

- (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) Gross assets include balances not subject to offsetting, \$3 million of cash collateral on securities borrowed and reverse repurchase agreement, \$553 million of settlements assets, \$1,159 million of derivative assets and \$139 million of Due from related body corporate entities. Gross liabilities include balances not subject to offsetting, \$379 million of settlements liabilities and \$743 million of derivative liabilities and \$111 million of Due to related body corporate entities.
- (3) Amounts not subject to enforceable offsetting arrangement are where either there are no master netting agreements or enforceability of agreement is uncertain under bankruptcy laws in some countries or industries.
- (4) Excludes margin money assets of \$2,754 million and liabilities of \$918 million presented under Note 6 *Margin money and settlement assets* and Note 15 *Margin money and settlement liabilities* respectively on the Statements of financial position.
- (5) Excludes margin money and non-financial assets of \$1,561 million and liabilities of \$795 million presented under Due from related body corporate entities and Due to related body corporate entities respectively on the Statements of financial position.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 32

Offsetting of financial assets and financial liabilities continued

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS IN THE EVENT OF DEFAULT ⁽¹⁾		Other collaterals for exposures not subject to enforceable netting arrangements ⁽³⁾	Net exposure
	Gross amount ^{(2),(3)}	Amounts offset on Statement of financial position	Net amounts reported on the Statement of financial position	Other recognised financial instruments	Cash and other financial collateral		
	\$m	\$m	\$m	\$m	\$m		
							2022
Cash collateralised lending and reverse repurchase agreements	441	-	441	-	(441)	-	-
Settlement assets ⁽⁴⁾	2,485	(1,058)	1,427	(165)	-	-	1,262
Derivative assets	2,227	(68)	2,159	(1,218)	(210)	-	731
Due from related body corporate entities ⁽⁵⁾	10,608	(1,811)	8,797	(3,944)	(585)	-	4,268
Total assets	15,761	(2,937)	12,824	(5,327)	(1,236)		6,261
Cash collateralised borrowings and repurchase agreements	-	-	-	-	-	-	-
Settlement liabilities ⁽⁴⁾	(2,426)	1,058	(1,368)	321	-	-	(1,047)
Derivative liabilities	(2,831)	68	(2,763)	1,062	83	-	(1,618)
Due to related body corporate entities ⁽⁵⁾	(10,606)	1,811	(8,795)	3,944	2,466	-	(2,385)
Total liabilities	(15,863)	2,937	(12,926)	5,327	2,549	-	(5,050)

- (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) Gross assets include balances not subject to offsetting, \$Nil of cash collateral on securities borrowed and reverse repurchase agreement, \$416 million of settlements assets, \$254 million of derivative assets and \$126 million of Due from related body corporate entities. Gross liabilities include balances not subject to offsetting, \$366 million of settlements liabilities and \$1,207 million of derivative liabilities and \$189 million of Due to related body corporate entities.
- (3) Amounts not subject to enforceable offsetting arrangement are where either there are no master netting agreements or enforceability of agreement is uncertain under bankruptcy laws in some countries or industries.
- (4) Excludes margin money assets of \$1,992 million and liabilities of \$829 million presented under Note 6 *Margin money and settlement assets* and Note 15 *Margin money and settlement liabilities* respectively on the Statements of financial position.
- (5) Excludes margin money and non-financial assets of \$452 million and liabilities of \$1,690 million presented under Due from related body corporate entities and Due to related body corporate entities respectively on the Statements of financial position.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 33

Pledged assets and transfers of financial assets

Pledged assets

Items 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 issued debt
- other types of financial and non-financial assets disclosed in the following table provided as collateral for borrowings and issued debt securities.

The table below represents items that have been pledged as security for liabilities:

	2023	2022
	\$m	\$m
On Balance Sheet items:		
Cash and bank balances	107	-
Trading assets ⁽¹⁾	783	8
Loan assets ⁽²⁾	7	74
Margin money and settlement assets	327	-
Property, plant and equipment	285	86
Other assets	1	236
Total On Balance Sheet assets pledged for liabilities	1,510	404
Off Balance Sheet items:		
Securities and commodities ⁽³⁾	3,388	2,338
Total On and Off Balance Sheet assets pledged for liabilities	4,898	2,742

(1) Includes assets transferred under repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statements of financial position. For trading assets pledged by the Consolidated Entity and Company, the transferee has the right to sell or re-pledge the entire value of securities received.

(2) Includes \$Nil (2022: \$61 million) held by Consolidated SEs, which are available as security to note holders and debt providers.

(3) Represents securities amounting \$3,388 million (2022: \$2,338 million) pledged under repurchase agreement with MBL which the consolidated entity borrowed under an uncollateralised stock loan agreement from third parties for fees.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 33

Pledged assets and transfers of financial 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 Statements of financial position to other entities. Depending on the criteria discussed in Note 38(vi) *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 has not retained any other material continuing involvement in transferred financial assets.

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 2023 and 31 March 2022. 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 the loan of other securities or on an unsecured basis in return for a fee, the transferred asset continues to be recognised in full. There is no associated liability as the securities 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.

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 obligation to pay those cash flows to the external funder.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 33

Pledged assets and transfers of financial assets continued

The following table provide a summary of financial assets that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition, together with the associated liabilities.

	Carrying amount of transferred assets	Carrying amount of associated liabilities	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS		
			Fair value of transferred assets	Fair value of associated liabilities	Net fair value
	\$m	\$m	\$m	\$m	\$m
					2023
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets ⁽¹⁾	5	-	-	-	-
Other financial assets not derecognised:					
Loan assets ⁽²⁾	7	(7)	7	(7)	-
Total financial assets not derecognised	12	(7)	7	(7)	-
					2022
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets ⁽¹⁾	8	-	-	-	-
Other financial assets not derecognised:					
Loan assets ⁽²⁾	13	(13)	13	(13)	-
Total financial assets not derecognised	21	(13)	13	(13)	-

- (1) Includes assets transferred under repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statements of financial position.
- (2) Balance related to assets pledged against funding arrangements with third party \$7 million (2022: \$13 million) under Specialised asset finance (SAF) business.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 34

Audit and other services provided by PricewaterhouseCoopers

During the financial year, PricewaterhouseCoopers (PwC) and its network firms, the auditor of the Consolidated Entity, earned the following remuneration.

	2023 \$'000	2022 \$'000
PwC – Australia		
Audit of the Group and controlled entities ⁽¹⁾	3,370	584
Total audit services	3,370	584
Other assurance services ⁽²⁾	-	157
Total non-audit services	-	157
Total remuneration paid to PwC Australia	3,370	741
Network firms of PwC Australia		
Audit of the controlled entities ⁽¹⁾	7,617	889
Total audit services	7,617	889
Other assurance services ⁽²⁾	26	3
Advisory services	77	9
Taxation	132	56
Total non-audit services	235	68
Total remuneration paid to network firms of PwC Australia	7,852	957
Total audit services remuneration paid to PwC	10,987	1,473
Total non-audit services remuneration paid to PwC	235	225
Total remuneration paid to PwC	11,222	1,698

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) During the previous year, audit fees for some non-ELEs were borne by Macquarie Group Services Australia Pty Limited, a wholly owned subsidiary within the Macquarie group.
 (2) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 35

Acquisitions and disposals of subsidiaries and businesses

Acquisitions of subsidiaries and businesses

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

The acquisition in the previous period was primarily recognised as a purchase of businesses under the common control of MGL, and therefore, the net assets were recognised at the original carrying values in MGL at the date of disposal with the excess of consideration paid being recognised as reserves on restructure in equity as shown in Note 22 Reserves, retained earnings and non-controlling interest.

As part of the Restructure, further approvals were obtained during the current year to transfer Macquarie Bermuda Limited, Macquarie Corona Energy Holdings Limited, Macquarie US Trading LLC and Macquarie Trade and Asset Finance International Limited to the Consolidated Entity for total consideration of \$115 million equal to the net assets value as on transaction date of the entities acquired. Had the acquisition occurred on 1st April 2022, there would not have been a significant impact to the Consolidated Entity’s net operating income for the financial year ended 31 March 2023.

The impact of the acquisitions on the Consolidated Entity’s revenue and earnings is immaterial.

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

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

	2023	2022
	\$'000	\$'000
Book value of net assets acquired		
Cash and bank balances	115	1,447
Loan assets, other financial assets and other assets ^{(1),(2),(3)}	6,051	36,125
Property, plant and equipment and right-of-use assets	10	437
Payables, provisions, borrowings and other liabilities ⁽²⁾	(6,135)	(34,589)
Non-controlling interests	-	(5)
Total book value of net assets acquired	41	3,415
Total cash consideration	115	4,175
Restructure reserve recognised on acquisition⁽³⁾	74	760
Net cash flow		
Cash consideration	115	4,175
Less: cash and cash equivalents acquired ⁽¹⁾	115	2,455
Net cash outflow	-	1,720

Disposal of subsidiaries and businesses

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

(1) This includes \$Nil (2022: \$1,008 million) balance relating to cash and cash equivalent which is acquired as part of group restructure.

(2) The amounts of book values presented do not include the impact of offsetting as on the date of acquisition.

(3) This includes \$78 million (2022: Nil) adjustment pertaining to acquisition of a subsidiary carried out in Feb'22.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 36

Company Financial Information

The parent entity of the Consolidated Entity was Macquarie International Finance Limited (“the Company”). Summary of financial information for the Company is as follows:

	2023	2022 ⁽¹⁾
	\$m	\$m
Statement of financial position		
Assets		
Current Assets ⁽²⁾	8,847	5,007
Non-Current Assets ⁽³⁾⁽⁴⁾	5,490	5,264
Total assets	14,337	10,271
Liabilities		
Current liabilities ⁽⁵⁾	7,640	4,986
Non-current liabilities ⁽⁶⁾	4,287	3,095
Total liabilities	11,927	8,081
Equity		
Contributed equity	2,176	2,176
Accumulated profits	234	14
Total equity	2,410	2,190
Statement of Comprehensive Income		
Profit after Income tax for the financial year	1,420	11
Total comprehensive income for the financial year	1,420	11
Credit Commitments		
Credit commitments exist in respect of:		
Letter of Credit and Guarantees ⁽²⁾⁽⁷⁾	7,821	3,030
Undrawn credit facilities and securities commitments	75	75
Total credit commitments⁽⁸⁾	7,896	3,105

(1) Previous year includes impact of acquisition of businesses under common control. For detail, please refer Note 35 *Acquisitions and disposal of subsidiaries and businesses* and Note 24 *Related Party Information*.

(2) The Company provided \$3,733 million (2022: \$2,665 million) of guarantees to MBL for its exposures with certain related body corporate entities. The Company has placed cash collateral of \$3,733 million (2022: \$2,665 million) with MBL as per the terms of the guarantee arrangement.

(3) Non-current asset primarily comprises of investments in and long-term loans to subsidiaries and related parties. All investment in subsidiaries in hedge accounting relationships are designated as Fair value hedge at the Company level to hedge the Company's exposure to changes in the value of its net investment in a foreign operation that could occur as a result of changes in foreign exchange rates between a foreign investee's local currency and the Company's reporting currency.

(4) In accordance with its accounting policies, the Company reviewed its investments in subsidiaries for indicators of impairment. Where its investments had indicators of impairment, the investments' carrying value was compared to its recoverable value which was determined to be its VIU and fair value less costs to sell (“valuations”).

(5) Includes \$3,942 million of unsecured government bonds borrowed by the Company under a stock loan agreement from third parties and subsequently entered into a stock loan agreement with MBL in return for cash to generate short term funding for the Non-ELE Group and to reduce MBL's non-ELE exposures. Also, includes an evergreen loan of \$1,691 million taken by the Company from MFHPL.

(6) The Company borrowed \$3,922 million (2022: 2,799 million) from a syndicate of third-party banks under a senior unsecured bank facility to fund its acquisition of the Non-ELE Group.

(7) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of \$9,864 million (2022: \$836 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.

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 37

Events after the reporting date

There were no material events subsequent to 31 March 2023 and up until the authorisation of the financial statements for issue, that have not been disclosed elsewhere in the financial statements.

Note 38

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 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.

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 Statements 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.

The Consolidated Entity determines the dates of obtaining control (i.e. acquisition 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.

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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(i) Principles of consolidation continued

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.

Changes in ownership interests

When acquiring additional interests:

- of a financial asset (such that it becomes an associate, joint venture or subsidiary)
- 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(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.

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 Statements 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 MIFL, 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 (including branches) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(iii) Foreign currency translation continued

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 28 *Hedge accounting* and Note 38(ix) *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 Statements of financial position presented are translated at the closing exchange rate at the date of that Statements 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).

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. The calculation of the EIR does not include ECL. 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 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(iv) Revenue and expense recognition continued

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 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 38(i) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

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 Company and/or 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 Statements 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) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(v) Taxation continued

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 (TCG) 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 or credits.

The TCG recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB UIG Interpretation 1052 *Tax Consolidation Accounting* (AASB Interpretation 1052). 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. The tax funding agreement also allows for the transfer of tax balances between TCG entities as required. Where the recognition of a deferred tax balance in the transferee is precluded under AASB 112 *Income taxes*, the funding paid or received is accounted for in equity.

MGL's group allocation approach is based on a 'standalone taxpayer' approach as defined in AASB Interpretation 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 TCG.

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 Statements 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 Statements of financial position.

(vi) 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(vi) Financial instruments continued

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 Statements of financial position when:

- the contractual 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
- prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
- 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 Statements 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.

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, the gross carrying amount of the financial instrument is recalculated and a modification gain or loss is recognised in the income statement. 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(vi) Financial instruments continued

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 together to achieve a particular business objective. 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 business model and 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 consistent with a basic lending arrangement. 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
- 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. 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(vi) Financial instruments continued

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 38(ix) *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, with the exception of changes relating to the Consolidated Entity's own credit risk are recognised in net trading income, or other income and charges as part of other operating income and charges, depending on the nature of the transaction. 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.

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 Statements 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.

(vii) 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 Statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

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
- 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 30 *Measurement categories of financial instruments*.

Repurchase agreements are subsequently measured at amortised cost, except where they are DFVTPL to eliminate an accounting

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(vii) Cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements continued

mismatch created by managing the agreements together with the associated reverse repurchase agreements that are measured at FVTPL.

(viii) 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 38(vi) *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 38(vi) *Financial instruments*), it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

(ix) Derivative instruments and hedging activities

Derivative instruments entered into by the Consolidated Entity include foreign exchange contracts in the foreign exchange 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 Statements 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 Statements 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 38(vi) *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 foreign exchange rate risk (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

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(ix) Derivative instruments and hedging activities continued

	Cash flow hedge	Net investment hedge
Nature of hedge	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	<ul style="list-style-type: none"> Foreign exchange risk. 	<ul style="list-style-type: none"> Foreign exchange risk.
Material hedged items	<ul style="list-style-type: none"> Unrecognised firm commitment. 	<ul style="list-style-type: none"> Net investment in foreign operations.
Material hedging instruments	<ul style="list-style-type: none"> Foreign currency denominated borrowings 	<ul style="list-style-type: none"> Foreign exchange contracts Foreign currency denominated balance sheet items.
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	<p>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:</p> <ul style="list-style-type: none"> 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 the hedge ratio is reflective of the Consolidated Entity's risk management approach. <p>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.</p>	
Accounting treatment for the hedging instrument	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	Accounted for on an historical cost basis.	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(ix) Derivative instruments and hedging activities continued

	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 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	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. Where the hedged cash flows are no longer expected to take place, the gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.	<p>The exchange gains or losses recognised in the NIHR within FCTR are reclassified to the income statement or reattributed within equity as follows:</p> <ul style="list-style-type: none"> • 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	Certain components of the hedging instrument such as the forward element of a forward contract, the time value of an option and the foreign currency basis spread (being the liquidity charge for exchanging different currencies), may be excluded from the hedge designation. These elements are deferred in the cost of hedging reserve and released to the income statement either at the time at which the hedged exposure affects the income statement, or on a systematic basis over the life of the hedge.	

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(x) 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

(xi) 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 liquid asset holdings, bonds, money market 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 amortised cost or FVOCI) and subsequently measured in accordance with Note 38 (vi) *Financial instruments*.

(xii) 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 38(vi) *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 38(vi) *Financial instruments*.

(xiii) 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 initially 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. Subsequently, it is stated at historical cost less accumulated depreciation and, where applicable, impairment losses, and adjusted for remeasurement of lease liabilities.

Property, plant and equipment and right-of-use assets includes assets leased out under operating leases.

Depreciation is the process to allocate the difference between cost and residual values over the estimated useful life. Where the residual value exceeds the carrying value, no depreciation is charged. Depreciation is calculated on a straight-line basis.

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
Assets under operating lease	
• Semiconductor and IT Equipment	20%
• Mining equipment	25%
• Meters	5 to 36%
• Telecommunications and others	20%
Furniture, fittings and leasehold improvements ⁽¹⁾	10 to 20%
Equipment	33%

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 depreciation charge is recognised as part of:

- net operating lease income for assets given on operating lease
- occupancy expenses for corporate buildings
- non-salary technology expenses for technology assets.

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.

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(xiv) 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 Statements of financial position.

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.

(xv) Financial & 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 associated 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(xv) Financial & Other assets and liabilities continued

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.

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 Statements 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 Statements 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.

(xvi) Borrowings

Borrowings includes loans and other payables due to banks and financial institutions. These balances are subsequently measured at amortised cost.

(xvii) Due to/from related body corporate entities and subsidiaries

Transactions between the Consolidated Entity and other related body corporate entities under common control of MGL 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 38(iv) *Revenue and expense recognition* and Note 38(vi) *Financial instruments*.

Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 38(vi) *Financial instruments*), such that the net amount is reported in the Statements of financial position.

(xviii) 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 38(vi) *Financial instruments*.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(xix) 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 information (FLI).

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 11 *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. Stage I also includes financial assets where the credit risk has improved and has been reclassified from stage II.

(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 11 *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 adjusted, where appropriate, for prepayments, extension, call and similar options, of the financial asset. For revolving facilities, the Consolidated Entity exercises judgement based on the behavioural, rather than contractual characteristics of the facility type. Stage II may include financial assets where the credit risk has improved and has been reclassified from stage III.

(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.

Presentation of ECL allowances

The ECL allowances are presented in the Statements 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 at 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 with an adverse effect that have taken place in the technological 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.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(xix) 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 for the asset in prior years.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit.

(xx) 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 29 *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 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 pays 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 24 *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 awards are measured at their grant date fair value and based on number of instruments expected to vest. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards which are settled in cash. The award liability is measured with reference to the numbers of awards and the fair value of those awards at each reporting date.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(xx) Performance based remuneration continued

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.

(xxi) 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.

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 38(xiii) *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 borrowings 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 13) and lease liabilities in Other liabilities (refer to Note 20) in the Statements of financial position.

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 38(xiii) *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.

(xxii) 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.

(xxiii) 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 Statements of financial position and income statement respectively.

Notes to the financial statements

For the financial year ended 31 March 2023 Continued

Note 38

Significant accounting policies continued

(xxiii) Fiduciary assets and client money continued

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.

(xxiv) 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.

(xxv) 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.

(xxvi) Comparatives

Where necessary, comparative information has been re-presented to conform to changes in presentation in the current year. Also, refer Note 24 *Related Party Information* on restatement made due to prior period error.

(xxvii) 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.

(xxviii) 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. Based on the Consolidated Entity's current business activities AASB 17 Insurance Contracts will not have a material impact on the Consolidated Entity's financial statements.

(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 22 and have not been early adopted, are not likely to result in a material impact on the Consolidated Entity's financial statements.

Directors' declaration

To the member of Macquarie Bank Limited

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 102 are in accordance with the Corporations Act 2001 (Cth), including:
 - (i) complying with Australian accounting standards and regulations, and
 - (ii) giving a true and fair view of the Consolidated Entity's financial positions as at 31 March 2023 and its 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; and
- (c) the Financial Report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board.

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

DocuSigned by:

Stuart Dyson

43F39E2AC1F9445...

Stuart Dyson

Director

Sydney

28 July 2023



Independent auditor's report

To the members of Macquarie International Finance Limited

Our opinion

In our opinion:

The accompanying financial report of Macquarie International Finance Limited (the Company) and its controlled entities (together the Consolidated Entity) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2023 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Consolidated Entity financial report comprises:

- the consolidated statement of financial position as at 31 March 2023
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated 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 Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* 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.



Other information

The directors are responsible for the other information. The other information comprises the information included in the consolidated annual report for the year ended 31 March 2023, 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* 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 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 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: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'R. W. McMahon'.

Ryan McMahon
Partner

Sydney
28 July 2023