MACQUARIE

# MACQUARIE GROUP ANNUAL REPORT

Year ended 31 March 2020

**MACQUARIE GROUP LIMITED** ACN 122 169 279

Macquarie is a global financial services group operating in 31 markets in asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, investment banking and principal investment.

**2020 Annual General Meeting**

Macquarie Group Limited's 2020 AGM will be held at 10:30 am on Thursday, 30 July 2020 at the Sofitel Sydney Wentworth, Wentworth Ballroom, 61–101 Phillip St, Sydney NSW 2000 and may be held as a hybrid or virtual meeting with online facilities to comply with any COVID-19 restrictions. Details of the business of the meeting will be forwarded to shareholders separately.

We are closely monitoring the COVID-19 pandemic and, depending on government restrictions in place at the time the meeting is held, the meeting venue may be changed. Shareholders should refer to the Macquarie website and any ASX announcement concerning the venue of the meeting.

**Cover image**

Macquarie is one of the largest agricultural investment managers in the world. Located in Western Australia, the Tantanoola property – operated by Macquarie-managed Viridis Ag – grows grains such as wheat, barley, lupins and canola.

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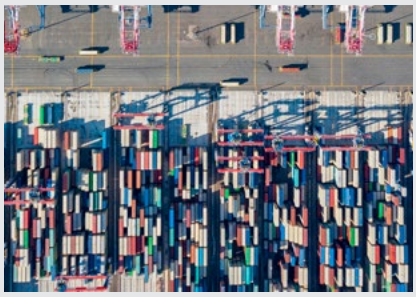

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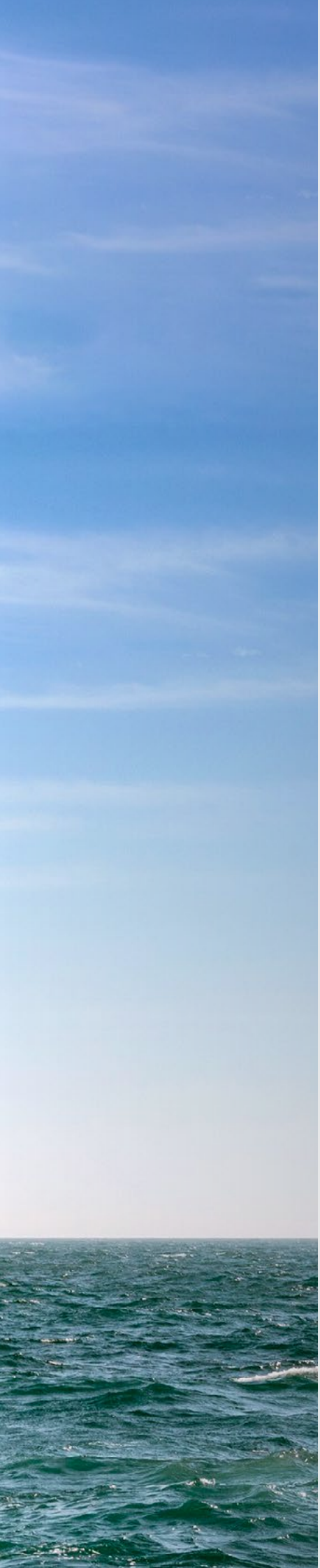

# About

**East Anglia ONE offshore wind farm, UK**

In August 2019, Macquarie's Green Investment Group entered into an agreement to acquire a 40% stake in Iberdrola's ScottishPower Renewables' 714 MW East Anglia ONE offshore wind farm.

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# About Macquarie

Macquarie (MGL and its subsidiaries, the Consolidated Entity) is a global financial group with offices in 31 markets.

Macquarie Group Limited (MGL, the Company) is listed in Australia and is regulated by the Australian Prudential Regulation Authority (APRA), the Australian banking regulator, as a Non-Operating Holding Company (NOHC) of Macquarie Bank Limited (MBL), an authorised deposit-taking institution (ADI). Macquarie's activities are also subject to supervision by various other regulatory agencies around the world.

Founded in 1969, Macquarie now employs 15,849[1] people globally, has total assets of $A255.8 billion and total equity of $A21.8 billion as at 31 March 2020.

Macquarie's breadth of expertise covers asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, investment banking and principal investment. The diversity of our operations, combined with a strong capital position and robust risk management framework, has contributed to Macquarie's 51-year record of unbroken profitability.

Macquarie acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to our clients. We have established leading market positions as a global specialist in a wide range of sectors, including resources and commodities, renewables, conventional energy, financial institutions, infrastructure and real estate and have a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client-focused business, demonstrated by our willingness to both invest alongside clients and closely align the interests of our shareholders and staff.

**$A2,731m**

FY2020 profit

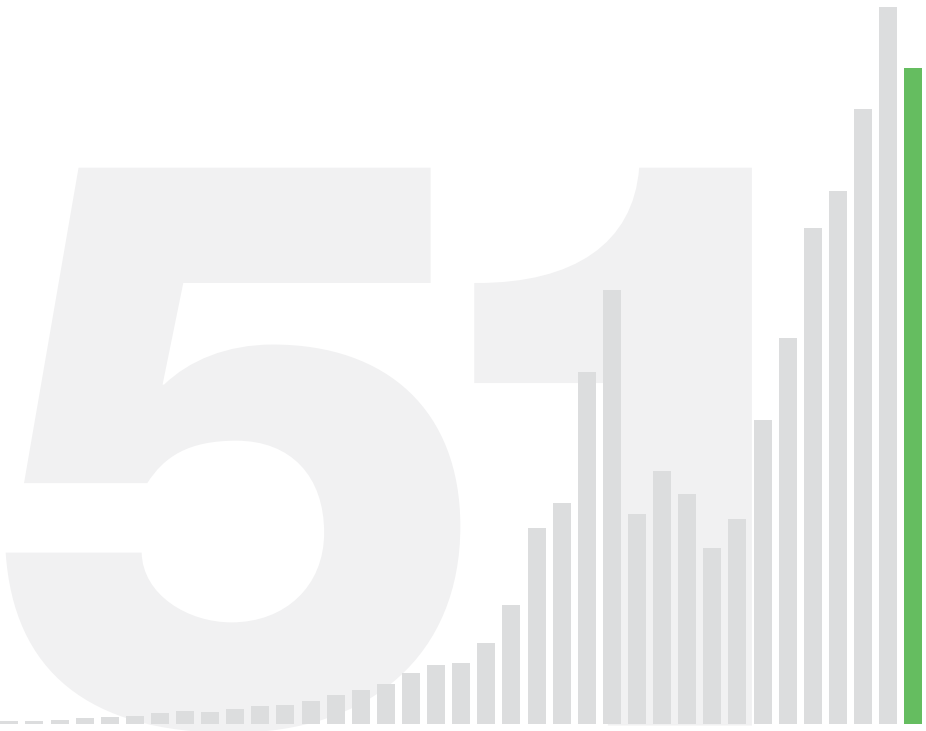
## Macquarie now employs 15,849[1] people globally across 31 markets

EMEA ~15%

Americas ~18%

Asia ~25%

ANZ ~42%




(1) This figure includes staff employed in certain operationally segregated subsidiaries (OSS). Unless otherwise stated, further references to staff data and policies do not include those in OSS.

**"Macquarie remains well placed because of its diversity of business mix and geography, strong capitalisation and well-funded balance sheet, and a conservative approach to risk management."**

## Letter from the

# Chairman

The final months of our 2020 financial year (FY2020) were overshadowed by the COVID-19 pandemic, the effects of which will continue to be felt for some time to come. First and foremost an international public health crisis, COVID-19 has also resulted in profound economic consequences for many countries.

Governments around the world have responded with public health measures to curtail the spread of the coronavirus, and this has necessarily led to a sudden pause in activity in large parts of many economies. To cushion economic impacts such as reduced business and consumer confidence and volatile financial markets, governments have also implemented spending and other stimulus measures at unprecedented levels.

Controlling the spread of COVID-19 remains critical to a sustained economic and market recovery and we have confidence that the necessary preventative public health measures and medical solutions will continue to be developed and deployed. The timing and pace of economic recovery will depend on the effectiveness of measures to contain the virus, which in turn will determine the duration of restricted economic activities.

Macquarie has not been immune to the effects of these once-in-a-century global circumstances, as reflected by volatility in our share price in late March. Notably, the trajectory of Macquarie's share price was broadly consistent with global peers either side of the end of FY2020. Macquarie's longstanding remuneration approach continues to ensure that our staff are aligned with shareholders through all market cycles.

Importantly, the strong, longstanding fundamentals that have resulted in Macquarie being profitable every year since inception are unchanged. Macquarie remains well placed because of its diversity of business mix and geography, strong capitalisation and well-funded balance sheet, and a conservative approach to risk management.

Within this Annual Report, you can read about the initiatives that are taking place across our businesses to support clients and the communities in which we operate, including specifically in response to COVID-19.

## Regulation

Regulation was an ongoing area of focus for the Board and Management in FY2020. Regulation continued to increase in complexity and Management continued to invest significant resources to ensure that the requirements and expectations of more than 200 regulators worldwide are met.

The Board spends considerable time each year providing active oversight, which includes being briefed by Management and staff, observing Macquarie's operations first-hand, and constructively interrogating policies and practices.

Given the responsibilities of financial institutions to communities, it is entirely appropriate that regulation is used as a means of setting standards for the way in which we operate. Achieving the balance between appropriate regulation and sufficient flexibility in the financial system so that it is an enabler of economic growth is a complex question and part of the Board's responsibilities to shareholders is to ensure that we are actively engaged with regulators to help inform them.

## Professional conduct

The Board and Management are committed to achieving the highest standards of professional conduct across all Macquarie operations. Compliance with all regulatory requirements and our company-specific policies and procedures are core to our business and have been since inception.

Our *Code of Conduct* and the principles of *What We Stand For: Opportunity, Accountability and Integrity* guide the way that Management and staff are expected to manage their responsibilities and conduct themselves. There are consequences for anyone who fails to meet these high standards. It is a fundamental responsibility for all Management and staff to deal honestly and fairly in their relationships with our clients and counterparties.

To assist the Board, Management and staff to meet their responsibilities, we regularly review and enhance our reporting, training, monitoring and surveillance activity. We have an established Conduct Risk Management Framework that details our approach to managing conduct risk. This is defined as the risk of behaviour or action taken by individuals employed by, or on behalf of, Macquarie or taken collectively in representing Macquarie, that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff or Macquarie itself. Supervisors are accountable for outcomes in the businesses they supervise.

We take a dynamic approach to regularly enhancing our risk culture and Conduct Risk Management Framework in response to changes in our business operations, outcomes of our oversight activities and the expectations of regulators and the communities in which we do business. The integrity of Macquarie's robust risk management framework has been successfully tested in the extreme scenario of over 98% of Macquarie staff working remotely in response to the COVID-19 crisis. Effective oversight continues to be applied across the Operating and Central Service Groups and the Risk Management Group continues to monitor the impact of COVID-19 and business-as-usual activity on Macquarie's risk profile.

## Environmental, social and governance

The Board and Management recognise the importance of sound Environmental, Social and Governance (ESG) practices as part of our responsibility to clients, shareholders, communities and the environment in which we operate. In FY2020, we continued to embed ESG risk management across the organisation and support the transition to a low carbon and climate-resilient economy. The ESG section of this Annual Report and the website provide further details on our approach to ESG matters.

During FY2020, Macquarie's CEO, Shemara Wikramanayake, served as a Commissioner of the Global Commission on Adaptation, a World Bank-led initiative that seeks to accelerate climate adaptation action and create concrete solutions that enhance resilience. Shemara was also appointed by the UN's Special Envoy for Climate Action, Michael Bloomberg, to the Climate Finance Leadership Initiative that seeks a six-fold increase in climate mitigation investment from the private sector.

## Board changes

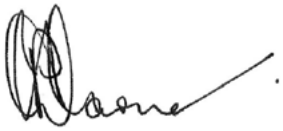
During FY2020 we announced Gordon Cairns' and Gary Banks' intention to retire from the Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL) boards in the latter part of the 2020 calendar year. Gordon and Gary have made an outstanding contribution to the MGL and MBL boards over many years and I hope shareholders will join me in recognising their efforts at the 2020 Annual General Meeting in July.

The Macquarie boards reflect a longstanding focus on balancing experience and longevity with appropriate renewal. With this in mind, shareholders formally elected Jillian Broadbent AC and Phil Coffey to the MGL and MBL boards at our Annual General Meeting in July 2019. I am pleased to say Jillian, Phil and all the directors of the Macquarie boards bring the diversity of expertise, focus and international experience required to represent the shareholders of our global business.

## Dividends

The Board resolved to pay a final ordinary dividend of $A1.80 per share (40% franked). This results in a total ordinary dividend for the year ended 31 March 2020 of $A4.30 per share, down from $A5.75 in the prior year. While Macquarie's capital position has never been stronger, this decision reflects APRA's guidance in relation to capital management, including the need to conserve capital and use capacity to support the economy, as well as the continuing uncertainty as to the impacts of COVID-19.

On behalf of the Board, we would like to thank Macquarie's staff for their efforts, and our clients and shareholders for their ongoing support.



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

Sydney
8 May 2020

**“We are proud of the way in which staff have adapted to the changed operating environment, including the vast majority of staff moving to work remotely, without interruption to their activities or to client service.”**

## Letter from the

# Managing Director and CEO

As Peter has outlined in the Chairman’s letter to shareholders, the final months of financial year 2020 were impacted by the severe health, social and economic consequences of the COVID-19 pandemic. Macquarie is responding to this unprecedented set of circumstances by ensuring the health and welfare of our people, supporting our clients and the community, and taking the necessary steps for continuity of our operations.

We are proud of the way in which Macquarie staff have adapted to the changed operating environment, including the vast majority of staff moving to work remotely, without interruption to their activities or to client service.

Macquarie’s fundamentals remain sound and are grounded in a long history of prudent risk management, which is evident in the underlying strength of our 2020 result. Macquarie is highly disciplined in ensuring it always maintains sufficient surplus capital to act as a buffer and to pursue growth opportunities should they present themselves, and that it is well funded. Being headquartered in Australia is a strength, operating in a strong financial system that has shown long-term resilience through market cycles.

### Performance

For the year ended 31 March 2020, Macquarie delivered a profit of $A2,731 million, down 8% on the prior year. A strong underlying performance was offset by increased credit and other impairment charges, reflecting primarily the deterioration in current and expected macroeconomic conditions as a result of COVID-19.

Our annuity-style activities, Macquarie Asset Management (MAM), Banking and Financial Services (BFS) and parts of Commodities and Global Markets (CGM), had a strong year, with a combined net profit contribution of $A3,439 million, up 13% on the prior year. Annuity-style activities represented 63% of net profit contribution from operating groups.

MAM benefited from increased base fees, performance fees and investment-related and other income, with its result partially offset by lower net operating lease income, higher operating expenses and higher credit and other impairment charges. In BFS, growth in average volumes for BFS deposits, the loan portfolio and funds on platform, along with the impact of realigning the wealth advice business to focus on the high net-worth segment, were offset by margin compression on deposits and higher credit provisions. CGM's annuity-style activities reflected higher revenue from the Specialised and Asset Finance division and Commodities' lending and financing activities.

Our markets-facing activities, Macquarie Capital and CGM, made a net profit contribution of $A2,009 million, down 35% on the prior year. Markets-facing activities represented 37% of net profit contribution from operating groups.

Macquarie Capital was impacted by lower fees from debt capital markets, partially offset by higher mergers and acquisitions fee revenue. Investment-related income was also down relative to the strong asset realisations in the prior year. Macquarie Capital also incurred higher operating expenses and funding costs and increased credit and other impairment charges. The markets-facing activities within CGM were impacted by a reduction in inventory management and trading revenues and an increase in credit provisions. This was mostly offset by strong global client contributions across all products and sectors demonstrating the benefits of the diversity of the portfolio.

While our Australian franchise maintained its strong position, the offshore businesses continued to perform well, with international income accounting for 67% of Macquarie's total income for the year ended 31 March 2020. Total international income was $A8,061 million for the year ended 31 March 2020, a decrease of 3% from $A8,317 million in the prior year.

Macquarie has a longstanding policy of holding a level of capital that supports its business and has consistently grown its capital base ahead of business requirements. In September 2019, Macquarie issued $A1.7 billion of equity capital, raised through a $A1.0 billion institutional placement and $A0.7 billion share purchase plan. This additional capital provides strategic flexibility to invest in new opportunities while maintaining appropriate capital levels in light of ongoing regulatory change. Macquarie's APRA Basel III capital was $A24.8 billion and Macquarie's surplus above regulatory minimum requirements was $A7.1 billion at 31 March 2020.

## Organisational changes

Macquarie simplified its organisational structure during the year to align businesses in terms of clients and complementary offerings. Businesses formerly in Corporate and Asset Finance (CAF) were integrated into MAM, CGM and Macquarie Capital.

To reflect the international nature of Macquarie's business activities and following the retirement of several longstanding group heads, Macquarie's Executive Committee underwent a process of renewal during FY2020 with several new members based in the northern hemisphere.

Nicholas O'Kane formally commenced as head of CGM on 1 April 2019, following the retirement of Andrew Downe. Michael Silverton and Daniel Wong were appointed Co-Heads of Macquarie Capital, effective 1 June 2019, following the retirement of Tim Bishop. Garry Farrell, Head of CAF, also retired during the year.

We would like to take this opportunity to thank Andrew, Tim and Garry for their leadership and decades of service with Macquarie. We also commend Nicholas, Michael and Daniel, each of whom have been with Macquarie for more than 20 years and have been instrumental in the evolution of CGM and Macquarie Capital into the substantial, globally significant businesses they are today.

## In the community

FY2020 was a significant year for the Macquarie Group Foundation (the Foundation). To mark Macquarie's 50th anniversary, the Foundation awarded $A50 million in grants to five non-profits, selected from a field of more than 1,000 applicants. Each of these five organisations received $A10 million to initiate or build on specific health, environmental and social inclusion projects that will address areas of unmet community need.

In FY2020 and inclusive of the first payments made to 50th Anniversary Award recipients, the Foundation and our staff contributed $A51 million in donations and fundraising to more than 1,600 community organisations around the world, and recorded more than 46,000 hours of voluntary community service. Shortly after the end of FY2020, Macquarie announced an additional $A20 million allocation to the Foundation for donations to organisations that are working to combat COVID-19 and provide relief for its impacts.

## Outlook

Market conditions are likely to remain challenging, making short-term forecasting extremely difficult. While we haven't provided guidance for the 2021 financial year, we have provided the market with an outline of the factors impacting the short-term outlook for each of the operating groups. We continue to maintain a cautious stance, with a conservative approach to capital, funding and liquidity that positions us well to respond to the current environment.

On behalf of Senior Management, we would like to thank Macquarie's staff for their efforts, and our clients and shareholders for their ongoing support.

**Shemara Wikramanayake**
*Managing Director and Chief Executive Officer*

Sydney
8 May 2020

# Contributing to communities through COVID-19 and beyond

The early part of the 2020 calendar year has been marked by the COVID-19 pandemic and the resulting worldwide health, social and economic impacts.

As a global public health crisis with profound economic consequences, governments around the world have taken historic steps to manage the spread of COVID-19, protect their citizens and stimulate economies, providing confidence to communities, businesses and global markets. These steps have been complemented by those taken by a diverse range of public and private organisations, large and small, and often in collaboration with others.

Acute crises bring into focus the imperative for organisations to support customers and contribute to the communities in which they operate. During this period, we have worked with our clients as they quickly adapt to a changed environment so that they can continue to operate, employ staff and serve their customers. We highlight just a few examples of this support.

## Helping Australian consumers and small businesses deal with sudden change

The impact of COVID-19 for many of our 1.6 million retail and SME banking clients has been sudden, driven by mandated short-term closure of businesses, loss of employment and sharp declines in consumer spending.

This has been a challenging time for some clients and Macquarie has responded by providing immediate six-month deferrals of loan repayments across our home, business, credit card, overdraft and vehicle and equipment loan products.

As part of the Australian banking industry, we have worked to ensure simple processes for our clients to access these repayment deferrals. We have also reviewed our approach to helping vulnerable customers in times of stress to ensure they are appropriate for the current environment.

As our clients have needed greater short-term telephone support, we have looked to boost the number of staff in our Australian call centres and operations teams, recruiting customer service staff from sectors that have had to stand down employees in response to the COVID-19 situation.

## Supporting the move to remote working and learning

Global technology supply chains have had the dual pressures of increased demand and reduced supply. Capacity upgrades to Macquarie Infrastructure and Real Assets' (MIRA) digital infrastructure assets have left them well-placed to handle significant activity increases resulting from widespread remote working, while Poland's INEA provided free internet connection to teachers working remotely.

Pandemic response measures such as social restrictions, mass remote working and home schooling have driven increased immediate demand for technology equipment such as computers and monitors. Conversely, global manufacturing capacity has decreased as countries have restricted production activity as part of measures to curtail the spread of COVID-19.

Recognising the need for educators to quickly transition to large-scale home schooling, Macquarie's Specialised and Asset Finance (SAF) team in Canada modified its operating leasing product to enable short-term rentals of laptops. These laptops have been sourced from existing inventories held by SAF and channel partners that normally assist with the re-sale of returned off-lease equipment. Short-term leasing is helping educators support students continue their learning remotely, without unnecessary financial burden when the time comes to transition back to face-to-face teaching.

At the same time, Macquarie Capital has continued to raise capital for clients supporting the pandemic response, including in the edu-tech and affordable education sectors globally.

A number of portfolio businesses in which Macquarie Capital invests have also contributed to a smoother transition to remote learning. For example, Achieve3000 rapidly reacted to school closures giving two million students free access to their mathematics and reading platform, providing thousands of hours of live training to teachers and creating printable materials for low-income students who do not have access to technology.

# Contributing to communities through COVID-19 and beyond

Continued

## Bolstering resilience in essential community services

From the early stages of COVID-19, MIRA has worked with management teams across its portfolio to review business continuity and pandemic response plans and support initiatives to safeguard the health and wellbeing of employees, contractors and customers.

Assets such as Czech telecommunications business CRA have contributed operating expertise to relief efforts. CRA has provided back-up communication lines to emergency services in case mobile or fixed networks are not available.

A number of portfolio assets, such as Austrian utility ESTAG, have donated much-needed personal protective equipment to emergency service personnel.

Denmark's TDC is also supporting emergency services efforts by encouraging all non-critical employees with an emergency background to join the Danish COVID-19 Volunteer Force to help address staff shortages in hospitals.

With an understanding that the pandemic would result in a slowdown in economic activity, MIRA also supported portfolio companies with reviewing their capital structures to ensure they had sufficient liquidity to cover their working capital and investment needs.

Similar work has been done at portfolio businesses managed by Macquarie Capital, including assets under construction. As an investor in the healthcare sector, a number of businesses supported by Macquarie Capital are meaningfully contributing to the immediate COVID-19 response.

The urgent need to train US frontline health workers led Penn Foster to rapidly deliver a fully functional, clinically affirmed course in safely and accurately administering COVID-19 tests to people with symptoms.

Also in the US, Dovel Technologies, in partnership with government agencies, is facilitating reviews of clinical trials to evaluate the safety and efficacy of therapeutic agents in patients. Dovel is expediting vital geographic mapping data to prepare technology infrastructure for increased remote access of networks, and supporting travel agencies to ensure the essential delivery of medical supplies.

Our global capability, in partnership with the deep expertise of the local management teams at each asset, is ensuring communities can continue to access essential services throughout the COVID-19 pandemic.

## Facilitating access to global capital

COVID-19 has impacted every sector of the global economy and, for many corporates, necessitated access to capital. This capital underpins investment in immediate responses, planning for economic recovery and positioning for long-term opportunities.

While considerable pools of global capital remain available to fundamentally sound issuers, securing investment is dependent on many variables. These include depth and breadth of market access, sound judgment on timing and structuring, resilience to current pressures and market confidence.

Macquarie has a long tradition of connecting businesses and capital, and throughout challenging market conditions has continued to deliver the funding that enables clients to serve their own customers and communities. Teams across Macquarie Capital, BFS and CGM have ensured clients retain access to short and long-term capital to meet dynamic requirements through the crisis.

## Protecting the health and welfare of our people

We have demonstrated our own ability to respond quickly, with over 98% of our staff working remotely from an early stage of the COVID-19 outbreak (by February in Asia and mid-March globally) with minimal interruption to their ability to remain productive.

The health and welfare of our people is a key priority and our business-as-usual work practices have provided a strong basis to adapt quickly and with minimal disruption. Flexible working is an embedded practice at Macquarie, with more than 85% of our people working flexibly on a regular or periodic basis prior to COVID-19. Our business resilience planning has also ensured there is a robust, well-tested and well-governed framework for identifying and addressing any operating issues promptly and our technology has proven resilient to the large numbers of remote users.

These strong foundations have been supplemented by initiatives to ensure that staff remain connected with their colleagues and have the support of management where there is a need to balance work with additional family responsibilities. These initiatives include flexible leave solutions, an enhanced staff wellbeing program and comprehensive communications.

## Addressing community need through philanthropy

In addition to the usual support that the Macquarie Group Foundation (Foundation) and our staff provide to non-profits each year, we made an additional $A20 million allocation to the Foundation in April to make donations to a number of organisations that are working to combat COVID-19 and provide relief for its impacts (COVID-19 Fund).

The COVID-19 Fund will focus on recipients addressing areas of immediate and medium-term need in regions in which Macquarie operates. Already, $A2 million has been contributed to The Global Foodbanking Network to address critical food security needs across its network of more than 900 foodbanks in 40 countries, including meals for children as many schools around the world remain closed.

The Burnett Institute will receive $A1 million for its large-scale study into social isolation and distancing as interventions that restrict the spread of COVID-19. A further $A3.75 million has been allocated across nine non-profits internationally that are focused on direct relief efforts. Other initiatives for the COVID-19 Fund may include support for frontline medical staff, prevention, diagnosis and treatment for patients, sanitation and hygiene initiatives to prevent further disease spread and initiatives to support workers and businesses in restarting economic activity.

Portfolio companies have also made their own contributions to COVID-19 relief efforts. In addition to donations and the provision of personal protective equipment, companies have found innovative ways to support relief efforts. These include repurposing car parks at AGS Airports as drive-in testing facilities; the provision of free parking to Spanish healthcare workers at Empark; and waiving network charges to reduce energy bills for consumers at Australia's Endeavour Energy and ElectraNet.

## Maintaining our focus on the longer term

While we are focused on addressing immediate needs, we are equally committed to our ongoing responsibilities to stakeholders. Long-term focus and a commitment to delivering sustainable outcomes have been among Macquarie's defining features over many years, in keeping with our core values of Opportunity, Accountability and Integrity.

# Financial Highlights

FY2020 net profit

**$A2,731m**

↓ 8% on prior year

FY2020 net operating income

**$A12,325m**

↓ 3% on prior year

FY2020 operating expenses

**$A8,871m**

— in line with prior year

FY2020 earnings per share

**$A7.91**

↓ 10% on prior year

FY2020 return on equity

**14.5%**

↓ from 18.0% in prior year

FY2020 dividends per share

**$A4.30**

(40% franked)
↓ 25% on prior year

FY2020 effective tax rate

**21.0%**

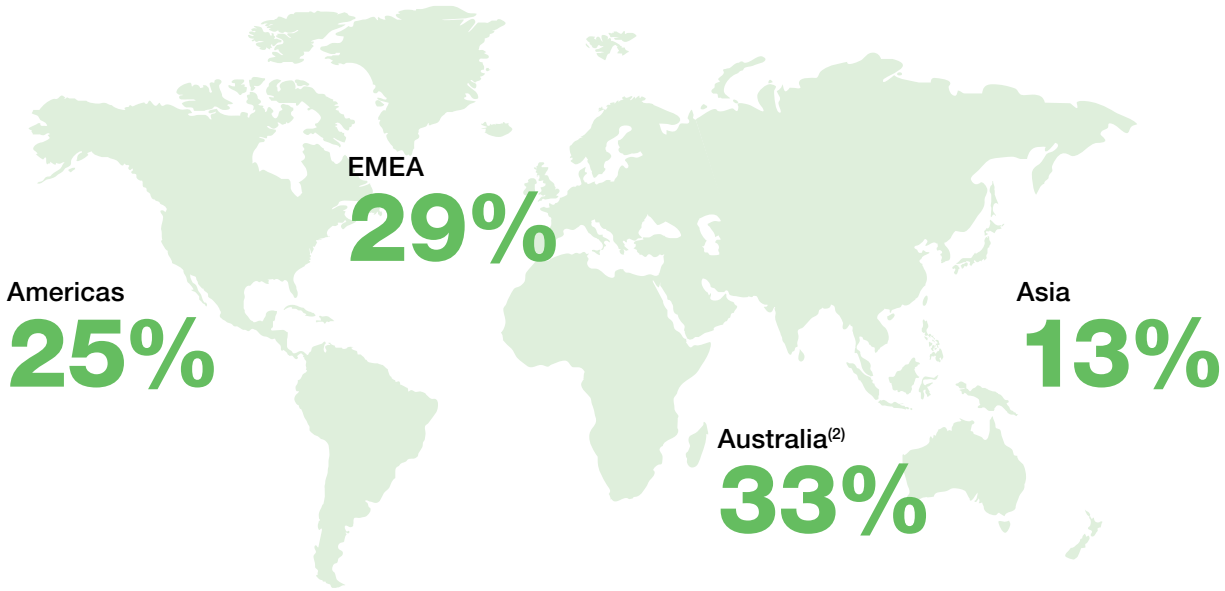
↓ from 22.8%
as at 31 March 2019

Assets under management
as at 31 March 2020

**$A606.9b**

↑ from $A551.3b
as at 31 March 2019

## FY2020 international income[1]




## FY2020 net profit contribution[3] by activity

**Annuity-style activities**

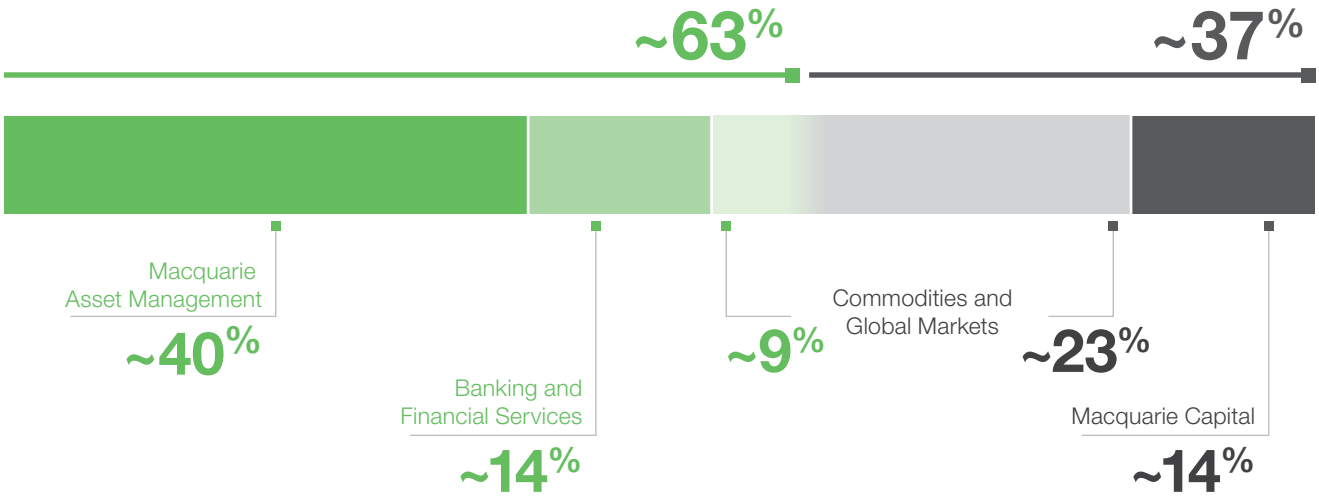
**$A3,439m**

↑ 13% on prior year

**Markets-facing activities**

**$A2,009m**

↓ 35% on prior year




(1) International income is net operating income excluding earnings on capital and other corporate items.
(2) Includes New Zealand.
(3) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

# Operating and Financial Review

Our businesses

Macquarie is a diversified financial group providing clients with asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities.

For internal reporting and risk management purposes, Macquarie is divided into four Operating Groups, which are supported by four Central Service Groups. The Operating Groups are split between annuity-style businesses and markets-facing businesses.

## Annuity-style businesses

### Macquarie Asset Management

**$A2,177m**

↑ 16% on prior year

MAM is a leading specialist global asset manager, offering a diverse range of products through two business divisions:

**Macquarie Infrastructure and Real Assets (MIRA):** a leader in alternative asset management worldwide, specialising in infrastructure and renewables, real estate, agriculture, transportation finance and private credit via public and private funds, co-investments, partnerships and separately managed accounts.

**Macquarie Investment Management (MIM):** offering securities investment management capabilities across a number of asset classes including fixed income, equities and multi-asset solutions.

#### FY2020 highlights

MAM assets under management (AUM) increased 10% to $A605.7 billion as at 31 March 2020, due to investments by MIRA-managed funds, an acquisition by MIM, and foreign exchange movements. This was partially offset by recent market movements and a reduction in contractual insurance assets in MIM and divestments by MIRA-managed funds.

MIRA raised $A20.1 billion in new equity, for a diverse range of funds, products and solutions across the platform. Notable fund closings include the Macquarie European Infrastructure Fund 6 reaching its hard cap of €6.0 billion. MIRA also sold Macquarie AirFinance to a joint venture and entered into an agreement to provide ongoing management support services. MIRA held a 50% interest at 31 March 2020.

MIM completed the acquisition of assets related to the mutual fund business of Foresters Investment Management Company, Inc. This added ~$US11 billion in First Investors Funds and approximately $US1 billion in assets transitioned to the recently launched Delaware Funds by Macquarie Premier Advisor Platform.

#### Medium-term

MAM is a leading specialist global asset manager, well-positioned to respond to current market conditions. MAM is strongly placed to grow assets under management through its diversified product offering, track record and experienced local investment teams.

### Banking and Financial Services

**$A770m**

↑ 2% on prior year

BFS serves the Australian market, and is organised into the following three business divisions:

**Personal Banking**: provides a diverse range of retail banking products to clients with home loans, credit cards, transaction and savings accounts and vehicle finance.

**Wealth Management**: provides clients with a wide range of wrap platform and cash management services, investment and superannuation products, financial advice, private banking and stockbroking.

**Business Banking**: provides a full range of deposit, lending and payment solutions, vehicle finance as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms.

#### FY2020 highlights

For the full year ended 31 March 2020, total BFS deposits increased 20% to $A63.9 billion, the loan and lease portfolio increased 20% to $A75.3 billion and funds on platform decreased 8% to $A79.1 billion.

The home loan portfolio increased 35% to $A52.1 billion driven by strong demand in lower loan-to-value ratio and owner-occupier lending tiers, while the Business Banking loan portfolio increased 10% to $A9.0 billion driven by strong activity in emerging health, built environment and technology segments, and existing property and professional services segments. During the year, BFS expanded the Macquarie Wrap managed accounts offering with AUM of $A3.0 billion up from $A2.3 billion a year ago, and launched Macquarie Engage, a new low-cost investment solution for clients with less complex financial needs. Furthermore, BFS continued the implementation of a cloud-based investment and portfolio management platform as part of the ongoing wealth platform transformation.

#### Medium-term

BFS remains focused on growth opportunities through intermediary and direct retail client distribution, platforms and client service; opportunities to increase financial services engagement with existing business banking clients and extend into adjacent segments; and modernising technology to improve client experience and support growth.

Further information is also available at **macquarie.com/about/company**

For more details on the operational performance of the Operating Groups, see slides 17 to 20 of the presentation to investors and analysts available at **macq.co/FY20investorpresentation**

#### Operating Groups update

In the first half, all businesses of the Corporate and Asset Finance (CAF) Operating Group were aligned to other Operating Groups, where they have the greatest opportunities in terms of shared clients and complementary offerings.

- CAF Principal Finance joined Macquarie Capital to bring together all principal investing activity and enhance the ability to invest directly and alongside clients and partners.
- CAF Transportation Finance joined MAM, reflecting its evolution towards a fiduciary business following the sale of Macquarie AirFinance to a joint venture.
- CAF Asset Finance moved to CGM, reflecting a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients.
- Certain fiduciary businesses, such as the infrastructure debt business (MIDIS), also moved from CAF Asset Finance into MAM.

Comparatives have been reclassified to reflect the reorganisation between Operating Groups.

## Markets-facing businesses

### Commodities and Global Markets

**$A1,746m**
— in line with prior year

CGM provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms.

The platform covers more than 25 market segments with more than 200 products and has evolved over more than four decades to provide clients with access to markets, financing, financial hedging, research and market analysis and physical execution.

CGM comprises eight divisions: Cash Equities, Commodity Markets and Finance, Credit Markets, Equity Derivatives and Trading, Fixed Income and Currencies, Futures, Specialised and Asset Finance and Central (CGM-wide services).

#### FY2020 highlights

CGM benefited from the diversity of its portfolio. A reduction in inventory management and trading revenues and an increase in credit and other impairment charges were offset by strong global client contributions across all products and sectors and higher revenue from Specialised and Asset Finance and Commodities' lending and financing activities.

The largest division, Commodity Markets and Finance (CMF), continued to record strong results across the commodities platform. During the period, CMF completed the acquisition of Société Générale's energy commodities portfolio, comprising over-the-counter financial energy transactions, European wholesale physical gas and power contracts and carbon emission allowances. This continues its growth in gas and power markets.

CGM was recognised for a number of awards including Natural Gas/LNG House of the Year and Electricity and Environmental Products House of the Year in the 2019 Energy Risk Awards. CGM also maintained its ranking by Platts as No.2 physical gas marketer in North America.

#### Medium-term

CGM remains focused on: opportunities to grow the commodities business, both organically and through acquisition; the development of institutional and corporate coverage for specialised credit, rates and foreign exchange products; providing tailored financing solutions across a variety of industries and asset classes; continued investment in the asset finance portfolio and growing the client base across all regions.

### Macquarie Capital

**$A755m**
↓ 57% on prior year

Macquarie Capital has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors.

It also has global capability in the development and construction of infrastructure and energy projects, and in relation to renewable energy projects, the supply of green energy solutions to corporate clients.

#### FY2020 highlights

Macquarie Capital maintained the leading market position globally for infrastructure financial advisory and a leading market position in ANZ for mergers and acquisitions, with established niches in other regions. Notable deals included advising the supervisory board of thyssenkrupp AG on the €17.2 billion sale of its Elevator Technology business.

Macquarie Capital continued to focus on green energy with over 250 projects under development or construction as at 31 March 2020. An example of this, is Macquarie Capital's support of Taiwan's renewable energy transition which was recognised as the Renewable Energy Deal of the Year (by The Asset Triple A Infrastructure Awards 2019). Macquarie Capital delivered Taiwan's first commercial scale offshore wind farm, Formosa 1. Macquarie Capital is a developer and equity investor in a second Taiwanese offshore wind farm, Formosa 2 which reached financial close and is currently under construction. Together these projects will generate 504MW of clean electricity, enough to power ~508,000 households.

#### Medium-term

Macquarie Capital is positioned to benefit from recovery in mergers and acquisitions and capital markets activity. It continues to tailor the business offering to current opportunities and market conditions including providing flexible capital solutions across sectors and regions. It also continues to pursue opportunities for project development and balance sheet investment by the group and in support of partners and clients subject to market conditions.

### Central Service Groups

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

#### Risk Management Group (RMG)

An independent and centralised function responsible for objective review and challenge, oversight, monitoring and reporting in relation to Macquarie's material risks. RMG designs and oversees the implementation of the risk management framework. The Head of Internal Audit reports functionally to the Board Audit Committee and operationally to the Head of RMG for day-to-day management.

#### Legal and Governance (LGL)

Provides a full range of legal and corporate governance services, including strategic legal and governance advice and risk assessment on corporate transactions, treasury and funding, insurance, regulatory enquiries and litigation.

#### Financial Management Group (FMG)

Provides financial, tax, treasury, corporate affairs and advisory services to all areas of Macquarie.

#### Corporate Operations Group (COG)

Provides specialist support services through technology, market operations, human resources, workplace, strategy, operational risk management, data and transformation, resilience, global security and the Macquarie Group Foundation.

# What We Stand For

## Opportunity

## Accountability

## Integrity

These long-held principles form the basis of Macquarie's expectations of our staff and adherence to them is required under the *Code of Conduct*.

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

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

## Our business strategy

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

### Risk management approach

Adopting a conservative approach to risk management underpinned by a sound risk culture. Macquarie's robust risk management framework and risk culture are embedded across all Operating and Central Service Groups.

### Strong balance sheet

Maintaining a strong and conservative balance sheet.

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

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

### Business mix

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

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

### Diversification

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

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

### Proven expertise

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

### Adjacencies

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

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

### Pursuit of growth opportunities

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

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

## Risk management

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

### Risk culture

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

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

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

### Risk management framework

Macquarie's risk management framework is embedded across all operations. The framework is the totality of systems, structures, policies, processes and people within Macquarie that identify, measure, monitor, report and control or mitigate internal external sources of material risk.

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

- **ownership of risk at the business level**
- **understanding worst case outcomes**
- **requirement for an independent sign off by RMG**.

Refer to **Risk Management** in section 2 for details on Macquarie's risk management framework, risk culture and conduct risk management

## Macroeconomic factors

The key macroeconomic risks to Macquarie's short and medium-term financial outlook noted on page 27 are:

### Market conditions

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

During March 2020, COVID-19 was declared a global pandemic. COVID-19, and the resulting impact on economic activity, have since had a significant impact on world equity, debt and commodity markets. The deterioration of market conditions in March 2020, together with an expected deterioration in macroeconomic conditions resulted in higher credit and other impairment charges for FY2020.

COVID-19 is the key driver of the macroeconomic outlook for Macquarie at the reporting date.

### The value of the Australian dollar

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

### Potential regulatory changes

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

### Funding and liquidity

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

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

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

# Operating and Financial Review

Review of group performance and financial position

## Group performance

### Overview

Profit attributable to ordinary equity holders of $A2,731 million for the year ended 31 March 2020 decreased 8% from $A2,982 million in the prior year.

| | FULL YEAR TO | | |
|---|---|---|---|
| | **31 Mar 20 $Am** | 31 Mar 19 $Am | *Movement %* |
| Net operating income | **12,325** | 12,754 | *(3)* |
| Operating expenses | **(8,871)** | (8,887) | *(<1)* |
| Income tax expense | **(728)** | (879) | *(17)* |
| Loss/(Profit) attributable to non-controlling interests | **5** | (6) | * |
| Profit attributable to ordinary equity holders | **2,731** | 2,982 | *(8)* |

Non-Banking Group

### Annuity-style businesses

#### Macquarie Asset Management

**↑ 16% on prior year**

- Increased Investment-related income includes gains on sale of investments, higher equity accounted income from the sale of a number of underlying assets and income from the Macquarie AirFinance joint venture during the year
- Increased base fees primarily driven by foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from assets acquired during the year related to the mutual fund management business of Foresters Investment Management Company Inc. (Foresters).

Partially offset by:

- decreased net operating lease income driven by the sale of Macquarie AirFinance to a joint venture during the first half
- increased credit and other impairments recognised due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19 including an impairment charge on Macquarie Infrastructure Corporation (MIC)
- higher operating expenses mainly driven by foreign exchange movements and the impact of new business acquired during the year (Foresters).

Banking Group

#### Banking and Financial Services

**↑ 2% on prior year**

- Growth in BFS deposits, loan portfolio and funds on platform average volumes
- Lower employment expenses due to a reduction in average headcount mainly due to the realignment of the wealth advice business to focus on the high net worth segment.

Partially offset by:

- increased specific provision in Business banking and Vehicle Finance, together with increased credit impairment charges on the performing portfolios related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19
- margin compression on deposits
- lower wealth management fee income associated with realigning the wealth advice business to focus on the high net worth segment
- increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

### Markets-facing businesses

#### Macquarie Capital

**↓ 57% on prior year**

- Lower net income on equity and debt investments following strong asset realisations in the prior year
- Lower net interest and trading income mainly due to higher funding costs for balance sheet positions reflecting increased activity
- Increased credit impairment charges primarily related to a small number of loan facilities in the debt portfolio and a deterioration in current and expected macroeconomic conditions as a result of COVID-19 impacting the performing loan portfolio
- Lower fee and commission income due to lower debt capital markets fee income and other fee income, partially offset by higher mergers and acquisitions fee income
- Higher operating expenses reflecting additional headcount and foreign exchange movements.

#### Commodities and Global Markets

**— in line with prior year**

- Strength of global client contribution across all products and sectors including:
  - strong results across the commodities platform from client hedging activity
  - increased contribution in structured foreign exchange and interest rate products across all regions
  - improved equities performance, primarily due to increased contribution from client activity in Asia.

Offset by:

- reduction in inventory management and trading income due to reduced opportunities in North American gas markets following a strong prior year that were partially offset by the timing of income recognition, which increased revenue relating to transport agreements. The first half benefited from opportunities across a range of energy sectors which were partially offset by more challenging markets in Fuel oil (related to changing regulations) and North American gas markets in the second half
- increased impairment charges on a small number of counterparties in Futures and FI&C, together with increased credit impairment charges on the performing loan and lease portfolio related to a small number of loan facilities in the debt portfolio and a deterioration in current and expected macroeconomic conditions as a result of COVID-19

For more details on the financial performance of the Operating Groups, see section 3 Segment Analysis of the Management Discussion and Analysis available at **macq.co/FY20MDA**

## Net operating income

Net operating income of $A12,325 million for the year ended 31 March 2020 decreased 3% from $A12,754 million in the prior year. Higher Credit and other impairment charges and decreases across Other operating income and charges and Net operating lease income were partially offset by higher Share of net profits/(losses) of associates and joint ventures, Fee and commission income and Net interest and trading income.

### Net interest and trading income

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 4,720 | 4,551 |

↑ 4% on prior year

- Increased contributions from client hedging activity, structured foreign exchange, interest rate and credit products as well as equities in CGM
- Growth in BFS deposits and loan portfolio average volumes in BFS
- Reduced funding costs in MAM driven by the sale of Macquarie AirFinance to a joint venture
- Accounting volatility from the changes in the fair value on economic hedges in Corporate.

Partially offset by:

- reduced contributions from inventory management and trading following a strong prior year and the impact of fair value adjustments in CGM
- margin compression on deposits and the sale of an investment in Macquarie Pacific Funding (MPF) in BFS.

### Fee and commission income

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 5,837 | 5,526 |

↑ 6% on prior year

- Increased base fees in MAM primarily driven by foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from assets acquired during the year related to the mutual fund management business of Foresters
- Higher mergers and acquisitions fee income in Macquarie Capital.

Partially offset by:

- lower fee income from debt capital markets and other fee income in Macquarie Capital.

### Net operating lease income

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 745 | 950 |

↓ 22% on prior year

- Lower income in MAM driven by the sale of Macquarie AirFinance to a joint venture during the first half.

Partially offset by:

- the acquisition of rotorcraft assets during the prior year in MAM
- higher secondary income from the Technology, Media and Telecoms (TMT) portfolio in CGM.

### Share of net profits/(losses) of associates and joint ventures

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 95 | (56) |

↑ significantly on prior year

- Increase in the share of net profits from the sale of a number of underlying assets within equity accounted investments and income from the Macquarie AirFinance joint venture during the year in MAM
- A non-recurring gain on an investment in Corporate.

Partially offset by:

- losses in a small number of underlying assets within equity accounted investments in MAM.

### Credit and other impairment charges

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| (1,040) | (552) |

↑ 88% on prior year

- Higher impairment charges recognised across the Consolidated Entity primarily driven by a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

### Other operating income and charges

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 1,968 | 2,335 |

↓ 16% on prior year

- Decrease in investment income following strong asset realisations in the prior year in Macquarie Capital
- A change in the composition of Macquarie Capital's investment portfolio including increased development expenditure in relation to green energy projects.

Partially offset by:

- gains on sale of investments and a one-off payment from Atlas Arteria (ALX) for the termination of management rights related to APRR in MAM.

## Operating expenses

Total operating expenses of $A8,871 million for the year ended 31 March 2020 were in line with $A8,887 million in the prior year with increases across Employment expenses and Non-salary technology expenses, largely offset by decreases in Brokerage, commission and trading-related expenses.

### Employment expenses

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 5,323 | 5,217 |

↑ 2% on prior year

- Unfavourable foreign exchange movements
- Higher average headcount in Central Service Groups to support business growth, technology projects and ongoing regulatory compliance
- Higher share-based payments expense mainly driven by the accelerated amortisation of prior years' equity awards to retiring Key Management Personnel.

Partially offset by:

- decrease in performance-related profit share expense as a result of lower Group performance and higher retention rates being applied.
- lower average headcount in BFS as the wealth advice business focused on the high net worth segment.

### Brokerage, commission and trading-related expenses

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 964 | 1,140 |

↓ 15% on prior year

- Reductions in CGM driven by the equities structural change to refocus on the Asia-Pacific region
- The sale of an investment in MPF in BFS.

### Non-salary technology expenses

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 749 | 684 |

↑ 10% on prior year

- Higher project spend and cloud consumption from an increase in business activity
- Unfavourable foreign exchange movements.

### Other operating expenses and Occupancy

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 1,835 | 1,846 |

— In line with prior year

- Lower occupancy costs reflect the transitional and classification consequences of adopting the new lease accounting standard AASB 16, with interest expense on the lease liability now recognised within net interest income.

Offset by:

- unfavourable foreign exchange movements.

### Income tax expense

Income tax expense for the year ended 31 March 2020 was $A728 million, compared to $A879 million in the prior year. The effective tax rate for the year ended 31 March 2020 was 21.0%, down from 22.8% in the prior year.

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

### Note on adoption of new Australian Accounting Standards

The FY2020 financial results reflect the adoption of AASB 16 *Leases* (AASB 16) on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated previously reported financial periods.

Refer to Note 1 *Summary of significant accounting policies* in the Financial Report for details regarding the Consolidated Entity's transition to AASB 16. No material transition adjustments arose following the adoption of AASB 16

# Financial position

## Balance sheet

The Consolidated Entity's statement of financial position has mainly been impacted by changes in business activities and Treasury management initiatives during the year ended 31 March 2020.

### Total assets

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 255,802 | 197,757 |

↑ 29% on prior year

- Derivative assets of $A45.6 billion as at 31 March 2020 increased 217% from $A14.4 billion as at 31 March 2019 following an increase in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM largely driven by recent volatility in financial markets
- Loan assets of $A94.1 billion as at 31 March 2020 increased 21% from $A77.8 billion as at 31 March 2019 primarily due to growth in Home Loans and Business Banking Loans in BFS and US Debt Capital Markets' positions in Macquarie Capital
- Cash collateral on securities borrowed and reverse repurchase agreements of $A37.7 billion as at 31 March 2020 increased 26% from $A29.9 billion as at 31 March 2019 following increased client flows and positions to maintain the Group's HQLA requirements
- Interests in associates and joint ventures of $A8.3 billion as at 31 March 2020 increased 98% from $A4.2 billion as at 31 March 2019 primarily due to new investments and sale of the MAF business to a joint venture of which Macquarie held a 75% interest and at 31 March 2020 held a 50% interest
- Held for sale assets of $A1.6 billion as at 31 March 2020 decreased 82% from $A9.0 billion as at 31 March 2019 primarily due to the sale of the MAF business to a joint venture of which Macquarie held a 75% interest and at 31 March 2020 held a 50% interest.

### Total liabilities

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 234,018 | 179,393 |

↑ 30% on prior year

- Derivative liabilities of $A38.4 billion as at 31 March 2020 increased 202% from $A12.7 billion as at 31 March 2019 primarily due to an increase in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM largely driven by recent volatility in financial markets
- Debt issued of $A64.6 billion as at 31 March 2020 increased 26% from $A51.4 billion as at 31 March 2019 primarily due to the issue of long-term debt by Group Treasury to manage the Group's funding and liquidity, securitisation issuances in BFS and foreign exchange movements following the depreciation of the Australian dollar against major currencies
- Deposits of $A67.3 billion as at 31 March 2020 increased 20% from $A56.2 billion as at 31 March 2019 primarily due to an increase in customer deposits in BFS
- Borrowings of $A17.1 billion as at 31 March 2020 increased 84% from $A9.3 billion as at 31 March 2019 primarily driven by new investments in Macquarie Capital, oil finance transactions in CGM and Treasury's liquidity management activities
- Margin money and settlement liabilities of $A22.8 billion as at 31 March 2020 increased 35% from $A16.9 billion as at 31 March 2019 primarily due to an increase in call margin placed by financial institutions and commodity trade settlement balances in CGM
- Held for sale liabilities of $A0.3 billion as at 31 March 2020 decreased 96% from $A6.8 billion as at 31 March 2019 primarily due to the sale of the MAF business to a newly formed joint venture of which Macquarie held a 75% interest and at 31 March 2020 held a 50% interest.

### Total equity

| FULL YEAR TO | |
|---|---|
| 31 Mar 20 $Am | 31 Mar 19 $Am |
| 21,784 | 18,364 |

↑ 19% on prior year

- The increase in the Consolidated Entity's equity was attributable to the issuance of Contributed equity of $A1.7 billion through the Institutional Private Placement and Share Purchase Plan, earnings of $A2.7 billion generated during the year, partially offset by dividends of $A2.1 billion, and an increase in the foreign currency and net investment hedge reserve of $A1.2 billion.

## Funding

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

Macquarie has a funding base that is stable with minimal reliance on short-term wholesale funding markets. At 31 March 2020, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits, hybrids and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding, and securitisations) was 4.8 years at 31 March 2020.

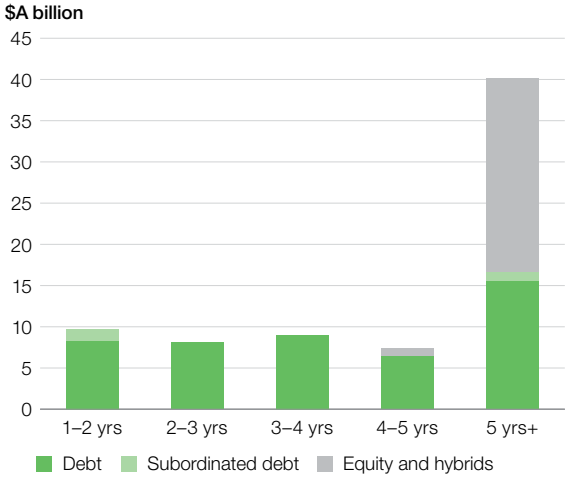
**4.8**

years

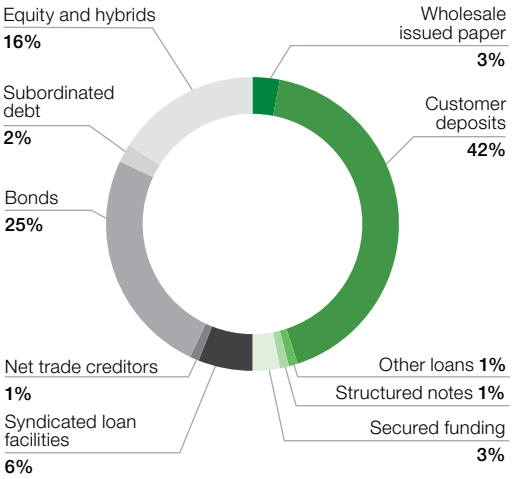
The weighted average term to maturity of term funding maturing beyond one year at 31 March 2020

### Term funding profile

**Detail of drawn funding maturing beyond one year**




**Diversity of funding sources**




Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2019, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2019 and 31 March 2020:

| | | Bank Group $Ab | Non-Bank Group $Ab | **Total $Ab** |
|---|---|---|---|---|
| Secured funding | Term securitisation and other secured finance | 11.1 | 0.7 | **11.8** |
| Issued paper | Senior unsecured | 12.4 | 1.0 | **13.4** |
| Loan facilities | MGL loan facilities | – | 0.8 | **0.8** |
| **Total** | | 23.5 | 2.5 | **26.0** |

In addition to the $A26.0 billion of term funding raised, $A1.7 billion of equity capital was raised through $A1.0 billion institutional placement and $A0.7 billion share purchase plan.

Macquarie has continued to develop its major funding markets and products during the year ended 31 March 2020.

**$A7.1b**

Group capital surplus

## Capital

As an APRA authorised and regulated NOHC, Macquarie's capital adequacy framework requires it to maintain minimum regulatory capital requirements calculated as the sum of:

- the Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
- the Non-Bank Group's capital requirement, calculated using Macquarie's Board approved Economic Capital Adequacy Model (ECAM). Transactions internal to Macquarie are eliminated.

Macquarie remains well capitalised with APRA Basel III Group capital of $A24.8 billion at 31 March 2020, with a Group surplus of $A7.1 billion ($A9.2 billion on a Harmonised[1] Basel III basis).

Under Basel III rules, APRA requires ADIs to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer (CCB), with at least 7% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110.[2]

In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum Basel Committee on Banking Supervision (BCBS) Basel III leverage ratio requirement of 3% was effective from 1 January 2018.[3]

As at 31 March 2020, the Bank Group had the following capital adequacy ratios:

| Bank Group Basel III ratios as at 31 March 2020 | Harmonised Basel III | APRA Basel III |
|---|---|---|
| Common Equity Tier 1 Capital Ratio | 14.9% | 12.2% |
| Tier 1 Capital Ratio | 16.4% | 13.6% |
| Leverage Ratio | 6.3% | 5.7% |

For further information relating to the capital adequacy of Macquarie, refer to section 6 Capital of the Management Discussion and Analysis at **macq.co/FY20MDA**

Macquarie's capital management strategy is outlined in Note 23 *Capital management strategy* to the financial statements contained in the Financial Reporting section

## Outlook

Market conditions are likely to remain challenging, especially given the significant uncertainty caused by the worldwide impact of COVID-19 and the uncertain speed of the global economic recovery.

The extent to which these conditions will impact our overall FY21 profitability is uncertain, making short-term forecasting extremely difficult. Accordingly we are currently unable to provide meaningful guidance for the year ahead

In addition to the impact of COVID-19 mentioned above, the range of other factors that will influence our short-term outlook are:

- the completion rate of transactions and period-end reviews
- market conditions and the impact of geopolitical events
- the impact of foreign exchange
- potential regulatory changes and tax uncertainties
- geographic composition of income.

We continue to maintain a cautious stance, with a conservative approach to capital, funding and liquidity that positions us well to capitalise on opportunities.

(1) Basel III applies only to the Bank Group and not the Non-Bank Group. 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.
(2) Based on materiality, the countercyclical capital buffer (CCyB) of 3bps has not been included.
(3) APRA has released draft prudential standards on its implementation of a minimum requirement for the leverage ratio of 3.5% expected to be effective from January 2023.

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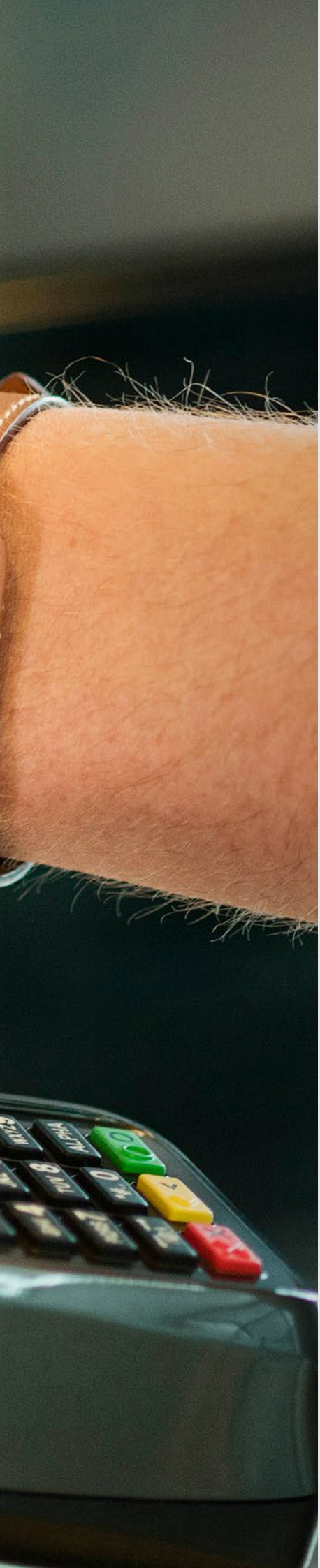


# Governance

### Wearable technology integration

Clients can use Apple Pay on their Apple watch, giving them the freedom to pay without a wallet and make purchases while on the go.

# Corporate Governance

Macquarie's key governance practices guide decision-making of MGL and its subsidiaries (Macquarie) to meet stakeholder expectations of sound corporate governance, acknowledging Macquarie's specific and broader responsibilities to shareholders, funders, clients, staff and the communities in which it operates.

**Macquarie's governance practices have been consistent with the 3rd edition of the ASX Corporate Governance Council's *Principles and Recommendations* throughout the year. Relevant governance practices were updated during the year to reflect the 4th edition of the *Principles and Recommendations* from the end of FY2020.**

Macquarie is a global financial services group operating in 31 markets in asset management, leasing and asset financing, retail banking and wealth management, market access, commodity trading, investment banking and principal investment.

Macquarie's *Code of Conduct* incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide Board, management and staff conduct. It is expected that they all meet these standards and deal honestly and fairly with our clients, counterparties and regulators. There are appropriate consequences for anyone who fails to meet our standards.

The balance between opportunity and accountability, while operating with integrity within a strong risk management framework, is a feature of Macquarie's success and a key factor in our long record of unbroken profitability. Macquarie's approach to corporate governance is to embed key governance principles in the implementation of its strategy.

The full Corporate Governance Statement (Statement) has been lodged with the ASX and is available on our website at **macquarie.com/leadership-corporate-governance**. This summary should be read with the Statement

## Board oversight

The Board sets the 'tone at the top' in a highly visible manner. Board members have extensive contact with staff at all levels within the organisation and across regions.

There is a culture of open and frank discussion at the Board. Actions taken by the Board seek to promote long-term sustainability and prudent management of risk consistent with *What We Stand For*.

In FY2020 there were 50 formal Board and Board Committee meetings during the year with over 600 attendees who were not members of Macquarie's Executive Committee. At these meetings a total of approximately 700 items of business were considered. Between formal meetings management provided the Board with material business and other updates as well as information in response to requests from Board members.

Workshops scheduled during FY2020 included presentations on work health and safety, financial crime risk, InterBank Offered Rate (IBOR) transition program, future leadership and succession planning, scenario analysis and conflicts management.

Non-executive Board members also met regularly without members of management and held private meetings with each of the external auditor, Head of Internal Audit and Chief Risk Officer to assist with their oversight role.

Board members believe that informal conversations with staff are important in assessing the culture within Macquarie. During FY2020, Board members attended more than 21 staff functions in Australia and overseas offices to meet with staff at all levels.

## Professional Conduct

The Board oversees compliance with key policies that are intended to instil a culture of acting lawfully, ethically and responsibly. Key policies are included in Macquarie's *Code of Conduct*. Material breaches of these policies are reported to the Board through the relevant Board Committee.

The following actions taken by the Board as part of its oversight role also support the Board in forming a view on culture at Macquarie.

**Board oversight**

- Commitment to achieving the highest standards of professional conduct across all Macquarie operations
- Regularly reinforce company-wide expectations and enhance Board reporting
- Diligently take action as part of its responsibility to clients, shareholders, communities and the environment in which Macquarie operates
- Review and monitor operations and challenge management.

**Conduct and Culture**

- Set high behavioural standards and act in accordance with these standards
- Take a dynamic approach to oversight of risk culture and conduct risk management in response to business outcomes and expectations of communities and regulators
- Monitor the actions management take to embed behavioural standards, including a sound risk culture, in operations:
  - staff training
  - direct communications to staff
  - monitoring and surveillance activity.

| Business strategy | Financial and non-financial risk management | Pay for performance |
|---|---|---|
| Assess ability of strategy to adapt to markets and deliver sound client and community outcomes within Board approved risk appetite and related limits.<br><br>Review capital management and funding strategies to deliver on business strategy while maintaining sufficient surplus capital and remaining well funded. | Approve Macquarie's Risk Management Strategy, Risk Appetite Statement and standards for managing material risks.<br><br>Review the operation of Macquarie's risk management framework, including compliance with regulatory requirements and Macquarie policies and procedures. | Approve remuneration policies that provide alignment of the interests of staff and shareholders while effectively aligning remuneration with prudent risk taking.<br><br>Bottom up assessment of performance at both business and individual level, including review of breaches of Macquarie's standards of professional conduct and risk management framework to determine remuneration outcomes. |

## FY2020 Governance activities

In addition to the Board's oversight of professional conduct, the Board has participated in consultation on significant regulatory change initiatives during the year. In Australia, the Australian Prudential Regulation Authority (APRA) is undertaking regulatory reviews in a number of areas and there are proposals responding to the Banking Royal Commission recommendations, including Treasury's proposal to extend the Banking Executive Accountability Regime (BEAR) for Authorised Deposit-Taking institutions (ADI) to a new regime that includes all APRA regulated entities.

Other Board governance activities included:

- continued oversight of the impact of increased expectations and actions from Macquarie's regulators across the industry through an extensive regulatory change agenda and management's response, including the enhancement of Macquarie's global framework for regulatory engagement to coordinate Macquarie's response across regions
- continued oversight of management initiatives to respond to additional regulatory focus on non-financial risk with particular attention to matters relating to Governance, Culture, Remuneration and Accountability
- enhanced cross-committee information sharing through the introduction of formal practices, including Board and Board Committee Chair meetings and specific reporting on non-financial risk matters considered by the Board Governance and Compliance Committee (BGCC) to the Board Risk Committee (BRiC)
- implementation of BEAR for Macquarie Bank Limited (Macquarie Bank), a subsidiary of Macquarie Group Limited, from 1 July 2019
- review of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (4th Edition). Macquarie's existing corporate governance practices were largely consistent with the changes introduced in the 4th Edition. Relevant governance practices were updated during the year to be consistent with the 4th edition of the *Principles and Recommendations* from the end of FY2020.

## Corporate Governance framework

### Macquarie's Code of Conduct

The Board approved *Code of Conduct,* which applies to Macquarie's Non-Executive Directors (NEDs) and staff*:*

- incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide the way staff conduct business
- provides clear guidance on good decision-making and escalation, encouraging staff to speak up and report genuine concerns about misconduct
- reinforces Macquarie's key policies, including the *Whistleblower Policy* and the *Anti-Bribery and Corruption Policy*.

To ensure that Macquarie's culture of honesty and integrity remains strong throughout the organisation, all staff who join Macquarie receive specific training on *What We Stand For* and the *Code of Conduct*. Existing staff also receive periodic training and sign an annual certification that they understand the obligations imposed on them by the *Code of Conduct* (Code) as well as their responsibility to adhere to the Code.

*What We Stand For* and the *Code of Conduct* are available at **macquarie.com/what-we-stand-for**

## Risk governance

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

Details of Macquarie's approach to risk management is contained in the **Risk Management** section

The Board annually approves Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*. The BRiC assists the Board with oversight of the operation of Macquarie's risk management framework and the implementation of Macquarie's risk management strategy. The BRiC forms a view of Macquarie's risk culture and identifies and monitors any desirable actions to change the risk culture.

All independent directors of the Board are members of the BRiC to support strong risk governance and oversight. They constructively challenge management's proposals and decisions on risk management arising from business activities. The Board is also assisted by the Board Audit Committee (BAC), the Board Remuneration Committee (BRC) and the BGCC in its oversight of financial and non-financial risk.

During each year, including the most recent year, the Board monitors the operation of Macquarie's risk management framework to satisfy itself that the framework continues to be sound and that Macquarie is operating with due regard to the risk appetite set by the Board. Key components of the framework are reviewed by the relevant Risk Management Group (RMG) divisions and the results are reported to the Board. All key elements of the framework – including those aspects managed by RMG – are reviewed by the Internal Audit Division over a rolling three-year audit plan. During the year, senior management reported to the Board on the effectiveness of risk management and internal control systems in addressing material risks.

The risk management framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Macquarie Operating and Central Service Groups (including Bank Group entities).

The Bank Group maintains its own governance structure that is responsible for the sound and prudent management of the Bank Group, with due consideration to the interests of deposit holders.

## Oversight of remuneration

Macquarie's remuneration framework continues to support the overarching objective of delivering strong company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of Conduct* and *What We Stand For*.

The Board oversees Macquarie's remuneration arrangements, assisted by the BRC. The BRC annually reviews whether Macquarie's remuneration approach remains appropriate and that it creates a strong alignment of staff and shareholders' interests while prudently managing risk.

Macquarie's remuneration framework and consequence management processes are designed to promote accountability, encourage innovation, reward appropriate behaviours and discourage inappropriate behaviours.

Further information on the following is contained in the **Remuneration Report**:

- each NED's current Macquarie shareholding, set out in the Key Management Personnel disclosure
- Macquarie's approach and the amount of remuneration paid to NEDs and Executive KMP.

## Board and management

Macquarie's Constitution sets out requirements concerning board size, meetings, election of directors and the powers and duties of directors. In accordance with the Constitution, the Board has resolved that the maximum number of Directors is currently twelve.

The Board Charter details the Board's role and responsibilities, and matters expressly reserved for the Board, which include approving the annual strategy and business plan, adopting an annual budget, approving Macquarie's funding and capital management strategy, approving Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*, monitoring material risks faced by Macquarie and how they are managed, appointing Macquarie's Chief Executive Officer and approving group policies relating to remuneration, diversity and a code for ethical behaviour. The role of the Board is to promote the long-term interests of Macquarie, taking into account Macquarie's specific and broader responsibilities to its shareholders, funders, clients, staff and the communities in which it operates.

The Board is assisted by its various Board Committees as detailed in each Board Committee Charter.

The Macquarie Group Limited Constitution and Board Charter are available at **macquarie.com/leadership-corporate-governance**

The Board determines delegations to management and approves applicable limits and policies.

The Managing Director and Chief Executive Officer (CEO) has been granted authority for matters not reserved for the Board or a Board Committee. Macquarie's Management Committees assist in the exercise of the CEO's delegated authority. The CEO, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) report to the Board at each meeting. In addition to regular reporting from management, the Board has unlimited access to senior management and external advisers.

The Company Secretary is appointed by and accountable to the Board, through the Chair, for matters relating to the proper functioning of the Board.

## Board Committees

Macquarie's five standing Board Committees assist the Board in its oversight role. All Board members have access to all Board Committee meeting papers and may attend any Board Committee meeting. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and presented to the Board by the respective Committee Chairs.

All NEDs are members of the BRiC to assist the Board in its oversight of Macquarie's risk management framework. The Chairs of the Board and each Board Committee meet to broadly consider the work plan, responsibilities and the performance of each Committee and to focus on any areas of overlap or gaps in Committee reporting and responsibilities, including coordination of non-financial risk reporting between Committees and the coverage of risk reporting across Committees.

The Board Committee Charters, detailing the responsibilities of each Committee are available at **macquarie.com/leadership-corporate-governance**

## Allocation of responsibilities between Board Committees

The following table provides a summary of the allocation of responsibilities between Board Committees.

| Committee | Role |
|---|---|
| **Board Risk Committee (BRiC)** | The BRiC assists the Board by providing oversight of Macquarie's risk management framework and advising the Board on Macquarie's risk position, risk appetite, risk culture and risk management strategy. The BRiC receives information on material risks and external developments that may have an impact on the effectiveness of the risk management framework. The BRiC reviews and monitors Macquarie's risk culture and the extent to which it supports the ability of Macquarie to operate consistently within its risk appetite. The Chief Risk Officer reports directly to the CEO and has a secondary reporting line to the BRiC. |
| **Board Governance and Compliance Committee (BGCC)** | The BGCC assists the Board with adopting the most appropriate corporate governance standards for Macquarie and assists the Board in fulfilling its responsibility for oversight of the regulatory and compliance risk framework of Macquarie, including reviewing and monitoring compliance with Macquarie's *Conduct Risk Management Framework*. In addition, the BGCC reviews the operation of Macquarie's work health and safety, environmental and social risk management policies and customer and client reporting. The BGCC also set measurable objectives for increasing the diversity of Macquarie's workforce. The BRiC, BRC and BAC review aspects of the regulatory and compliance risk framework relating to their duties and responsibilities. |
| **Board Remuneration Committee (BRC)** | The BRC makes recommendations to the Board that promote appropriate remuneration policies and practices for Macquarie consistent with the risk management framework. The BRC also satisfies itself that Macquarie's remuneration policies and practices are consistent with and promote Macquarie's *Code of Conduct* and the accountability of staff for the business outcomes they deliver by encouraging a long-term perspective. The BRC reviews Human Resources-related reports and is responsible for liaising with the BRiC to ensure there is effective co-ordination between the two Committees to assist in producing a properly integrated approach to remuneration that reflects prudent and appropriate risk. The BRC is also responsible for remuneration related disclosures in the Remuneration Report. |
| **Board Audit Committee (BAC)** | The BAC assists the Board with its oversight of the integrity of the financial statements. The BAC also reviews the adequacy of Macquarie's control framework for financial regulatory reporting to banking regulators and monitors the internal financial control environment. The BAC reviews reports from the external auditor and Internal Audit, referring matters relating to the duties and responsibilities of the BRiC and BGCC to the appropriate Board Committee. The BAC monitors and reviews the performance of the Head of Internal Audit and the effectiveness of the Internal Audit function. |
| **Board Nominating Committee (BNC)** | The BNC assists the Board in satisfying itself that it has an appropriate mix of skills, experience, tenure and diversity for the Board to be an effective decision-making body and to provide successful oversight and stewardship of Macquarie. |

Details of the Directors' qualifications, experience, Committee membership and meeting attendance are contained in the **Directors' Report**

## Commitment to shareholders and an informed market

Macquarie believes that shareholders, regulators, rating agencies and the investment community should be informed of all material business events and risks that influence Macquarie in a factual, timely and widely available manner.

Macquarie has a continuous disclosure policy that is incorporated in its *Continuous Disclosure & External Communications Policy*.

The Continuous Disclosure Committee considers matters that may require disclosure to ASX in accordance with Macquarie's continuous disclosure obligations.

All external communications which include any price-sensitive material for public announcement, annual and interim result announcements, release of financial reports, presentations to investors and analysts and other prepared investor presentations for Macquarie will:

- be factual and subject to internal review and authorisation before issue
- not omit material information
- be timely and expressed in a clear and objective manner.

Material announcements relating to matters which fall within the reserved powers of the Board and not delegated to management are referred to the Board for approval.

Macquarie's *Continuous Disclosure & External Communications Policy* is available at **macquarie.com/leadership-corporate-governance**

Macquarie has an investor relations program to facilitate effective two-way communication with investors and analysts and to provide a greater understanding of Macquarie's business, performance, governance and financial prospects. Macquarie engages with institutional investors, private investors, sell-side analysts and buy-side analysts throughout the year via scheduled and ad hoc interactions.

As part of Macquarie's commitment to keep its investor base informed, management presents at various investment conferences and conducts investor visits and meetings throughout the year. All material presentations and other disclosures which include material information not previously released are lodged with ASX ahead of the presentation and made available on Macquarie's website.

Periodic corporate reports that are not audited or reviewed by PwC are verified internally by management prior to release to ASX. The verification process allocates material disclosures within the relevant document to contributors to substantiate the disclosures by reference to company source documents or, if no source documents are available, by persons with the knowledge and expertise to confirm the accuracy and completeness of the disclosures.

### Macquarie's website

Recent announcements, past and current reports to shareholders, including summaries of key financial data, operational briefing presentations, AGM webcasts and copies of recent notices of meeting are all available in the investor centre on Macquarie's website. Investor Relations contacts are also available on the website.

Shareholders can also elect to receive communications electronically by contacting Macquarie's share registry.

Further information about Macquarie is available at **macquarie.com**

## Shareholder meetings

Macquarie encourages shareholders to participate in general meetings and aims to choose a date, time and venue convenient to its shareholders. For shareholders who are unable to attend in person, Macquarie provides a webcast of its AGM and any other general meetings. The results of all resolutions are lodged with ASX as soon as they are available after the meeting.

Macquarie typically holds its AGM in July of each year.

Notices of meeting are accompanied by explanatory notes on the items of business and together they seek to clearly and accurately explain the nature of business of the meeting.

If shareholders are unable to attend the meeting, they are encouraged to vote on the proposed motions by appointing a proxy. The proxy form included with a notice of meeting explains how to appoint a proxy. Online proxy voting is also available to shareholders.

Unless specifically stated in a notice of meeting, all holders of fully paid ordinary shares are eligible to vote on all resolutions. Macquarie's practice is that voting on each proposed resolution is conducted by poll.

Macquarie seeks to conduct its shareholder meetings in a manner which is courteous for those attending. In the interests of attending shareholders, the chair of the meeting will exercise his or her powers as the chair to ensure that the meeting is conducted in an orderly and timely fashion.

A shareholder calendar is available at
**macquarie.com/investors**

**The Corporate Governance Statement is current as at 7 May 2020 and has been approved by the Board.**

Our Corporate Governance Statement and Key to Disclosures (Appendix 4G) have been lodged with the ASX and are available at
**macquarie.com/leadership-corporate-governance**

# Diversity & Inclusion

At Macquarie, the diversity of our people is one of our greatest strengths. An inclusive workplace enables us to embrace diversity to deliver more innovative and sustainable solutions for our clients, shareholders, communities and our people.

## Our commitment

Macquarie's growth has been driven by the entrepreneurialism of our people and the unique ideas and perspectives applied to finding opportunities. Diversity & Inclusion (D&I) is a business priority and remains fundamental to Macquarie's success. It is also a shared responsibility with everyone from our newest employees to our most senior leaders playing a role in creating an inclusive workplace where our people are safe to be themselves and reach their full potential.

While we have made progress – with more women than ever before in our workforce and at many leadership levels – we recognise there remains more to do to accelerate the pace of change. In FY2020 we refreshed our D&I strategy, building on our FY2019 objectives and setting new objectives to challenge ourselves to do better.[1] We have retained all prior year objectives in our FY2020 D&I strategy but have evolved and expanded them to accelerate our progress. The progress towards achieving Macquarie's FY2019 diversity objectives is disclosed in this report. This year we also created more regional D&I Lead roles to better support our leaders, and reaffirmed our commitment to building a diverse workforce through our *Workforce Diversity Policy.* Macquarie is committed to:

- building a workforce that reflects all aspects of diversity to bring a range of perspectives, ideas and insights to everything we do
- creating a workplace where our people feel respected for their uniqueness, valued for their contribution and empowered to reach their full potential
- providing and supporting commercial and development opportunities for under-represented people in our community.

Macquarie's *Workforce Diversity Policy* is available at **macquarie.com/diversity**

## Diversity & Inclusion objectives

Holding ourselves to account is critical to demonstrating our commitment to D&I progress. The *Workforce Diversity Policy* provides that each year the Board Governance and Compliance Committee (BGCC) will set measurable objectives for increasing the diversity of Macquarie's workforce and creating a culture of respect and inclusion.

Our D&I objectives reflect the commitment to action across our organisation. Each employee is responsible for creating a respectful and inclusive culture and valuing the diverse ideas and perspectives of others. Management Committees globally, in each Operating and Central Service Group and region, are accountable for achieving Macquarie's D&I objectives. The Board, BGCC and Board Remuneration Committee receive regular updates on progress against Macquarie's D&I commitments and challenge our leaders to do better.

Macquarie's BGCC has endorsed the FY2020 D&I objectives as set out below.

### Our diverse people

Macquarie is committed to building a workforce that reflects all aspects of diversity and intersectionality to bring a range of perspectives, ideas and insights to everything we do. Our focus continues to be on developing the internal and external pipeline of women and people from under-represented groups at all levels and enhancing our recruitment and talent practices to facilitate this. Macquarie's objectives are:

Workforce composition:

- increase female representation across our workforce
- maintain gender balance on Intern and Graduate programs
- increase female representation at the senior leadership levels of Executive Committee, Division Head and Senior Executive
- always have not less than 30% of our Board of Directors of different genders.

Diversity practices:

- increase the collection of demographic data to understand the diversity of our workforce
- evolve practices to attract candidates with broad inherent and acquired diversity
- require diverse representation on all recruitment shortlists and interview panels and ask 'if not, why not?'
- hire experienced candidates from groups that are under-represented in Macquarie at least in proportion to the underlying candidate pool
- maintain high return-to-work and retention rates for employees following parental leave
- maximise retention of people from under-represented groups.

(1) Contained in our Diversity Report in the 2019 Annual Report on pages 28 to 31.

## Progress FY2020

Our ongoing commitment to achieving gender balance at all levels of the organisation is demonstrated by the year-on-year increase in female representation across Macquarie's total workforce. In FY2020, Macquarie's Executive Committee, Division Heads and Senior Executive comprise a greater proportion of females than in preceding years. More than 30% of Macquarie's Board of Directors are female.

The table below outlines the proportion of women employed globally at Macquarie over the last five years. Figures have been restated to reflect all permanent employees regardless of their leave status.[2]

| As at 31 March | 2016 % | 2017 % | 2018 % | 2019 % | 2020 % |
|---|---|---|---|---|---|
| Board of Directors | 30.0 | 33.3 | 30.0 | 36.4 | **36.4** |
| Executive Committee | 23.1 | 25.0 | 25.0 | 25.0 | **27.3** |
| Division Head[3] | 18.5 | 21.6 | 23.5 | 23.9 | **24.6** |
| Senior Executive[4] | 14.7 | 15.6 | 17.2 | 19.1 | **19.9** |
| Macquarie Workforce | 38.9 | 39.2 | 39.8 | 40.1 | **41.0** |

The majority of all roles filled globally during FY2020 had at least one female candidate on the shortlist and one or more female Macquarie staff on the interview panel. Women continue to be hired in greater proportion than the underlying female application rate. Macquarie maintained gender balanced Intern and Graduate programs in FY2020.

Macquarie's Returner Programs continue to support candidates in key global locations to reintegrate into the workforce following extended professional career breaks.

Female and male turnover have remained comparable.

Macquarie continues to provide support to working parents and those with carer's responsibilities through initiatives such as childcare centres, backup child/adult/eldercare, nursing mothers' facilities and return-to-work coaching for parents. The vast majority of part-time and full-time employees are able to access some form of company paid parental leave provisions.

Macquarie's global return-to-work rate was 95% in FY2020 and high retention rates continue to be achieved for staff who have taken parental leave.

Macquarie encourages staff to share their cultural background so we may better understand the diversity of our workforce. We continue to focus on attracting candidates with broad inherent and acquired diversity. As examples, in Australia Macquarie continued its participation in the CareerTrackers and CareerSeekers internship programs, placing 26 students during FY2020. In the US, Macquarie partnered with Out4Undergrad to host LGBTQ student events; Columbia University's Double Discovery Centre to expand our reach to first generation college students; and Edge4Vets to deliver career transition workshops for Veterans. In the UK, Macquarie participated in the Junior Associates Program, providing employment for university students from less socially mobile backgrounds.

In India, Macquarie partnered with Asha to provide internship opportunities to university students from economically disadvantaged backgrounds.

*This year Macquarie staff have taken part in programs that celebrate diversity, support inclusion and provide development opportunities to under-represented people in our communities.*

(2) Previous Annual Reports included only active permanent employees and excluded those on leave.
(3) Division Head refers to critical roles across Macquarie. It typically includes executives two layers down from the CEO.
(4) Senior Executive refers to Macquarie's combined Division Director and Executive Director population.

# Diversity & Inclusion

Continued

## Our inclusive culture

Creating a workplace where our people feel respected for their uniqueness, valued for their contribution and empowered to reach their full potential is essential for diversity of thought to flourish. We are embedding inclusion and psychological safety in our culture though day-to-day practices (behavioural inclusion) and programs and policies (structural inclusion). Macquarie's objectives are:

Behavioural inclusion:

- develop inclusive leadership capabilities of our managers and leaders
- promote psychological safety, and respectful and inclusive behaviour through awareness and education activities
- encourage flexible working in all its forms
- foster a culture of natural sponsorship of people from under-represented groups to create pathways to senior management.

Structural inclusion:

- equip senior managers with data to understand the diversity of their teams and assess the inclusiveness of their practices
- monitor the equity of people decisions, holding senior managers accountable for inclusive practices
- embed the principles of D&I in all people-related policies, processes and programs to ensure the highest and fairest standards:
  - maintain pay equity for like roles and performance
  - provide equal access to opportunities and future skilling
  - maintain equality for women and men in promotion decisions
  - provide staff with access to flexible working.

## Progress FY2020

Macquarie expanded delivery of development programs during the year to provide staff and people managers with experiences to increase awareness of non-inclusive language and behaviours and build confidence to call them out, create empathy, and reinforce Macquarie's expectations for inclusive leadership. The importance of creating psychological safety has been embedded in core Leadership programs, and was a central topic of Macquarie's 2019 Global Executive Director Conference.

There continues to be a strong focus on flexible working. Manager capability training was delivered during FY2020 to equip people managers with the knowledge and skills to lead a flexible workforce. Flexible working campaigns shared practical tips and information on how managers and teams can support the varied arrangements of their colleagues.

Across our regions and groups, we have programs and initiatives to develop a culture of sponsorship to support our female and diverse talent into leadership roles.

Macquarie's employee network groups span culture and heritage, families, First Australians, gender, LGBTQ, race and ethnicity, veterans and wellness, and provide staff with opportunities to exchange ideas, build relationships and support Macquarie's D&I strategy.

The principles of equity and inclusion are embedded in Macquarie's people-related practices and processes, including core talent programs, recruitment processes, remuneration and promotion criteria. We continue to focus on creating opportunities for all staff to demonstrate merit and their promotion readiness; and ensuring we retain staff from under-represented groups through the critical mid-career levels and into senior roles.

Workforce data is regularly monitored and provided to senior managers so they may assess the equity of people decisions and inclusiveness of practices in their teams. Senior managers are also held accountable for achieving inclusion objectives. In FY2020:

- remuneration outcomes were reviewed to ensure pay equity for like roles and performance across all Operating and Central Service Groups and regions. No significant differences in remuneration outcomes were found to exist between males and females for like roles and performance
- a higher proportion of women completed the *Macquarie Director Program*, Macquarie's core leadership and development program, compared to the proportion of women at director-level
- promotion decisions and outcomes were reviewed and analysed to identify any gender discrepancies. Promotion rates of males and females to Director levels have remained comparable
- Macquarie recognises that working flexibly means different things to different people and exists in many forms across Macquarie, such as different hours, locations and patterns of work. It may be utilised by staff to balance their family or carer responsibilities, further studies, sporting commitments, community work, or phased retirement. Staff may also have access to leave without pay, study and exam leave, and our purchased leave policy was enhanced in key locations in FY2020. Macquarie empowers staff to manage their work and time to suit their own personal situation and achieve their career and personal goals.

## Our clients and community

Macquarie is committed to providing and supporting commercial and development opportunities for under-represented people in our community. We have long-term funding partnerships with non-profit organisations around the globe and our staff participate in a variety of activities including literacy and employability coaching, and mentoring. We are proud of the awards we have received this year and are committed to doing more to provide opportunities to under-represented people in our communities. Macquarie's objectives are to:

- tailor the delivery of our services to meet the needs of our diverse client base
- increase opportunities in our supply chain for businesses that have been historically under-represented in our communities or those driven by a social purpose
- support the progress of under-represented groups through partnerships and sponsorships with organisations in the diversity sector
- promote finance careers to secondary school and university students from under-represented groups to increase the diversity of the finance industry
- participate in D&I benchmarking indexes to identify opportunities for improvement.

## Progress FY2020

Human-centred design has been widely adopted across Macquarie, placing the client at the centre of design decisions. Employees in our Banking and Financial Services (BFS) business have completed training to enhance their understanding of potential client vulnerability and respond with sensitivity, respect and compassion. Staff across the globe have also delivered pro bono services for non-profit organisations.

As part of our procurement strategy, Macquarie includes sustainability and supplier diversity requirements within tender documents. In FY2020, Macquarie spent over $A8 million with diverse suppliers.

Macquarie is proud to be a partner and sponsor of organisations across the diversity sector, including those that support students from under-represented groups. Through our First Australians employee network group, Macquarie supports the Girls Academy at the Clontarf Aboriginal College, Melbourne Indigenous Transition School and Gawura School in Sydney. In Asia, Macquarie has partnered with The Women's Foundation and Girls Go Tech Program to encourage girls to pursue STEM (Science, Technology, Engineering and Mathematics) subjects. In the US, Macquarie has continued its partnership with Girls Who Invest, a non-profit organisation dedicated to increasing the number of women in portfolio management and executive leadership in the asset management industry.

In FY2020 Macquarie was recognised as an employer that provides a supportive and inclusive workplace for LGBTQ staff. BFS attained Gold Employer status in the 2019 Australian Workplace Equality Index, a national benchmark on LGBTQ workplace inclusion. Macquarie received a score of 100% on the US-based Human Rights Campaign Foundation *2019 Corporate Equality Index* for LGBTQ inclusion and ranked 33rd in the UK Stonewall *Workplace Equality Index* up from 86th in 2018. Macquarie ranked in the top 100 Best Companies for Women in India (BCWI).

Further information on D&I is available at **macquarie.com/diversity**

## Diversity & Inclusion awards and partnerships

# Environmental, Social and Governance

Macquarie's Board and Management recognise the importance of sound Environmental, Social and Governance (ESG) practices as part of their responsibility to our clients, shareholders, communities, people and the environment in which Macquarie operates.

## ESG approach

Macquarie's ESG approach is structured around focus areas considered to be material to our business.

Clear dialogue with stakeholders is important to building strong relationships, understanding external dynamics, earning and maintaining trust, enhancing business performance and evolving our ESG approach. We regularly engage with a broad range of stakeholders including clients, shareholders, investors, analysts, governments, regulators, staff, suppliers and the wider community.

## ESG governance

The Board is responsible for approving Macquarie's ESG framework including major ESG policies. In accordance with its Charter, the Board Governance and Compliance Committee (BGCC) assists the Board in adopting appropriate governance standards and reviewing the operation of environmental and social risk management policies. Responsibility for implementation of the ESG framework and related board-approved policies resides with Management.

**ESG governance:**

**External stakeholder interests**

**ESG focus areas**

**Environmental and social risk management**

**391**
transactions

assessed under our *Environmental and Social Risk (ESR) Policy*

**Environmental and social financing**

**$A9.0b**
invested or arranged in renewable energy and energy efficiency projects in FY2020

**12,800 MW**
of renewable energy assets in operation or under management at 31 March 2020[1]

**Climate change**

**13.6%**
of total funded equity investments exposed to renewable energy at 31 March 2020[2]

**2.2%**
of total funded equity investments exposed to conventional energy at 31 March 2020[2]

**Sustainability in direct operations**

**100%**
renewable electricity by 2025

Emissions per capita reduced by

**45%**
from FY2010 baseline (18% reduction from FY2019)

(1) MW of renewable energy assets in operation or under management reflect 100% generating capacity of each asset, not the proportion owned/managed by Macquarie.
(2) Equity investments are reported on a funded balance sheet basis and therefore exclude equity hedge positions and non controlling interests. Macquarie's carrying value of its interest in East Anglia ONE Limited is $A2.8 billion, which has been partially funded with asset-specific borrowings of $A2.3 billion at 31 March 2020. Total funded equity investments amount to $A7.4 billion as at 31 March 2020 ($A5.9 billion at 31 March 2019).

## About these disclosures

Macquarie's FY2020 ESG disclosures have been prepared in accordance with the GRI Standards: Core option. The ESG disclosures comprise relevant sections of Macquarie's 2020 Annual Report and Macquarie's website. The content of the disclosures is based on Macquarie's ESG focus areas, which have been reviewed and updated in FY2020 following secondary research, market benchmarking, media analysis and extensive engagement with internal representatives of Macquarie's businesses across all regions. The adjustments to our focus areas reflect the issues that we have observed are most important to our stakeholders.

Full details of the changes made to the focus areas and a GRI Index table are available at **macquarie.com/ESG**

- Board oversight
- *What We Stand For* (principles of Opportunity, Accountability and Integrity) and *Code of Conduct*
- ESG risk management

### Risks and opportunities identified by the business

**Client experience**

Partnerships Gold Award 2019 for Financial Advisor of the Year

Mozo Experts Choice Awards 2020 for Excellent Banking App, Internet Banking and Exceptional Everyday Account

Canstar Outstanding Value Transaction Account (2018 and 2019)

**People and workplace**

3,000 classroom events and 350,000 online courses and knowledge tests delivered to our staff

**Business conduct and ethics**

Tailored training, workshops and leadership sessions provided to over

**8,700**
staff[3]

**Community**

The Macquarie Group Foundation is the philanthropic arm of Macquarie.

Further information can be found on pages 62 to 65 of this Annual Report

(3) Content includes conduct and conduct risk, psychological safety (aimed at staff and supervisors) and ethical decision-making. Macquarie also requires staff to undertake mandatory online *Code of Conduct* training.

## Environmental and social risk management

Macquarie recognises that failure to manage ESG risks could expose the organisation to commercial, reputational and regulatory impacts and affect communities, the environment and other external parties. Assessing and managing Macquarie-wide ESG risks is a key business priority and an important component of our broader risk management framework, detailed in the Risk Management section of this Annual Report.

Under the *Code of Conduct* all staff share responsibility for identifying and managing environmental and social issues as part of normal business practice. Staff are supported by the ESR team.

The ESR team coordinates a diverse range of ESG activities across business groups and regions, including developing and implementing Macquarie-wide and business-specific policies, conducting transaction reviews, providing advice on ESG risks and opportunities and facilitating training. The ESR team sits within the Risk Management Group and regularly reports to the Chief Risk Officer (CRO) and to the BGCC on ESG-related matters.

### ESR in transactions

Environmental and social risks are managed through the implementation of the *ESR* and *Work Health and Safety (WHS)* policies.

Macquarie's *ESR Policy* describes our approach to ESR management in client on-boarding and across a broad range of transactions including equity investments, financing, leasing and advisory mandates. The *ESR Policy* provides a robust process to assess, manage, mitigate, monitor and report environmental and social risks and takes a precautionary approach to ESR issues including labour and employment practices, climate change, human rights, resource efficiency, pollution prevention, biodiversity and cultural heritage. Based on international guidelines, including the International Finance Corporation Performance Standards, the *ESR Policy* provides escalated decision-making and approval processes, alongside the credit approval process, for material environmental and social risks. Transactions with material environmental and social risks are referred to the CRO and may be escalated to the Executive Committee or Macquarie Board.

The ESR team oversees the operation of the *ESR Policy*, reviewing transactions and providing specialist advice and targeted training.

**509**

staff received ESR and WHS training in FY2020[4]

**80**

staff received specialist Human Rights training in FY2020

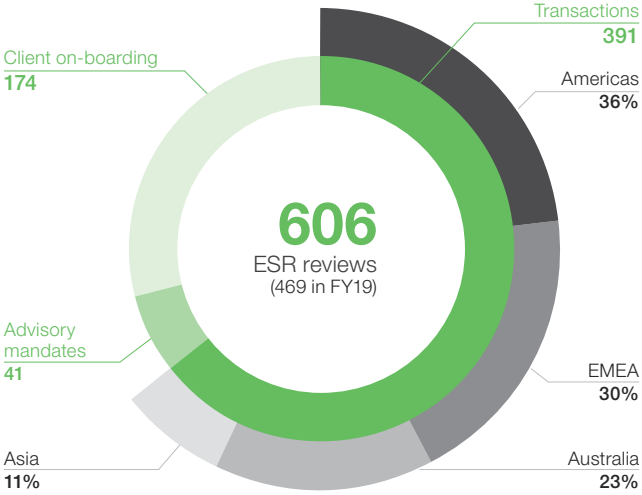
Macquarie's *WHS Policy* sets out our commitment to seek to operate zero harm workplaces through maintaining high WHS standards and performance across all our activities globally. For operating assets in which Macquarie has an equity interest or manages on behalf of a fund, we continued to facilitate WHS and environmental improvements through:

- conducting due diligence prior to investment
- training our staff
- regular monitoring of performance
- sharing lessons learnt and best practices across our portfolio
- ongoing audits.

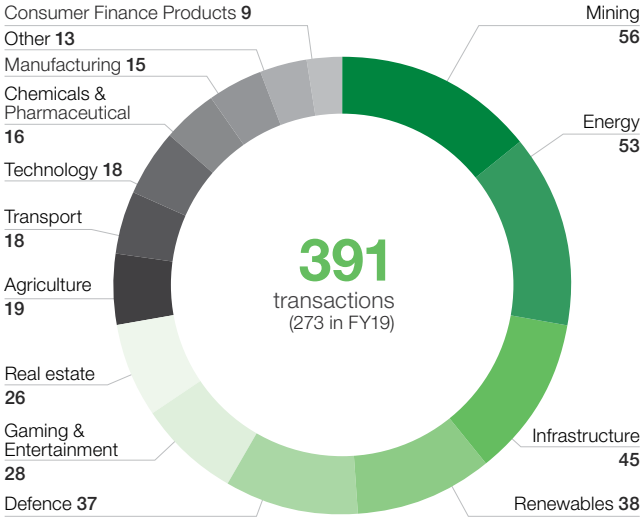
These activities are documented in the *WHS* and *ESR* policies and associated frameworks, which are based on international standards.[5] These are updated periodically to respond to identified opportunities for improvement and emerging issues.

(4) Includes risk managers and those in specific business groups with greatest potential exposure to environmental, social and WHS risks.
(5) 'Occupational health and safety management systems – Requirements with guidance for use' ISO 45001:2018 and 'Environmental management systems – Requirements with guidance for use' ISO 14001:2016.

### ESR Policy referrals




### Transactions assessed under the ESR Policy by sector




## Safe construction of Formosa 1 wind farm in Taiwan

Macquarie's Green Investment Group (GIG) and its joint venture partners Orsted, JERA and Swancor, successfully delivered Taiwan's first commercial scale offshore wind farm, Formosa 1 in late 2019. GIG along with joint venture partners JERA and Swancor Renewable have now commenced delivering Formosa 2 through its construction phase. Together Formosa 1 and Formosa 2 are important milestones in the realisation of Taiwan's commitment to deliver 5.7 GW of offshore wind capacity by 2025, and together will generate enough electricity to power around 500,000 homes in Taiwan.

The 128 MW Formosa 1 project, involving 22 offshore turbines, was completed on time having accumulated over 4.33 million hours worked without serious injury to workers and a Lost Time Injury Frequency Rate (LTIFR) of 0.23 (comparable to European wind farms).[6]

Macquarie joined the project in 2017 and set an ambitious work health, safety and environment (WHSE) vision and strong expectations for the project that reflect our global commitment to WHSE. Macquarie fulfilled key management roles in the project with technical experts (including the Construction Director, and Risk, Commercial, Contracts, WHSE, Permits, Consents and Package Managers) to ensure the success of the project in challenging weather conditions in an emerging market.

Working closely with Taiwan government authorities and the local supply chain throughout the project, Macquarie has made a significant contribution to Taiwan's competitiveness and ability to deliver world-class offshore wind developments. The project has been important in the development of WHSE standards and culture in Taiwan. It has also contributed significantly to expanding industry skills and creating jobs and opportunities in the local supply chain.

More detailed information is available at
**macquarie.com/ESG**

(6) Lost time Injury (LTI) is an incident that results in time lost from work equal to or greater than a full day/shift. The LTI Frequency Rate (LTIFR) is the number of Lost Time Injuries resulting in a compensable claim per million workhours.

## Environmental and social financing

We have seen further growth in demand for environmental and social finance, often associated with infrastructure and energy. This is driven largely by the global energy transition and areas like transport and mobility, digital infrastructure, housing and healthcare where social needs are seeing client demands for capital, innovative financing solutions and support for new technologies.

Macquarie continues to support our clients seeking to manage and respond to sustainability challenges and capitalise on emerging opportunities. Drawing on our global network, sector expertise and strong record, Macquarie provides a diverse range of products and services with an ESG focus to corporate, government and institutional clients. Our activities span the investment cycle from research on alternative energy to tailored capital solutions for the development and construction of renewable assets.

### Our capabilities

**Finance and Develop**

- Investment in development projects, platforms and businesses
- Debt and equity investment
- Asset financing, including demand side management, energy efficient assets, distributed generation and battery storage and electric vehicles.

**Advise**

- Financial advisory
- Debt and equity arrangement
- Green financial institution advisory
- Green impact assessment, reporting and ratings.

**Manage**

- Real asset management, including green infrastructure, equity and debt, asset finance and real estate
- Securities investment management and structured access to funds
- Equity-based products and alternative assets.

**Research**

- Specialist ESG and alternative energy research
- Corporate and investor ESG engagement programs.

**Trade**

- Emission allowances and renewable energy certificates
- Inventory financing for environmental markets
- Derivative financing for renewable energy projects
- Environmental risk management solutions.

To help finance its growing role in renewables financing, Macquarie issued a £500 million Green Loan facility in 2018.

In 2019 we released our first Green Finance Impact Report detailing how the proceeds of that loan had been used. In line with the Asia Pacific Loan Market Association (APLMA) Green Loan Principles, the report provides full transparency over the projects that have been supported by the Green Loan, including how they have been selected and their environmental benefits.


More detailed information is available at **macq.co/GreenReport**


### Finance, develop and advise

Macquarie has a substantial and longstanding commitment to the renewable energy sector, offering a full range of financial services and products across the organisation that target investments in green infrastructure projects to support the transition to a low carbon economy. We service clients across various renewable energy technologies including solar, wind, waste to energy, bioenergy and energy efficiency.

Through the GIG, a signatory to the UN Principles for Responsible Investment (PRI) and Equator Principles, Macquarie is dedicating a growing proportion of our resources to early-stage project development to help bridge the gap of development stage funding and accelerate the global energy transition. Currently, GIG is progressing 25 GW of development projects and is focused on delivering that pipeline into construction and expanding on it.

Macquarie also advises, sponsors and invests in social infrastructure, assisting public and private entities to deliver essential services including hospitals, schools, social housing and justice facilities.

## Accelerating the energy transition by bringing innovative projects to life

*Floating LiDAR system*

With its broad range of technical expertise in green infrastructure, Macquarie's GIG is ideally placed to invest in emerging technologies, products and services and bring them to new markets.

In Korea, GIG has been involved in the emerging offshore wind sector by completing the installation of a floating LiDAR system for their floating offshore wind project at Ulsan with target capacity of 1.5 GW. The LiDAR will provide critical wind resource data to support GIG in developing the project. GIG was the first developer to install a floating LiDAR in Korean waters.

GIG has also established an active role in the growing global Power Purchase Agreement (PPA) market. PPAs act as an alternative source of revenue making projects economically viable in low to no-subsidy environments. To date, GIG has originated PPAs supporting over 3 GW of renewables projects with over 15 corporate clients and other counterparties globally.

In Europe, GIG acquired the 42 MW Kisielice and the 48 MW Zajączkowo onshore wind farms in its first two investments in Poland. Generating enough renewable electricity to power the equivalent of over 80,000 homes per year, the wind farms have a positive impact on the energy mix in a country that is still largely reliant on coal.

GIG has also been active in the solar market, constructing their first project in Spain and announcing an agreement with Tesco to install and operate solar PV systems at a number of the food retailer's sites across the UK. This deal will help Tesco work towards its commitment to generate 10% of its energy needs onsite by 2030.

In the US, GIG provided debt financing for an innovative battery-based energy storage project in Southern California. The fleet of energy storage systems will be used for utility grid services (including flexible and reserve capacity, solar integration and voltage management) in addition to retail energy services such as demand management, back up generation and power quality enhancement.

## BloombergNEF Carbon Score

In 2019, GIG partnered with BloombergNEF (BNEF), combining its pioneering Carbon Score methodology with BNEF's market-leading renewable energy project data to create a tool to assess the green impact of over 40,000 wind and solar assets globally.

GIG's methodology is designed to address the lack of information that makes it difficult to integrate climate-related risks and opportunities into investment decisions, by generating a simple and intuitive Carbon Score for renewables assets. This enables BNEF clients to quickly, clearly and consistently assess and compare the positive carbon impact of individual assets, fund portfolios or PPAs.

Through the partnership, GIG's Carbon Score has been applied to over 60% of the world's consented wind and solar projects to date. Power off-takers can identify opportunities to purchase high-impact clean power, while asset owners and managers have access to robust data to quantify and report on the contribution of renewable energy assets and portfolios to carbon reduction more accurately.

## Manage

Macquarie's asset management businesses are committed to evaluating ESG factors in investment decision-making and engaging with investors on ESG issues. Macquarie Asset Management (MAM) is a signatory to the UN PRI. Divisions within MAM have established specific ESG policies and approaches that reflect the ESG considerations associated with their business.

This year, Macquarie Infrastructure and Real Assets (MIRA) has introduced carbon and energy reporting for its fund portfolio companies. These metrics will inform investment and asset management decisions and, over time, enable MIRA to set targets for the businesses within each fund portfolio to achieve a net reduction in greenhouse gas emissions.

Macquarie Investment Management (MIM)'s Equity and Fixed Income Investment teams have access to ESG analytical tools that provide insight into companies' and portfolios' carbon footprint, allow them to stress-test issuers and portfolios for different carbon pricing scenarios, and offer guidance regarding material ESG factors that affect a given industry. MIM's Fixed Income research team assigns their own proprietary ESG risk ratings to new issues that they analyse, and its Emerging Markets Debt team has established a differentiated approach towards assessing Emerging Market countries on ESG.

**$A20.4b** renewable energy assets under management at 31 March 2020

**$A2.0b** assets managed under MIM's targeted Responsible Investment strategies

**$A3.2b** funds managed in line with MIM's clients' specific ESG goals and screening preferences

## MIRA agricultural fund

In 2019 MIRA reached final close of its carbon-reduction-focused agricultural fund, Macquarie Agriculture Fund – Crop Australia (MAFCA). MAFCA has a mandate to target improved on-farm energy efficiency and reduced carbon emissions through sustainable farm management practices. Australia's Clean Energy Finance Corporation (CEFC) is an investor in the fund and is working with MIRA and the Commonwealth Scientific and Industrial Research Organisation (CSIRO), a world-leading scientific institution, to develop an emissions reduction benchmarking model to be shared with the broader farming sector.

MIRA has overseen and advised on the construction of an emissions calculation tool known as FarmPrint, with development conducted by CSIRO. FarmPrint is an emissions efficiency model that allows a farmer to input operational information pertaining to their farm and calculate the intensity of their current emissions footprint (i.e. their FarmPrint). The FarmPrint model calculates the ratio of emissions relative to land area and the volume of crop output that is produced for an individual farm.

By using FarmPrint, farmers will be able to identify and understand which parts of their production processes generate the most emissions, guiding decision-making about which technologies and activities should be improved.

## Social and affordable housing

Social infrastructure provides access to quality, affordable social services and offers investors long-term opportunities in regulated non-profit sectors.

Specialist Disability Accommodation (SDA) was introduced in 2016 under the Australian National Disability Insurance Scheme (NDIS) to provide high-quality housing to 28,000 Australians with extreme functional impairment and very high support needs. Since 2017, Macquarie Specialised Accommodation Solutions (MSAS) has partnered with Summer Housing to provide 260 independent living SDA apartments across Queensland, New South Wales, Victoria, South Australia and Western Australia.

40 apartments completed along the east coast of Australia and dwellings in Fairfield (Victoria) and Newstead (Queensland) are fully occupied. This year, as more of the development pipeline completes, tenants will be able to transition into one of the 90 brand new, integrated, accessible and purpose-built apartments within Australian communities.

## Research

It is important to us to keep our clients informed about emerging ESG trends. This year, Macquarie has made ESG a standard component of all Australian stocks initiations and issued specialist ESG reports covering topics such as human capital management, waste-to-energy, company ESG ratings, reporting season and AGM trends.

We also hosted a number of ESG-themed events, including investor forums focused on climate change and waste management.

Top three rating for Australian ESG research by institutional investors in 2019 Peter Lee survey

From January 2020, Macquarie entered into a strategic partnership with Kepler Cheuvreux, a UN PRI signatory since 2005. The partnership will expand our European expertise and provide our clients with access to a larger pool of alternative energy research.

In Asia, we are responding to increased client demand for ESG research with an expanded ESG team that will work alongside our existing equity and macro research teams. We are enhancing our existing governance screens on all stock initiations to include more in-depth examination of social and environmental issues that can impact investment performance in the region.

Across our equity research, our ESG initiatives leverage strongly off Macquarie's deep sector expertise in areas such as renewable energy, agriculture and technology.

## Trade

The trading business within Commodity Markets and Finance (CMF) provides wholesale energy market access and hedging for a wide range of renewable energy suppliers, retailers and producers, such as waste-to-energy and biomass power plants. CMF enables clients to hedge their increasing exposure to European and global carbon emissions products, in particular it is one of the leading hedge providers in the European Union Emissions Trading System.

CMF is investing in leading infrastructure to give clients better market access, such as the recent strategic funding for Xpansiv CBL Holding Group (XCHG). XCHG is the first significant data and commodities platform that generates data on several factors including human and natural capital, enabling greater transparency to support trading in sustainable commodities.

More detailed information is available at **macquarie.com/ESG** and **macq.co/MIRASustainability**

## Climate change

Climate change presents one of the most significant challenges for society and the global economy. The financial sector has a critical role to play, alongside government, businesses, investors and the community, to support the transition to a low-carbon and climate resilient economy. As a global financial services provider, we are committed to using our expertise in infrastructure, renewable energy, clean technology and environmental markets to connect global capital to opportunities that support this transition.

We anticipate that our businesses will adapt, adjust and continue to seek opportunities in response to the decarbonisation of the global economy.

Alongside the action being taken by our businesses, Macquarie continues to support the important work of the Task Force on Climate-related Financial Disclosures (TCFD) and is actively implementing its recommendations based on the four key pillars of climate change governance; strategy; risk management; metrics and targets, as outlined in the table below.

### TCFD Implementation Summary

| | Climate change governance | Strategy |
|---|---|---|
| Progress to end of FY2019 | – Board responsibility for approving ESG framework and key ESG policies<br>– BGCC oversight and monitoring effectiveness of ESG framework, including approach to climate change risk management<br>– Internal Global Green Committee to promote and coordinate climate change mitigation and adaptation opportunities. | – Connection of global capital with climate mitigation opportunities using our deep understanding and expertise in the renewable energy and clean technology sectors<br>– Supporting the MGL CEO's role as a founding member of the United Nations' Climate Finance Leadership Initiative (CFLI) and a Commissioner of the World Bank's Global Commission on Adaptation (GCA)<br>– Assisting in the development of common international standards for sustainable finance through membership of the UK's Green Finance Task Force, and other relevant advisory groups<br>– Extending GIG's geographic scope to support the growth of the green economy globally. GIG is now active in over 25 markets across EMEA, Asia, North America and ANZ<br>– Supporting energy retailers in the UK by providing funding solutions for government-mandated roll out of smart meters<br>– Carbon financing and trading to support voluntary and regulated emissions trading schemes<br>– Carbon neutral since 2010. |
| Progress during FY2020 | – CRO nominated as accountable executive<br>– Established climate risk steering committee<br>– Expanded the scope of the Global Green Committee and enhanced briefing to Board, BGCC and Senior Management. | – Worked alongside the UN Green Climate Fund and other public finance bodies to support emerging market countries to create conditions conducive for green finance<br>– Utilised founding membership of the US Alliance for Sustainable Finance<br>– Delivery of CFLI and GCA reports to the United Nations during UN Climate Week<br>– Continued GIG growth into development stage investment and using PPAs to progress projects without public subsidy<br>– Evolved asset financing opportunities to support clients to transition vehicle fleets to ultra-low emissions. |
| Focus beyond FY2020 | – Ongoing implementation of relevant regulatory guidelines on climate risk governance<br>– Continue to refine and embed climate considerations within existing risk management framework<br>– Continue to enrich Board and executive insight into and visibility of climate-related risks and opportunities. | – Continue to build internal expertise and capacity to support the energy transition into new markets and across new technologies<br>– Evolve approaches for integration into business strategy planning<br>– Work alongside businesses in further incorporating climate risk in product design and engaging with clients on climate risk<br>– Source 100% renewable energy for Macquarie premises by 2025 in line with our RE100 commitment. |

To further refine understanding of the potential vulnerabilities to climate change risks for Macquarie, we have developed physical and transition risk heat mapping for our lending and equity portfolios under 1.5°C and 3–4°C scenarios.

This analysis is intended to provide an assessment of relative exposures to physical and transition risks associated with each selected scenario across industry sectors and geographies. The analysis to date indicates the impacts on each of the sectors to which we are presently exposed would primarily be felt after 2030, and that the impact on Macquarie would not be considered material given the diverse nature of our portfolio, the short time horizon of our exposures compared to these scenarios and the limited size of our existing lending exposure to each sector. A more detailed report will be published as analysis progresses during the FY2021 year.

| Risk management | Metrics |
|---|---|
| – Incorporated climate-related risks into environmental and social risk and credit analysis for carbon intensive sectors<br>– Established approaches to transition risk analysis in the oil, gas, coal and power generation sectors of our lending and equity portfolios<br>– Conducted scenario analysis for these sectors representing transition pathways to 2°C warming and 3–4°C warming by 2100. | – $A7.9 billion invested or arranged in renewable energy and energy efficiency projects in FY2019<br>– 13,530 MW of renewable energy assets in operation or under management at 31 March 2019[7]<br>– FY2019 emissions per capita reduced by 33% from FY2010 baseline (11% increase from FY2018)<br>– FY2019 absolute emissions reduced by 32% from FY2010 baseline (15% increase from FY2018)<br>– FY2019 scope 2 direct emissions reduced by 35% from FY2009 baseline (10% reduction from FY2018). |
| – Included climate change risk within Group Risk Appetite and Risk Management Statements<br>– Generated physical and transition climate risk vulnerability heat maps for lending and equity portfolios across sectors and geographies<br>– Conducting transition risk analysis of lending and equity portfolios for the oil, gas, coal and power generation sectors, representing pathways to 1.5°C and 4°C warming by 2100, largely completed<br>– Analysing physical risk of Macquarie's mortgage portfolio, representing pathways to 1.5°C and 4°C warming by 2100, in progress<br>– Evolved understanding of carbon emissions for the MIRA infrastructure assets. | – $A9.0 billion invested or arranged in renewable energy and energy efficiency projects in FY2020<br>– 12,800 MW of renewable energy assets in operation or under management at 31 March 2020[7]<br>– FY2020 emissions per capita reduced by 45% from FY2010 baseline (18% reduction from FY2019)<br>– FY2020 absolute emissions reduced by 42% from FY2010 baseline (16% reduction from FY2019)<br>– FY2020 scope 2 direct emissions reduced by 40% from FY2009 baseline (8% reduction from FY2019)<br>– Final close approaching on a $A1 billion agriculture fund targeting improvements in on-farm energy efficiency and reducing carbon emissions. |
| – Continue integration of climate-related risks through our risk management framework<br>– Refine scenario analysis and seek to extend to other industry sectors, where relevant<br>– Evolve integration of scenarios into existing risk processes and stress testing<br>– Assess vulnerability and resilience of our business premises to physical climate risks. | – A further 20% reduction in electricity use by 2023 (from 2014 baseline)<br>– Source 100% renewable energy for Macquarie premises by 2025 in line with our RE100 commitment<br>– 80% of employees in sustainably-rated premises[8]<br>– Ongoing enhancement of TCFD disclosures to be consistent with all relevant Task Force recommendations<br>– A commitment to develop 20 GW of renewable energy projects over the next five years, with 4 GW of this in non-OECD emerging market countries. |

(7) MW of renewable energy assets in operation or under management reflect 100% generating capacity of each asset, not the proportion owned/managed by Macquarie.
(8) LEED Gold, BREEAM Good, 5 Star Green Star or equivalent.

## FY2020 scenario analysis

The use of scenario analysis, in the form of physical and transition risk heat mapping across our lending and equity portfolios, has refined our understanding of the potential vulnerabilities to climate change risks for Macquarie. These heat maps are intended to provide an assessment of relative exposures to physical and transition risks associated with various scenarios across industry sectors and geographies, based on the current composition of the portfolio assuming no changes across all time horizons.

## FY2020 energy sector exposures

**1.3%** of total funded loan assets[9] and **2.2%** of total funded equity investments[10] exposed to conventional energy at 31 March 2020

**13.6%** of total funded equity investments[10] exposed to renewable energy at 31 March 2020

As a managed global energy transition continues, it is clear that there will be an ongoing role for conventional energy, including gas, for some time as the deployment of renewable energy rapidly grows. Macquarie has played a leading role in facilitating the shift toward renewables and the wider decarbonisation of the global economy. Particular focus was placed on trying to address the various challenges that remain to full transition including energy storage, land use, the need for a greater number of investible projects, particularly in emerging economies, and greater levels of investment in adaptation and resilience projects. In FY2020 these efforts continued globally, see pages 18–19 of this Annual Report.

The table below provides Macquarie's equity and loan portfolio exposures to the coal, oil, gas and renewables sectors as at 31 March 2020.

**Equity and loan portfolio exposures to the oil, gas, coal and renewables sectors:**

| | FY19 | | FY20 | |
|---|---|---|---|---|
| | Loan assets $Ab | Equity investments $Ab | Loan assets $Ab | Equity investments $Ab |
| Oil | 0.7 | 0.2 | 0.5 | 0.1 |
| Gas | | | 0.4 | — |
| Coal | 0.2 | – | 0.2 | — |
| Renewables | – | 0.9 | — | 1.0 |

## Transition risk

There are numerous possible future pathways for the world to reach a particular climate outcome. We selected three divergent scenarios for transition risk, representing plausible transition pathways to 1.5°C warming by 2100 relative to pre-industrial levels (including an orderly and a disorderly transition) and a 3–4°C warming by 2100 relative to pre-industrial levels (or baseline scenario). These were based on scenarios that informed the Intergovernmental Panel on Climate Change's (IPCC) Special Report on 1.5°C and used the Potsdam Institutes' Advance REMIND models.

In selecting these scenarios, a detailed review was conducted of a wide range of public climate scenarios. Our selection was based on models that covered various climatic outcomes; provided information for the sectors and geographies most relevant to Macquarie's exposures; are widely recognised and used by the industry; and are regularly updated.

### Scenario assumptions

| | 1.5°C – ORDERLY | 1.5°C – DISORDERLY | BASELINE SCENARIO (3–4°C) |
|---|---|---|---|
| Time horizons | 2025, 2035, 2050 | | |
| Policy | Immediate policy action consistent with limiting warming to 1.5°C by 2100. | Policy action is delayed until after 2030, from which point action is taken to limit warming to 1.5°C by 2100. | The (Intended) Nationally Determined Contributions to the Paris Agreement by 2030 are implemented, with an extrapolation of implied effort beyond 2030. |
| Energy | By 2050, total electricity generation comprises 91% renewables and primary energy demand comprises 68% renewables. | Renewables comprise 19% of primary energy demand in 2030 but reach similar levels to the orderly scenario by 2050. | By 2050, total electricity generation comprises 76% renewables and primary energy demand comprises 31% renewables. |

(9) Total funded loan assets include loan assets held at amortised cost adjusted to exclude certain items such as assets that are funded by third parties with no recourse to Macquarie. In addition, loan assets at amortised cost per the statutory balance sheet are adjusted to include fundable assets not classified as loans on a statutory basis (e.g. assets subject to operating leases). Total funded loan assets amount to $A86.5 billion as at 31 March 2020 ($A82.3 billion as at 31 March 2019).

(10) Equity investments are reported on a funded balance sheet basis and therefore exclude equity hedge positions and non controlling interests. Macquarie's carrying value of its interest in East Anglia ONE Limited is $A2.8 billion, which has been partially funded with asset-specific borrowings of $A2.3 billion at 31 March 2020. Total funded equity investments amount to $A7.4 billion as at 31 March 2020 ($A5.9 billion at 31 March 2019).

For each scenario, we analysed the vulnerability of our lending and equity portfolios at 30 September 2019, using modelling to assess the impact of climate transition at a sector and regional level. In line with industry practice, our modelling assumed that there were no changes to the portfolio across all time horizons, which will not be the case given the relatively short duration of our balance sheet investments and lending. Analysis of our lending portfolio showed that less than 10% could be exposed to sectors with a higher vulnerability to transition risk under the Orderly Scenario in 2025, rising but below 20% by 2050. Under the Disorderly Scenario, a similar proportion of the lending portfolio could be exposed to sectors with a higher vulnerability to transition risk by 2050.

For our equity portfolio, the analysis indicated that under a Disorderly Scenario, less than 5% could be exposed to sectors that by 2050 demonstrate a higher vulnerability to transition risk while under an Orderly Scenario this would be around 5%.

The sectors most negatively impacted by 2050 as a result of carbon pricing and related policies include fossil fuel intensive industries such as coal mining, carbon intensive power generation, and oil and gas exploration and production. The utilities sector experiences a high variation in impact, with the least carbon intensive companies experiencing positive growth. Within the transport sectors, air transportation is more affected than shipping, with road and rail transportation least affected due to the relative availability of electrification.

Regional variations were identified at a sector level, influenced by the characteristics of the companies operating in each region including emissions intensity and market variations.

An example of the transition risk heat mapping is presented in the following graph. This reflects the potential transition risk impact at a global level for key sectors and is based on the average impact across all companies analysed within each sector. The heat map presents the anticipated transition risk for these industry sectors and does not reflect Macquarie's exposure to these sectors, which is detailed on page 52.

(11) Represents those companies with emissions intensity above the median and low carbon represents those companies with emissions intensity below the median.

Building on the heat mapping, we are conducting scenario analysis of carbon intensive sectors using a combination of portfolio level analysis and company level analysis to assess the potential financial implications of the transition scenarios. Initial analysis is presented below with more detailed reporting available later in the year.

| | Oil and Gas | Coal |
|---|---|---|
| Transition risk scenario analysis[12] | By 2050 under both scenarios, lending portfolio average default rates are forecast to double compared to the baseline.<br><br>Estimated losses for the equity portfolio are similar under both scenarios and could be up to 50% of the current asset value by 2050.<br><br>The overall impact on Macquarie under both scenarios would be limited and would not be considered material given the size of our existing total lending and equity exposures. We note that the analysis assumes no changes to the portfolio across all time horizons, which would not in practice be the case. | Under both scenarios, lending portfolio average default rates are anticipated to rise by almost five times, peaking in 2030 under the Orderly Scenario and peaking in 2050 under the Disorderly Scenario.<br><br>Equity portfolio – *De minimis* exposure to this sector.<br><br>The overall impact on Macquarie would not be considered material given the limited size of our existing lending exposure to this sector. |
| Learnings and next steps | Macquarie acknowledges the benefits of the combined portfolio level (top-down) and company level (bottom-up) analysis that was undertaken in FY2020 and will build on this as we continue to refine our approach to climate-related scenario analysis.<br><br>The company level approach highlighted limitations with the availability and granularity of data and the need to continue working closely with our clients as part of ongoing relationships to support their plans to reduce their carbon intensity. | |

## Physical risk

We selected two contrasting warming scenarios for the physical risk analysis corresponding to global average temperature increases of approximately 1.5°C warming by 2100 and 4°C warming by 2100 relative to pre-industrial levels. These are derived from the output of climate models driven by the warming scenarios of Representative Concentration Pathways (RCP) 2.6 and RCP 8.5. The RCP scenarios are the greenhouse gas concentration trajectories adopted by the IPCC.

Three time horizons were selected: including one to capture the present day (2020), one for the medium term (2030s), and one for the longer term (2050s).

The physical risk scenarios and time horizons used in the analysis are shown in the table below.

| | 1.5°C | 4°C |
|---|---|---|
| Time horizons | 2020, 2030s, 2050s | |
| IPCC Representative Concentration Pathway (RCP) | RCP 2.6 | RCP 8.5 |
| Warming by 2100 relative to pre-industrial levels | 1.6°C | 4.3°C |

Using these scenarios, climate datasets were defined that aligned with the modelling time horizons. The datasets included chronic climate changes, extreme weather events and climate-related hazards such as wildfires. We then used sub-sector vulnerability indicators that consider both direct and indirect impacts of physical climate risks to overlay the data with our equity and lending portfolios to assess the physical risk vulnerabilities of these portfolios.

The heat maps provide a strategic tool to identify potential areas of vulnerability and will be used to help inform further analysis and investment decision making in our business as lending and equity portfolios continually evolve.

The findings of this exercise were consistent with our expectations that climate hazards are anticipated to increase across the three time horizons, with the most severe impacts occurring after 2050. Country-level analysis has resulted in some smoothing of climatological variations which is more pronounced across large and diverse geographic regions such as the US or Australia. Consequently, both the US and Australia were assessed to have relatively higher physical risk profiles in comparison with other countries, reflecting that the anticipated changes in climate-related hazards are above the global average for these countries. While the heat map indicated variations in vulnerabilities across sectors and sub-sectors, these were highly dependent on the country of exposure.

Detailed physical risk scenario analysis of our retail mortgage portfolio in Australia is in progress and will be completed later in the year.

## Supporting global activity to better understand, mitigate and adapt to the impacts of climate change

Macquarie continues to support global efforts to better understand the impact of climate change on society, our clients and our business. This involves a diverse range of activity including engaging clients and assets; research projects into areas such as reducing agricultural emissions with CSIRO; active engagement in initiatives like TCFD; and initiating collaborative working with other financial institutions through the CFLI and broader multi-stakeholder initiatives like the GCA. Through this engagement, Macquarie is working to improve our understanding of the risks associated with climate change while also pursuing opportunities to work with clients to advance mitigation and adaptation.


More detailed information on our approach to Climate Change is available at **macquarie.com/ESG**


(12) Scenario analysis was completed at 30 September 2019 assuming a static book with no changes in composition over the modelling time horizons and does not include impacts associated with COVID-19.

## Sustainability in direct operations

Macquarie's direct environmental and social impacts predominantly relate to the resources we consume in our offices, data centres, air travel, and our procurement activity. We seek to manage these impacts by monitoring and reducing resource use, maintaining innovative and sustainable workplaces, maintaining carbon neutrality and improving the sustainability of our supply chain.

This year, Macquarie launched its 2025 Sustainability Plan, which formalises our corporate sustainability commitments with specific and measurable targets across environmental and social pillars.

### Emissions from energy use and flights

This year, Macquarie's absolute emissions decreased by 16% from FY2019 attributed to a reduction in Scope 2 and 3 emissions. Scope 1 emissions are not considered to be material, comprising 0.6% of Macquarie's total emissions.[13]

FY2020 Scope 2 emissions reduced 8% from FY2019, due to a continued focus on energy use in all Macquarie premises globally, including retrofit and fit-out projects that have delivered more energy efficient premises and our IT cloud transformation strategy that enables rationalisation of servers. Macquarie's corporate offices are fitted with water and energy efficient fittings and fixtures and are continually monitored for energy performance, environmental quality and staff comfort.

Macquarie sourced 18% of global electricity from renewable power in FY2020, up from 6% in FY2019, in line with our RE100 commitment to reach 100% by 2025.

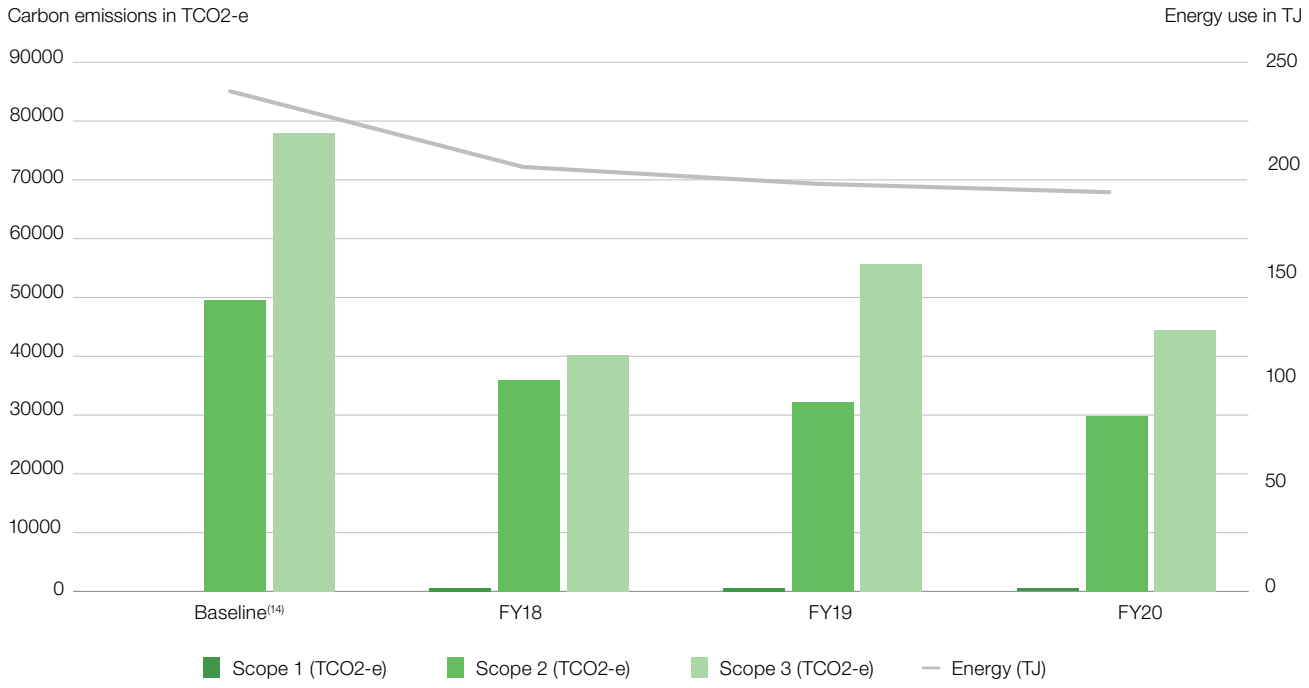
This year, energy audits were completed in EMEA in response to the European Union Energy Efficiency Directive requirements.

Macquarie's FY2020 Scope 3 emissions decreased by 20% compared with FY2019 due to a decrease in flight miles. We continue to encourage the use of virtual conferencing that facilitates collaboration and helps reduce the need for business travel.

### Carbon neutrality

Since 2010, Macquarie has maintained our carbon neutral commitment by working to reduce and offset emissions. In FY2020, to meet this commitment, Macquarie purchased and retired a portfolio of Australian Carbon Credit Units (ACCUs) and other voluntary carbon offsets that meet the Gold Standard or Verified Carbon Standard and Climate, Community and Biodiversity Standard. The projects were selected based on quality and verifiable emissions reductions. Supported by the sale of carbon credits on international markets, they provide solutions to reduce carbon emissions in each of the regions in which Macquarie operates.

**Carbon and energy data for FY2020**




(13) PwC has provided limited assurance over selected information for the FY2020 reporting period as detailed in its independent assurance report available on Macquarie's website. The assurance report includes a table outlining Macquarie's carbon and energy data for FY2010 to FY2020 as well as a definition of the different scopes.

(14) Note that the baseline for Scope 2 electricity emissions is FY2009 while, due to data availability, the baseline for Scope 3 business air travel emissions is FY2010.

## Resource efficiency

We continue to raise staff awareness and improve recycling rates across our regional headquarters, including the successful completion of a program to eliminate single use cups at 1 Martin Place, Sydney. In all major Sydney offices and our London headquarters, we reached an average recycling rate of 44%.

In FY2020, paper use decreased by 12% compared to FY2019. Paper use data is collected across the majority of Macquarie's offices, representing approximately 90% of Macquarie staff. Managed print was rolled out to 100% of Macquarie offices. The environmental impacts of paper use are also being addressed through an ongoing commitment to use certified sustainable or recycled paper stock.

## Sustainable procurement

In FY2020, Macquarie rolled out a new *Supplier Governance Policy* that includes a risk-based approach to environmental and social due diligence in our supply chain. In addition, Macquarie includes environmental and social risk requirements within commercial agreements and tender documents.

Over the last two years, over 800 strategic suppliers responded to Macquarie's ESG questionnaire developed to assess their ESG credentials. We continued to communicate our *Principles for Suppliers* and implemented an ongoing risk-based assurance programme which involved an in-depth assessment and onsite meetings with suppliers exposed to high human rights risks based on country of operation and service category.

Macquarie responded to the transparency requirements of the *UK Modern Slavery Act 2015*, producing our fourth slavery and human trafficking statement that sets out the steps taken to identify and mitigate the risk of modern slavery within the supply chain and business operations.

In FY2020, Macquarie spent over $A8 million with minority-owned businesses in our tier one supply chain.[15]

Further information is available at **macquarie.com/ESG**

The Principles for Suppliers are available at **macquarie.com/suppliers**

The UK Modern Slavery Transparency Statement is available at **macquarie.com/MSA19**

(15) Includes qualified businesses from traditionally under-represented groups such as companies owned and operated by minorities, women, Indigenous Australians and small business.

## Client experience

Clients are at the core of our business. They put their trust in Macquarie by choosing to work with us, and we seek to maintain this trust by focussing on delivering exceptional client experiences and outcomes.

Macquarie relies on building and maintaining enduring relationships with our co-investors, corporate, institutional, government and retail clients across all our businesses.

### Client feedback shapes business decisions

Our specialist teams engage with our clients through a variety of channels including one-to-one contact, video and online, knowledge-based conferences and events, and other insight-based communications.

Macquarie Capital's diverse mix of advisory, capital markets and principal investing capabilities results in a broad array of client and stakeholder relationships, ranging from close and collaborative relationships with partners and co-investors to more intermittent and transaction-focused contact. Across the business, clients' needs are central to everything Macquarie Capital does, and we aim to become a trusted adviser and long-term partner. The team regularly collates informal feedback, as well as formal feedback through tailored engagement sessions. This feedback is used to help us evaluate the strength of our client relationships and identify opportunities for improvement and innovation.

In FY2020, to better meet the needs of our clients, MAM brought together product distribution teams from across its platform to form a single, integrated client service function. The change has enabled MAM to provide an enhanced product and service offering to its institutional investor base across its global suite of alternatives, equities, and fixed income solutions. During the period, we continued to invest in our technology to improve the client experience, including through the development of our client portal and the upgrade of our digital presence. We regularly survey our clients to better understand their perspectives and investment needs. For example, in response to growing interest in sustainability, MAM held its first client survey on the subject during FY2020. The results from this survey are helping to inform ongoing work to enhance our sustainability-focused offerings and reporting across our infrastructure and real asset funds.

In Commodities and Global Markets, clients range from global corporates and institutions through to small and medium sized enterprises. We seek to provide a consistent offering that is client focused, puts risk management at the centre of what we do, and leverages the specialist technical expertise of our people. We invest in having deep, longstanding client relationships which is demonstrated by 85% of our client revenue being generated from existing relationships.[16]

Macquarie's Banking and Financial Services (BFS) business uses client insights to prioritise new initiatives and shape how we deliver products and services. For example, BFS has embedded Human Centred Design (HCD) and proactively measures customer advocacy at specific interaction points to understand the experience clients have with Macquarie. Combined with other insights, BFS then makes data-based decisions to ensure we are building the right experiences for clients.

### Supporting clients in times of need

We understand the impact unexpected life events can have on our clients. In addition to offering tailored assistance and support to those experiencing financial difficulty, BFS has embedded support measures to ensure we identify clients experiencing vulnerability, and respond with extra care, respect and compassion. All BFS staff are now trained in how to identify and support clients experiencing vulnerability. BFS' holistic approach has also included enhancing our financial assistance program and implementing proactive response programs to support clients impacted by natural disasters and emergencies. This also includes a comprehensive support package to assist clients and businesses impacted by the evolving COVID-19 situation.

Recognising the potential impact of COVID-19 and movements in global oil prices on listed and unlisted assets, MAM delivered a proactive engagement strategy to assist clients as they navigated the resulting market volatility. MAM supplemented its regular reporting for most of our infrastructure and real asset funds with additional timely information and provided clients with access to internal expertise so they could make informed decisions about their investment strategies.

(16) For the nine months ended 31 December 2019, excludes Specialised and Asset Finance (SAF) and Cash Equities.

### Fair and efficient resolution of issues

Macquarie has a robust complaint management framework across our retail banking business to ensure client matters are resolved quickly and fairly. Our teams analyse complaint data to understand the root causes of complaints so they can be addressed at their source, with oversight from senior management. In FY2020, 91% of BFS complaints were resolved within five business days.

Macquarie's Customer Advocate is independent of the operating, risk and support groups including our internal dispute resolution teams and reports directly to the CEO. The Customer Advocate's role is to promote fair and reasonable customer complaint outcomes, to review and assist with determining escalated customer complaints, and to provide a customer-centric voice when making recommendations to improve customer experience.

### Banking Code of Practice

Reflecting our commitment to our clients, Macquarie Bank Limited subscribed to the Australian Banking Association 2019 Banking Code of Practice (the Banking Code) on 1 July 2019, as updated effective 1 March 2020. Implementation of the Banking Code has involved the review and alignment of impacted products and services, disclosures, policies and processes. Training was delivered to all BFS staff and Banking Code compliance remains an ongoing focus area with embedding and monitoring work ongoing to ensure strong understanding and awareness across the business.

Further information is available at **macq.co/CompanyBFS**

Further information on the Customer Advocate office is available at **macquarie.com/customer-advocate**

The Banking Code of Practice can be downloaded at **macq.co/TheCode**

## People and workplace

Macquarie recognises that our most important assets are our people. We recruit talented individuals and encourage them to realise their potential in an environment that values excellence, innovation and creativity. By supporting their development and wellbeing, we ensure Macquarie continues to meet the highest standards and serves the evolving needs of our stakeholders.

### Leadership, talent and culture

Macquarie is continuously building a culture of high performing talent by developing our people. We focus on our leaders and their leadership impact as they are our culture carriers. They set the tone for our people and directly influence the way people think and act. We seek to attract the right talent and develop our people to reach their full potential in order to deliver measurable business outcomes that benefit our clients, our shareholders and our people.

**78%** of Macquarie's 320 Executive Directors completed or are currently completing the Macquarie Executive Director Leadership Program (EDLP) since its inception

This program builds the capability of leaders to better understand their impact and to inspire and develop others. It also equips them to address the pace and complexity of change and to cultivate and support a culture of innovation.

**289** Division and Associate Directors completed the Macquarie Director Program (MDP) in the year (1,930 since its inception in 2014)

The MDP is designed to accelerate the development of directors through building the breadth and depth of their capabilities with the benefit of achieving faster outcomes and improved results.

To understand the future of leadership at Macquarie, a strategic project was undertaken this year to develop a point of view on the leadership attributes required by our future leaders. This point of view, developed through an extensive review of academic literature and interviews with diverse stakeholders, will inform the design of new leadership development initiatives.

For the broader organisation, Macquarie supports the career development of its people through a number of manager and strategic leadership programs and investment in executive coaching and mentoring initiatives.

Learning opportunities are provided to all staff, to meet the needs of Macquarie's diverse talent base and to provide the workforce with the skills to realise future opportunities in a rapidly changing environment. Development areas range across both professional and personal skillsets including self-awareness and leadership impact, wellbeing, cultivating environments of inclusion, innovation, technical mastery and effective collaboration to identify opportunities and support each other.

**3,000** classroom events and
**350,000** online courses and knowledge tests delivered to staff in FY2020

During the employee onboarding and orientation process, Macquarie offers a series of learning and development activities (including events hosted by the CEO) designed to communicate and embed the Macquarie culture and reinforce the ongoing importance of meeting behavioural expectations and effective risk management across all our businesses and regions.

Regular appraisals, including goal setting and ongoing career development, are a key part of performance measurement and talent management, and support Macquarie's merit-based culture. As well as encouraging regular and ongoing feedback with managers, Macquarie requires all staff to have at least one formal appraisal session with their manager.

Alongside the structured learning and development curriculum, Macquarie recognises and encourages the social and developmental benefits of skilled volunteering and wider community engagement by staff. During FY2020, reciprocal development initiatives between staff and non-profit organisations have been built through the Macquarie Group Foundation.

## Workplace health, safety and wellbeing

Macquarie recognises the value of effective WHS performance as an integral part of how we successfully manage our business. We seek to operate harm-free environments through maintaining high WHS standards and performance across all our activities globally. We promote an integrated approach to safety and wellbeing matters and encourage our staff to speak up on any actual or potential health and safety issues.

Macquarie has a global WHS management framework that aims to prevent workplace incidents and injuries. This framework allows for the identification and assessment of hazards and application of appropriate control measures to prevent health and safety risks arising from work activities. Macquarie uses forums with health and safety representatives and staff to consult and communicate relevant information on health and safety matters. Macquarie also provides staff with appropriate training on safe work practices.

**0.5** Lost Time Injury Frequency Rate (LTIFR) in the year ended 31 March 2020[17]

Macquarie's holistic wellbeing program, *Macquarie Plus*, provides a comprehensive range of initiatives and benefits designed to equip our people with the tools and resources to own their wellbeing. With a strong focus on encouraging staff to balance all aspects of their lives. *Macquarie Plus* comprises four key elements:

- **People:** providing our people with access to a range of benefits and initiatives designed to support their physical, psychological and financial wellbeing through educational seminars, health screening, fitness classes and access to psychological support services
- **Lifestyle:** encouraging staff to make the most of the rewarding and inclusive culture at Macquarie and helping them to integrate life and work through initiatives from community groups through to school holiday programs
- **Tools:** promoting technology platforms to enable staff to tap into wellbeing information regardless of location or time of day
- **Space:** designing places that are not only flexible and sustainable, but that also encourage collaboration and connection and offer staff choice in how they work.

**10.9%** global voluntary turnover rate[18]

The retention of our employees is a key indicator of our inclusive culture where people feel engaged and enabled.

## Diversity & Inclusion

Macquarie's ongoing commitment to workforce diversity & inclusion ensures that our business remains innovative and sustainable and continues to meet the evolving needs of our clients.

Macquarie's broad range of experiences, skills and views are key strengths and critical to the wide range of services we deliver across a global operating environment.


Information on our approach to diversity & inclusion is provided in the **Diversity & Inclusion** section of this Annual Report

Further information is available at **macquarie.com/ESG** and **macquarie.com/careers**


(17) Lost time Injury (LTI) is an incident that results in time lost from work equal to or greater than a full day/shift. The LTI Frequency Rate (LTIFR) is the number of Lost Time Injuries resulting in a compensable claim per million workhours.
(18) Rolling 12-month voluntary turnover with leavers for the 12 month period divided by average headcount for the same period.

## Business conduct and ethics

Macquarie's organisational culture drives the way we do business and our expectations of our staff are outlined in the *Code of Conduct.* Our approach is based on three long-held principles: Opportunity, Accountability and Integrity.

Macquarie's Risk Culture and Conduct team is responsible for:

- objectively assessing the risk culture of Macquarie's businesses and functions, monitoring and providing insight into risk culture indicators, and advising on opportunities for positive change
- embedding understanding and supporting the identification and management of conduct risks across the group, in line with the approach outlined in the Macquarie-wide Conduct Risk Management Framework.

Macquarie's Integrity Office provides an internally independent and confidential point of contact for Macquarie staff and external parties to safely raise concerns about improper conduct. It is responsible for implementing the *Whistleblower Policy* and for managing the investigation of concerns raised under this policy, including any raised through the Macquarie Staff Hotline. The Integrity Office reports to the Macquarie CEO and provides regular reports to the BGCC.

The Integrity Office also promotes high ethical standards and good decision-making through communications and engagement with staff.

Information on our risk culture and approach to conduct risk is provided in the **Risk Management** section of this Annual Report

### Tax transparency

Macquarie acknowledges stakeholder expectations for increased transparency on tax-related matters. Macquarie is a signatory to the Australian Board of Taxation's voluntary Tax Transparency Code.

More detailed information on Macquarie's approach to tax transparency is available at **macq.co/FY20taxtransparency**

### Political contributions and engagement

Macquarie supports democratic systems of government. We believe we need to be engaged and understand the evolving policy and regulatory environments in Australia and other jurisdictions in which we operate, as these factors impact our business as well as our clients' businesses.

As a listed financial institution operating in highly-regulated sectors, we have a responsibility to our shareholders, clients, counterparties and employees to understand and contribute to public policy and to ensure that our organisation and operating environments are well understood by parliamentarians and policy makers. Additionally, our clients, many of whom also operate in regulated sectors, expect us to have detailed current knowledge of public policy issues and drivers when we provide advice and services to them.

Macquarie contributes to public policy in the following ways:

- making submissions to inquiries and industry consultation processes, where appropriate. These may be processes established by parliaments, government departments or government agencies such as regulators. Submissions may be made by Macquarie directly or as part of a broader industry group
- engaging with parliamentarians and policy makers through avenues such as formal meetings, speaking in public forums and appearing before parliamentary inquiries where appropriate
- contributing to the advocacy work done by industry groups in key markets around the world. Given the diversity of Macquarie's business activities, we are members of industry groups representing sectors such as financial services and markets, infrastructure, energy as well as general business peak bodies.

In Australia, political parties are funded by a mix of public and private monies. As part of its engagement with the Australian political process, Macquarie provides financial support to the major political parties, primarily through paid attendance at events.

Macquarie has a full disclosure policy and declares all monies paid to political parties to the Australian Electoral Commission (AEC) regardless of any thresholds or other provisions that may otherwise limit the need to disclose. This disclosure is made by way of an annual AEC return on a 1 July to 30 June basis and is published by the AEC in the February following the end of the disclosure year.

In the year ended 30 June 2019, Macquarie's political contributions in Australia totalled $A285,900 comprising: $A132,520 to the Liberal Party of Australia; $A130,500 to the Australian Labor Party; and $A22,880 to the National Party. Contributions were to meet the costs of memberships of political party business forums, attendance at events and party conference corporate days, and sponsorship of events.

### Data privacy and security

Whenever we handle personal information, we take steps to ensure appropriate standards of privacy practice and security are applied.

Further information is available at **macquarie.com/leadership-corporate-governance**

Our policies are available at **macquarie.com/ESG**

# Macquarie Group Foundation

The Macquarie Group Foundation (the Foundation) is the philanthropic arm of Macquarie. The Foundation encourages Macquarie staff to give back to the communities in which they live and work by contributing service, financial support and leadership to the community organisations they feel passionately about.

During the year, a record $A51[1] million was donated to over 1,600 non-profit organisations around the world by Macquarie staff and the Foundation. Through donations and fundraising efforts by staff and matching by the Foundation, together with the Foundation's annual grant making program, over $A410 million[2] has been contributed to thousands of community organisations around the world since inception.

The Foundation's focus on the communities where Macquarie staff live and work helps to leverage staff time, expertise and networks for greater social impact. In FY2020 46,000 hours of voluntary community service, including pro bono work and community board positions, was contributed globally.

Many staff provide their time and skills to non-profit organisations aligned to the Foundation's global grant-making focus area of supporting social and economic opportunities for young people. Volunteering programs include the Macquarie Leadership Education Advancement Development and Support (LEADS) internship program in the Americas, Community Internship Program in Asia, Australian Business and Community Network (ABCN) in ANZ and Mentoring Works program in EMEA.

Macquarie staff continue to be highly engaged in global initiatives such as Foundation Week, as well as regional initiatives including Mentoring Week in the Americas, Community Days in Asia, Dollars for Drought in ANZ and Community Resourcing (CoRe) program in EMEA.

During the sixth annual Foundation Week – a campaign where non-profits receive bonus matching of amounts raised up to $A5,000 by Macquarie teams – more than $A3.3 million was distributed to over 170 organisations around the world. Staff organised more than 240 events across 41 Macquarie offices, many of which supported Foundation grant partners.

**$A410m+[2]**
contributed

**1,600+[3]**
community organisations supported

**46,000[3]**
hours volunteered

## Responding to crisis

The Foundation responded to the Australian bushfire crisis by announcing a bonus matching incentive for donations to The Salvation Army Bushfire Appeal, The Australian Red Cross Disaster Relief and Recovery, and Foodbank Australia. Over $A1 million was raised through the appeal to provide vital support to bushfire-affected communities throughout Australia. Collective efforts by global Macquarie staff, friends and family, along with the Foundation bonus matching incentive, saw the $A1 million milestone reached in just one week.

In response to the COVID-19 crisis, Macquarie announced that it will be allocating $A20 million to the Foundation to make donations to a number of organisations working to combat the disease and provide relief for its impacts. The Foundation will focus on recipients addressing areas of immediate and medium-term need in regions in which Macquarie operates. Alongside this, the Foundation is amplifying its commitment to the community sector by offering flexible funding for its current grant partners.

For more information on the Foundation's response to COVID-19, visit **macquarie.com/community**

(1) Contribution figures comprise Foundation matching support for staff donations and fundraising; Foundation donations to commemorate staff attaining 10-year and 25-year anniversaries at Macquarie; Foundation grants to non-profit organisations to recognise 12 months of board service by a Macquarie employee; and Macquarie and Foundation grants to community organisations (including Year 1 donations for the 50th Anniversary Award) in the 12 months to 31 March 2020.
(2) Since inception in 1985.
(3) In the 12 months to 31 March 2020.

## Grant-making focus for social impact

The Foundation's global grant-making focus area of supporting social and economic opportunities for young people in the communities where staff live and work now represents the majority of the global granting budget. With this focus, the Foundation aims to maximise its social impact, using not only its financial resources but also the skills and networks of Macquarie staff.

New in-focus grant partners include Take Stock in Children (Goodwill Industries of North Florida) and OneGoal Houston in the Americas; Creating Chances, Girls Academy and Campbell Page in ANZ; Splash in Asia; and Social Mobility Foundation, Universify and Duke of Edinburgh Award International in EMEA.

Renewed grant partnerships include America Needs You and Double Discovery Center in the Americas; Raise Foundation and Social Ventures Australia in ANZ; Fair Employment and Enrich in Asia and Leadership Through Sport and Business, Islington Giving, With One Voice, and Dallagio RugbyWorks in EMEA. These organisations engage Macquarie staff through mentoring, career development and employability programs.

## Macquarie Sports

In 2019, Macquarie Sports celebrated its 20th anniversary by bringing together more than 1,000 primary school children from drought-affected areas across central west NSW for a multi-sport clinic held in Mudgee, NSW. Partnering with Australian sports heroes, the clinic brought the community together, giving the kids an opportunity to play alongside our Macquarie Sports coaches and learn new sporting skills.

## Macquarie Group Collection

The Macquarie Group Collection's (the Collection's) eighth annual Emerging Artist Prize was awarded to artist Emilie Imeson for her painting *Alive in the dead of night,* 2019. The Collection has been supporting emerging Australian artists for over 30 years by acquiring and displaying their works in Macquarie offices around the world. The Collection features art in all media, around the theme *The Land and its Psyche,* reflecting the diversity of the Australian landscape as seen through the eyes of its artists. Now comprising more than 850 works selected by a volunteer committee of Macquarie staff and a curatorial expert, the Collection is on display in around 40 Macquarie offices worldwide.

## FY2020 contribution amount

| Total Macquarie spend (including matching of staff contribution) | Staff contribution |
|---|---|
| **$35,220,000** | **$15,700,000** |

Further information regarding Macquarie staff community initiatives and organisations supported by the Foundation is available at **macquarie.com/community**

# Macquarie 50th Anniversary Award

In August 2019, Macquarie announced the five winners of the Macquarie 50th Anniversary Award that will each receive $A10 million over a five-year period for their bold approaches to drive change through global projects: Last Mile Health, Monash University's World Mosquito Program, Murdoch Children's Research Institute World Scabies Program, Social Finance and The Ocean Cleanup.

The winners were selected following a rigorous, multi-stage judging process that saw close to 1,000 applications received from 48 countries. Their projects will impact millions of lives, meeting social needs in the areas of life-saving healthcare, protection from devastating diseases, improved social mobility for low-income workers and action to rid the world's oceans of plastic.

The Foundation is further supporting the finalists and semi-finalists of the Award by promoting their projects at **macquarie.com/50award**

## Last Mile Health

*Saving lives in the world's most remote communities*

### The social need

The World Health Organisation estimates that one billion people in remote communities live without access to healthcare.

### The solution

Last Mile Health is expanding access to primary healthcare in sub-Saharan Africa by partnering with governments to recruit, train, equip, manage and pay national networks of community and frontline health workers.

### The award funding

The award funding will help Last Mile Health upskill 27,000 community and frontline health workers, strengthen existing operations in Liberia and expand to Malawi and Ethiopia, providing access to life-saving community-based healthcare for up to 100 million+ people and directly reaching nine million people.

## Monash University's World Mosquito Program

*Protecting vulnerable communities from mosquito-borne diseases*

### The social need

40% of the world's population live in areas vulnerable to devastating mosquito-borne diseases, including dengue fever, Zika virus, chikungunya and yellow fever. Around three billion people are at risk of contracting dengue fever alone each year.

### The solution

The organisation has developed an innovative natural and self-sustaining intervention where a naturally-occurring bacteria called Wolbachia is introduced into the Aedes aegypti mosquito, the species most responsible for transmission of these diseases between people.

### The award funding

The award funding will expand the World Mosquito Program to more than 20 countries across Asia, the Americas and Oceania, accelerating it to reach its goal of protecting 100 million people by 2023.

## Murdoch Children's Research Institute World Scabies Program

*Taking action to eliminate scabies across the world*

### The social need

200 million+ people worldwide are affected by scabies, a debilitating skin condition that can lead to severe skin infections and fatal illnesses such as rheumatic heart disease.

### The solution

The Institute and its partners are using a medication called ivermectin to treat the disease. Providing a single round of the drug in a community can reduce the prevalence of scabies by 90% within 12 months.

### The award funding

The award will be used to lead projects in Fiji and the Solomon Islands to demonstrate that scabies can be eliminated, with approximately 1.5 million people treated.

## Social Finance

*Mobilising capital to drive social progress*

### The social need

The United States is facing an entrenched workforce development crisis relating to the future of work while income inequality in the US is the highest it's been since 1928.

### The winner

Social Finance uses innovative finance strategies, like social and career impacts bonds, to address declining economic mobility and a growing skills gap in the US economy.

### The award funding

The award funding will help launch 20–25 economic mobility Pay for Success projects, which will reach an estimated 20,000–25,000 individuals over the life of the grant. The award will also provide seed capital for a $US50 million evergreen fund, which will sustainably recycle returns and unlock additional impact investment capital, ultimately benefiting hundreds of thousands of low-income Americans.

## The Ocean Cleanup

*Developing advanced technologies to rid the world's oceans of plastic*

### The social need

1.8 trillion pieces of plastic are currently floating in the Great Pacific Garbage Patch (GPGP), and ocean plastic pollution costs the global economy $US19 billion every year.

### The winner

The Ocean Cleanup's goal is to rid the world's oceans of 90% of floating plastic by 2040. The organisation is developing technological solutions to rid our world's oceans of plastic: one is a passive ocean cleanup system to remove existing plastic pollution; and the second is the Interceptor™, a river system that intercepts plastic from rivers before it enters the ocean.

### The award funding

The award will accelerate the critical development phase of the technology. Once the design is proven, The Ocean Cleanup can begin its scale-up to a full fleet of systems to be deployed across the GPGP and the remaining four gyres and tackle the top 1,000 most polluted rivers responsible for 80% of the plastic outflow.

**$A50m**
philanthropic commitment over five years

**~1,000**
applications received

For more information visit
**macquarie.com/50award**

**48**
countries represented

**5**
bold ideas

# Risk Management

## Risk governance at Macquarie

### Role of the Board

The role of the Board is to promote the long-term interests of Macquarie, taking into account Macquarie's specific and broader responsibilities to its shareholders, funders, clients, staff and the communities in which it operates. The Board is committed to oversight of Macquarie's performance, risk management and culture and to promoting the creation of enduring value by supporting its goal to realise opportunities for the benefit of our clients, community, shareholders and our people. Macquarie's robust risk management framework supports the Board in its role. The Board is ultimately responsible for the framework, including oversight of its operation by Management.

### Role of Management

The Group Heads of the Operating and Central Service Groups are responsible for the implementation of the risk management framework in their groups. They are required semi-annually to attest that key risks have been identified and are adequately controlled in their groups. These management representations support the sign-off of the half-year and the full-year financial statements.

### Three lines of defence

The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defence':

- primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all staff throughout Macquarie is to ensure they manage risks appropriately
- the Risk Management Group (RMG) forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to Macquarie's material risks
- Internal Audit, as the third line, provides independent and objective risk-based assurance on the compliance with, and effectiveness of, Macquarie's financial and risk management framework.

## Risk management framework

### Overview

Macquarie's risk management framework is the totality of systems, structures, policies, processes and people within Macquarie that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. Material risks are those that could have a material impact, financial or non-financial on Macquarie. Macquarie's material risks 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 risk management framework applies to all Operating and Central Service Groups.

Details about the risks we manage are available at **macquarie.com/risk-management**

### Key components

#### Core risk management principles

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

- **ownership of risk at the business level**: Group Heads are responsible for ownership of all material risks that arise in, or because of, the business' operations, including identification, measurement, control and mitigation of these risks. Before taking decisions, clear analysis of the risks is sought to ensure those taken are consistent with the risk appetite and strategy of Macquarie
- **understanding worst case outcomes**: Macquarie's risk management approach is based on examining the consequences of worst-case outcomes and determining whether these are acceptable and within Macquarie's risk appetite. This approach is adopted for all material risk types and is often achieved by stress testing. Macquarie operates a number of sophisticated quantitative risk management processes, but the foundation of the approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals
- **requirement for an independent sign-off by RMG**: Macquarie places significant importance on having a strong, independent Risk Management Group charged with signing-off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals, including those with trading or investment banking experience. For all material proposals, RMG's opinion must be sought at an early stage in the decision-making process. The approval document submitted to Senior Management must include independent input from RMG on risk and return.

## Risk Management Group

RMG, which forms the second line of defence, is an independent and centralised function responsible for independent and objective review and challenge, oversight, monitoring and reporting in relation to Macquarie's material risks. RMG designs and oversees the implementation of the risk management framework. RMG is structured into specialist functional divisions, depicted below, and employs an integrated approach to risk analysis and management across risk classes. RMG's assessment and monitoring of risks involves a collaborative effort across the divisions to ensure a detailed analysis takes place both at the individual and aggregate risk level.

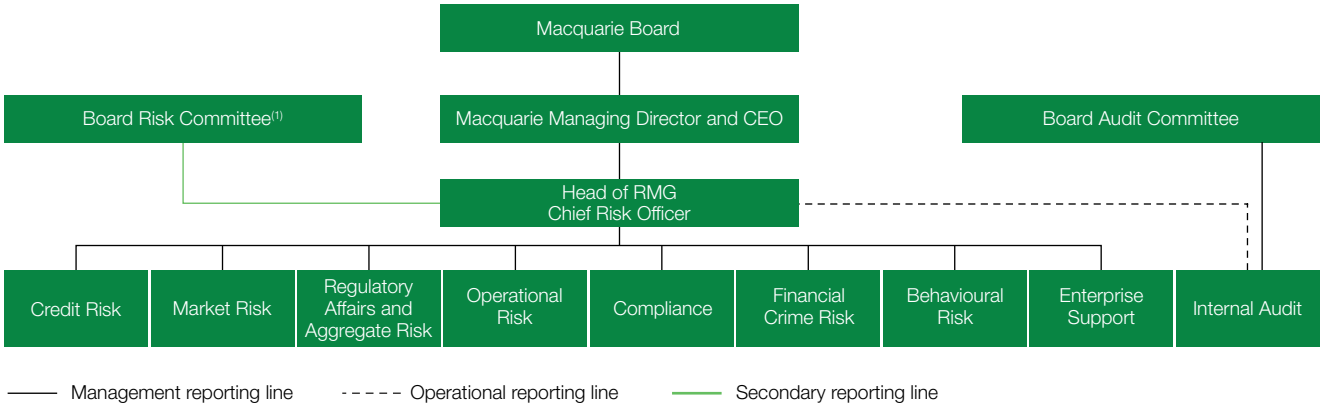
RMG's oversight of risk is based on the following five principles:

- **Independence**: RMG is independent of Macquarie's Operating and Central Service Groups. The Head of RMG, as Macquarie's CRO, reports directly to the CEO with a secondary reporting line to the BRiC. RMG approval is required for all material risk acceptance decisions
- **Centralised risk management**: RMG's responsibility covers the whole of Macquarie. It assesses risks from a Macquarie-wide perspective and provides a consistent approach across Macquarie
- **Approval of all new business activities**: The Operating and Central Service Groups cannot undertake new businesses or activities, offer new products, enter new markets, or undertake significant projects without first consulting RMG. RMG reviews and assesses risk and sets limits. Where appropriate, these limits are approved by the Executive Committees and the Board
- **Continuous assessment**: RMG continually reviews risks to account for changes in market circumstances and developments within Macquarie's business
- **Frequent monitoring and reporting**: The risk profile of Macquarie with respect to all material risks is monitored by RMG on an ongoing basis. Centralised systems exist to allow RMG to monitor financial risks daily. Reporting on all material risks is provided to Senior Management and the Board.

## Internal audit

The Internal Audit Division, as the third line, provides independent and objective risk-based assurance to the Board Audit Committee (BAC), other Board Committees and Senior Management on the compliance with, and effectiveness of, Macquarie's financial and risk management framework. Internal Audit assesses whether material risks have been properly identified and key controls have been properly designed and are operating effectively and sustainably to mitigate those material risks.

The BAC has primary power of direction over the Internal Audit Division and is accountable for reviewing the effectiveness of the Internal Audit function. The Head of Internal Audit reports functionally to the BAC and is primarily accountable to them. The Head of Internal Audit has unrestricted access to the Committee and its Chair and meets privately with the BAC members regularly during the year. The BAC reviews and monitors the performance, degree of independence and remuneration of the Head of Internal Audit. The BAC also approves any appointment and removal of the Head of Internal Audit. The Head of Internal Audit reports operationally to the CRO for day-to-day management.




(1) The Board Risk Committee assists the Board by providing oversight of Macquarie's risk management framework and advising the Board on Macquarie's risk position, risk appetite, risk culture and risk management strategy. In addition the Board Governance and Compliance Committee assists the Board in fulfilling its responsibility for oversight of the regulatory and compliance risk framework of Macquarie, reviews and monitors the conduct risk management framework, and reviews the environmental and social risk and work health and safety policies, practices and performance.

## Risk appetite management

Macquarie's risk appetite is the degree of risk that Macquarie is prepared to accept in pursuit of its strategic objectives and business plan. This is detailed in Macquarie's Board approved Risk Appetite Statement (RAS). The RAS describes Macquarie's risk appetite, being the nature and amount of risk that Macquarie is willing to accept in pursuit of an appropriate and resilient long-term return on its capital. The RAS states transactions must generate returns proportionate to the risks. Accordingly, a risk and return analysis is required for all significant new deals, products and businesses.

The RAS is accessible to all staff and is referred to in the *Code of Conduct*. The principles of the RAS are implemented primarily through the following mechanisms:

### Policies

Policies are a key tool to ensure that risks taken are consistent with the Board approved RAS. They set out the principles that govern the acceptance and management of risks. They are designed to influence and determine all major decisions and actions, and all activities must take place within the boundaries set by them.

### Limits

In many cases, limits translate risk appetite principles into hard constraints on individual businesses. These consist of granular limits for specific risk types as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk. Macquarie sets the Global Risk Limit with reference not only to capital but also to earnings so that in a prolonged, severe downturn, earnings and surplus capital are sufficient to cover losses and maintain market confidence in Macquarie.

Under Macquarie's 'no limits, no dealing' approach, compliance with specific limits is monitored by the Business and RMG. These granular limits are set to allow the Businesses to achieve their near-term plans while promoting a reassessment of the opportunity and associated risks as the limit is approached.

### New product and business approval process

All new businesses and significant changes to existing products, processes or systems are subject to a rigorous, interactive approval process that adheres to the principles stated in the RAS. This results in constructive dialogue on risk matters between RMG and the relevant business.

This formal process is designed so that the proposed transaction or operation can be managed properly, without creating unwanted risks for Macquarie. All relevant risks are reviewed to ensure they are identified and addressed prior to implementation. These risks are also monitored on an ongoing basis. The approvals of RMG, Financial Management Group, Legal and Governance and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement. The Operational Risk division within RMG oversees the new product and business approval process.

## Risk culture

A sound risk culture has been integral to Macquarie's risk management framework since inception. Primary responsibility for risk management in Macquarie, including risk culture, is at the business level. The Board, assisted by the BRiC, is responsible for:

- reviewing, endorsing and monitoring Macquarie's approach to risk culture and conduct
- forming a view on Macquarie's risk culture and the extent to which it supports the ability of Macquarie to operate consistently within its risk appetite.

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

### Setting behavioural expectations

Senior Management, with oversight from the Board, set behavioural expectations. Staff are made aware that Macquarie's principles of *What We Stand For: Opportunity, Accountability and Integrity* must form the basis of all behaviours and actions. These behavioural expectations are specified in the Board approved *Code of Conduct*, which is actively promoted by Management and cascaded through the organisation.

### Leading and executing

Management implements behavioural expectations through:

- leadership actions and communication
- organisational governance
- incentives and consequence management
- organisational and individual capability.

### Monitoring, measuring and reporting

Macquarie monitors and measures its risk culture to gauge effectiveness while promoting continuous improvement. Mechanisms include:

- reports incorporating behavioural elements (such as policy and limit breaches) are prepared by all Operating and Central Service Groups, including reports prepared by RMG, HR and Macquarie's Integrity Office and escalated, where relevant, according to our governance framework. These include regular reports relating to risk culture that are provided to Senior Management and the Board
- the Risk Culture team in RMG Behavioural Risk uses a well-developed assessment process, governed by the Risk Culture Framework. The team undertakes independent risk culture reviews across the Operating and Central Service Groups to assess the relative strengths and areas for development within a business or function.

These mechanisms facilitate a feedback loop of sharing good practice and lessons learned to enable cultural alignment.

## Remuneration and consequence management

Macquarie's remuneration framework and consequence management process are designed to promote accountability, encourage innovation, reward appropriate behaviours and discourage inappropriate behaviours.

Effective consequence management is a key component of Macquarie's risk culture. Macquarie aims to apply consequences for non-compliance in a timely manner, and as fairly and consistently as possible.

See the **Remuneration Report** for more details on Macquarie's remuneration framework and consequence management process

## Conduct risk

Macquarie defines conduct risk as the risk of behaviour, action or omission by individuals employed by, or on behalf of, Macquarie or taken collectively in representing Macquarie that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff, or Macquarie.

Such behaviour, actions or omissions may include:

- breaches of laws or regulations
- disregard for Macquarie's principles of *What We Stand For* or the *Code of Conduct*
- negligence and/or a lack of reasonable care and diligence
- failure to escalate improper conduct.

Conduct risk can arise inadvertently or deliberately in any of Macquarie's Operating and Central Service Groups.

Macquarie's approach to conduct risk management is integrated in our risk management framework and is consistent with our three lines of defence model. Risk-taking must be consistent with Macquarie's principles of *What We Stand For: Opportunity, Accountability and Integrity* which must form the basis of all behaviours and actions. These behavioural expectations are outlined in the Board approved *Code of Conduct*.

Macquarie has a range of controls and processes in place to identify and manage conduct risk, including:

- new and emerging conduct risks are identified through the annual strategy and business planning process
- conduct risks that may arise when Macquarie establishes a new business or product, or makes a significant change to an existing business, product, process or system are identified and assessed through the new business and product approval process
- independent monitoring and surveillance conducted by RMG, in addition to front line supervisory activities performed by the business
- the Risk and Control Self-Assessment incorporates a conduct risk lens, requiring businesses to identify and assess their key conduct risks
- where incidents occur, we investigate the underlying contributing behaviours, the impacts and resolve the issues appropriately and in a timely manner
- performance-based remuneration reflects an individual's performance, which includes assessment of a range of factors including risk management and behavioural measures
- an Integrity Office that is an independent point of contact for staff to safely raise concerns about misconduct, unethical behaviour or breaches of the *Code of Conduct*
- a global Staff Hotline for staff who wish to speak up anonymously.

## Market and credit risk

### Year end performance indicators

Macquarie monitors and measures a range of risks as outlined above in the risk management framework overview. The following graphs provide historical and current year information on key market and credit risks.

### Trading revenue

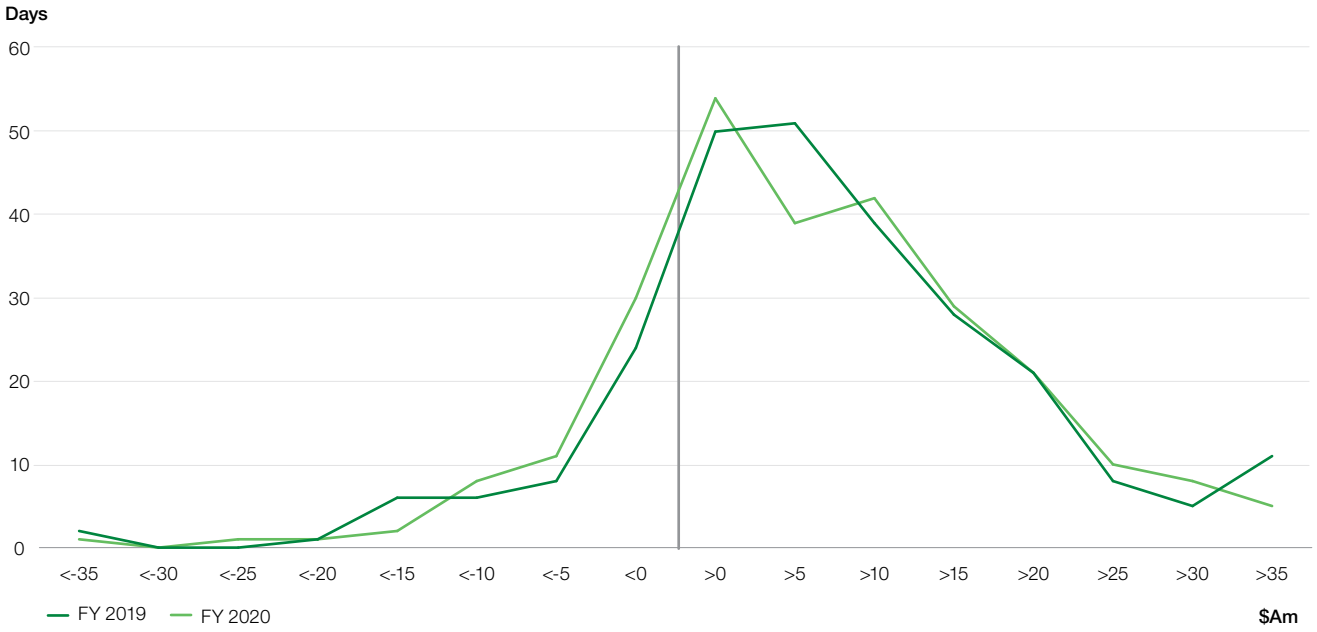
The effectiveness of Macquarie's risk management framework can be partially measured by Macquarie's daily trading results. These are daily profit and loss results that are directly attributable to market based activity from Macquarie's trading desks.

Macquarie's market risk activities continue to be based on earning income from client-facing businesses. The majority of trading income is derived from client activities rather than outright proprietary trading activity.

Macquarie's trading results over time have shown consistent profits and low volatility. This is evident in the graph below and reflects the client-based nature of trading activities. In FY2020 Macquarie made a net trading profit on 208 out of 262 trading days (2019 results: 213 out of 260 trading days) and trading loss profiles were consistent with previous years.

Macquarie's trading businesses contributed positive trading revenue throughout the COVID-19 period of heightened volatility in February and March 2020. The number of profitable trading days over this time was consistent with the full year.

Daily trading profit and loss

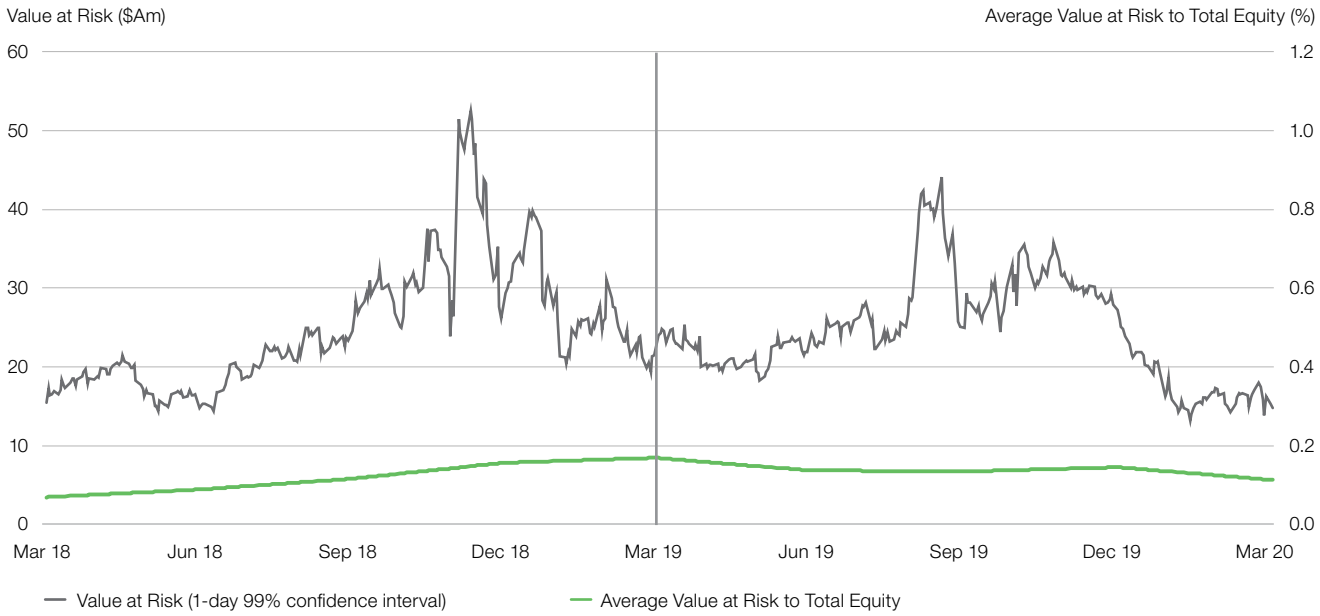


## Value-at-Risk (VaR)

VaR provides a statistically based summary of overall market risk in Macquarie. The magnitude of VaR reflects changes in positions as well as changes in market volatility, correlations and enhancements to the model. The integrity of the VaR model is regularly tested against daily profit and loss.

Macquarie's market risk remained in line with the previous year, driven by higher oil market volatility along with commodity exposure driven by oil and US gas activity. VaR fell to multi-year lows towards the end of the year, representing low levels of market risk during the COVID-19 period of heightened volatility. VaR remains modest in comparison to capital and earnings, representing less than 0.2% of total equity.

### Aggregate VaR



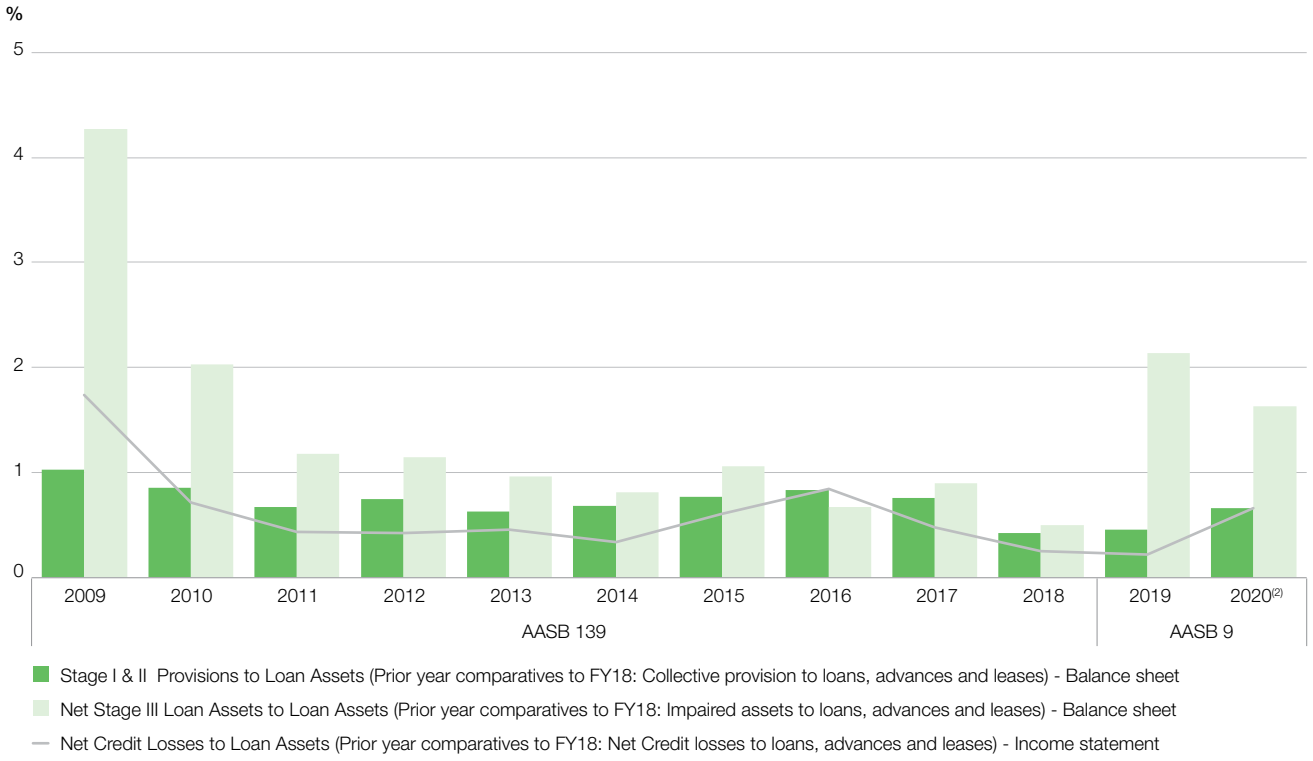
## Loan impairment review

Macquarie prospectively adopted AASB 9 *Financial Instruments* (AASB 9) effective 1 April 2018. As permitted by AASB 9, prior year comparative information was not restated. AASB 9 contains requirements for the classification and measurement of certain financial instruments, hedge accounting requirements and, from a credit provisioning perspective, introduced an expected credit loss methodology, which differed to the incurred loss methodology applied prior to FY2019.

For AASB 9 disclosures refer to Note 34.1 *Credit risk* to the financial statements including disclosure of loan asset exposures by stage of credit performance. Note 12 *Expected credit losses* to the financial statements discloses expected credit losses on loan assets by stage of credit performance. The 2020 numbers presented below are calculated with reference to this information. Loan assets categorised as stage III in terms of AASB 9 are defined as 'credit impaired'. As noted, AASB 9 did not require the restatement of comparative information, and for that reason the comparative numbers in the graph below have not been restated.

Underlying credit quality, as indicated by Stage I & II provisions and credit losses, has relatively deteriorated in FY2020 compared to FY2019. The increase in Stage I & II provisions to loans and net credit losses to loans is primarily caused by the deterioration of market conditions as a result of COVID-19 (as disclosed in the Notes to the financial statements).

### Ratio of Provisions and Credit Impaired Loan Assets to Loans Assets




### Notes to prior year comparatives(3)

- Loans, advances and leases excluded securitised mortgages, securitised Macquarie Capital loans/leases, segregated futures funds and receivables in the form of fees
- The collective provision is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable
- Net impaired assets and net losses excluded investment securities
- Net credit losses represented the total P&L impact in the stated period due to additional individual provisions and direct write-offs (net of any write-backs).

(2) The decrease in the ratio of Net Stage III Loan Assets to Loan Assets during FY2020 is attributable to the growth in the mortgage portfolio and the carrying value of loans within Stage III remaining relatively comparable to the prior year.

(3) The information for the financial years ended 31 March 2009–2020 is based on results using the Australian Accounting Standards that were effective and adopted by the Consolidated Entity at the reporting dates. Reporting periods have been restated only to the extent as required by the accounting standards. The financial reporting periods may hence not be fully comparable with one another as a result of changes in accounting standards' requirements.

## Stress testing

Stress testing is an integral component of Macquarie's risk management framework and a key input to the capital adequacy assessment process. Stress testing incorporates enterprise-wide scenario analyses in which losses and capital are driven by the chosen economic parameters of a scenario. The scenarios as well as their economic parameters are tailored to Macquarie's portfolio.

Stress testing is used to validate that Macquarie's capital targets and associated triggers remain appropriate given the risk profile of the portfolio. It is also used to identify areas of potential concentration in Macquarie's portfolio as well as being a key measure of aggregate risk appetite, calibrated to Macquarie's ability to withstand severe stress.

Macquarie has run multiple scenarios to assess the potential impacts of the COVID-19 pandemic on its portfolio to assist in the organisation's prudent risk management. These scenarios are of varying degrees of severity and likelihood and allow Macquarie to examine the possible impact on the organisation's overall financial resilience to a range of plausible economic conditions that may transpire globally.

# Directors' Report

**CGM invests in the first data-driven exchange for sustainable commodities**

CGM participated in a strategic funding round for XCHG, the first significant data and commodities platform that generates data on environmental factors to facilitate trading in sustainable commodities.

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# Directors' Report

For the financial year ended 31 March 2020

The Directors of MGL submit their report with the financial report of the Consolidated Entity and of the Company for the year ended 31 March 2020.

## Directors

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

### Independent Directors

P.H. Warne, Chairman

G.R. Banks AO

J.R. Broadbent AC

G.M. Cairns

P.M. Coffey

M.J. Coleman

D.J. Grady AM

M.J. Hawker AM

G.R. Stevens AC

N.M. Wakefield Evans

### Executive Voting Director

S.R. Wikramanayake, Managing Director and Chief Executive Officer

The Directors listed above each held office as a Director of MGL throughout the financial year ended 31 March 2020.

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

Details of the qualifications, experience and special responsibilities of the Directors and qualifications and experience of the Company Secretaries at the date of this report are set out on pages 82 to 88 of this report

## Principal activities

The principal activity of MGL during the financial year ended 31 March 2020 was to act as a Non-Operating Holding Company (NOHC) for the Consolidated Entity. The activities of the Consolidated Entity were those of a global financial group providing banking, financial, advisory, investment and funds management services. In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

## Result

The financial report for the financial years ended 31 March 2020 and 31 March 2019, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2020 was $A2,731 million (2019: $A2,982 million).

## Dividends and distributions

Subsequent to the year ended 31 March 2020, the Directors have resolved to pay a final ordinary dividend of $A1.80 per share, 40% franked based on tax paid at 30% ($A638 million in aggregate). The final ordinary dividend is payable on 3 July 2020.

On 18 December 2019, the Company paid an interim ordinary dividend of $A2.50 per share, 40% franked ($A884 million in aggregate) for the financial year ended 31 March 2020.

On 3 July 2019, the Company paid a final ordinary dividend of $A3.60 per share, 45% franked ($A1,224 million in aggregate) for the financial year ended 31 March 2019.

No other ordinary share dividend or distributions were declared or paid during the financial year by the Company.

## State of affairs

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

## Operating and financial review

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

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

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

## Directors' equity participation and other relevant interests

As at the date of this report, the Directors have relevant interests in MGL ordinary shares, MGL securities, or managed investment schemes made available by related companies of MGL and other relevant disclosable interests, as notified by the Directors to ASX in accordance with the *Corporations Act 2001* (Cth) (the Act), in the following:

| | EQUITY PARTICIPATION | | | OTHER RELEVANT INTERESTS | |
|---|---|---|---|---|---|
| Name and position | MGL ordinary shares | RSUs held in MEREP[1] | PSUs held in MEREP[1] | Direct and Indirect Interests | Number held |
| **Executive Voting Director** | | | | | |
| S.R. Wikramanayake | 883,625 | 255,598 | 109,977 | Macquarie Agriculture Fund – Crop Australia units | 2,000,000 |
| **Independent Directors** | | | | | |
| G.R. Banks | 6,541 | – | – | Macquarie Wrap Cash Account units | 461,700.57 |
| | | | | Walter Scott Global Equity Fund units | 24,983.50 |
| J.R. Broadbent | 6,250 | – | – | Macquarie Group Capital Notes 3 (MCN3) | 2,846 |
| | | | | Macquarie Group Capital Notes 4 (MCN4) | 4,000 |
| G.M. Cairns | 12,734 | – | – | – | – |
| P.M. Coffey | 8,739 | – | – | Walter Scott Global Equity Fund units | 408,699.89 |
| M.J. Coleman | 7,324 | – | – | Macquarie Group Capital Notes 2 (MCN2) | 2,000 |
| D.J. Grady | 9,643 | – | – | MCN2 | 100 |
| | | | | MCN3 | 390 |
| | | | | MCN4 | 500 |
| M.J. Hawker | 7,460 | – | – | MCN2 | 500 |
| G.R. Stevens | 3,900 | – | – | – | – |
| N.M. Wakefield Evans | 6,929 | – | – | – | – |
| P.H. Warne | 14,933 | – | – | – | – |

During the financial year, Directors received dividends relating to their holdings of MGL ordinary shares at the same rate as other shareholders.

(1) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in Note 29 *Key Management Personnel disclosure* to the financial statements in the Financial Report.

## Board and Board Committee meetings and attendance

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

| | Regular Board Meetings[2] | BAC meetings[2] | BGCC meetings[2] | BNC meetings[2] | BRC meetings[2] | BRiC meetings[2] | Special Board Meetings[2] |
|---|---|---|---|---|---|---|---|
| Number of meetings | 9 | 6 | 4 | 3 | 9 | 5 | 4 |
| P.H. Warne | 9/9 | – | – | 3/3 | 9/9 | 5/5 | 4/4 |
| S.R. Wikramanayake | 9/9 | – | – | – | – | – | 4/4 |
| G.R. Banks | 9/9 | – | 4/4 | 3/3 | 8/9 | 5/5 | 3/4 |
| J.R. Broadbent[3] | 9/9 | – | – | 3/3 | 2/3 | 4/5 | 4/4 |
| G.M. Cairns | 9/9 | – | – | 3/3 | 9/9 | 5/5 | 3/4 |
| P.M. Coffey[4] | 9/9 | 3/3 | – | 3/3 | 3/3 | 5/5 | 4/4 |
| M.J. Coleman | 9/9 | 6/6 | 4/4 | 3/3 | – | 5/5 | 4/4 |
| D.J. Grady | 9/9 | – | 4/4 | 3/3 | 9/9 | 5/5 | 3/4 |
| M.J. Hawker | 9/9 | 6/6 | – | 3/3 | 9/9 | 5/5 | 4/4 |
| G.R. Stevens[5] | 8/8 | 5/5 | – | 3/3 | – | 5/5 | 4/4 |
| N.M. Wakefield Evans | 9/9 | 6/6 | 4/4 | 3/3 | – | 5/5 | 4/4 |

There was one Board sub-committee convened during the period, with two meetings held. All eligible sub-committee members, being Mr Warne, Ms Wikramanayake, Mr Coleman and the Chief Financial Officer (CFO), Mr Harvey, attended both meetings.

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

The Chairman of the Board and the CEO attend Board Committee meetings by invitation as a matter of course.

(2) Number of meetings attended by the member/total number of meetings eligible to attend as a member. Some of the Special Board Meetings were called at short notice and not all Board members were able to attend.
(3) Ms Broadbent was appointed as a member of the Board Remuneration Committee, effective from 1 November 2019.
(4) Mr Coffey was appointed as a member of the Board Audit Committee and Board Remuneration Committee, effective from 1 November 2019.
(5) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.

## Directors' and officers' indemnification and insurance

Under MGL's Constitution, MGL indemnifies all past and present directors and secretaries of MGL and its wholly-owned subsidiaries (including at this time the Directors named in this report and the Secretaries), 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 the person in their respective capacity
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of their respective capacity
- legal costs incurred by the person in good faith in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of MGL and its wholly-owned subsidiaries, if that has been approved in accordance with MGL policy.

This indemnity does not apply to the extent that:

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

MGL has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (as amended from time to time) (Deed) with each of the Directors. Under the Deed, MGL, inter alia agrees to:

- indemnify the Director upon terms broadly consistent with the indemnity contained in MGL's Constitution
- take out and maintain an insurance policy 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)
- grant access to the Director to all relevant company papers (including Board papers and other documents) for seven years after the Director ceases to be a Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings).

In addition, MGL made an Indemnity and Insurance Deed Poll on 12 September 2007 (Deed Poll). The benefit of the undertakings made by MGL under the Deed Poll have been given to each of the directors, secretaries, persons involved in the management and certain other persons, of MGL and its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of MGL and its wholly-owned subsidiaries. The Deed Poll provides for broadly the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed described above. However, the Deed Poll does not provide for access to company documents.

The indemnities and insurance arrangements provided for under the MGL Constitution, the Deed and the Deed Poll, are broadly consistent with the corresponding indemnities and insurance arrangements provided under the MBL Constitution and deeds entered into by MBL.

Macquarie maintains a Directors' and Officers' insurance policy that provides cover for each person in favour of whom such insurance is required to be taken out under the Deed and the Deed Poll and for MGL in indemnifying such persons pursuant to the Deed and the Deed Poll. Relevant individuals pay the premium attributable to the direct coverage under the policy and MGL pays the premium attributable to the company reimbursement coverage under the policy. The Directors' and Officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

To the extent permitted by law, MGL has agreed to reimburse its auditor, PricewaterhouseCoopers (PwC), for any liability (including reasonable legal costs) PwC incurs in connection with any claim by a third party arising from MGL's breach of the letter of engagement dated 25 June 2019.

## 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, appropriately addressed and material breaches notified.

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

## Non-audit services

Fees paid or payable to PwC, being the auditor of the Consolidated Entity, for non-audit services during the year ended 31 March 2020 total $A9.0 million (2019: $A9.4 million). Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 39 *Audit and other services provided by PwC* in the Financial Report.

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

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

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

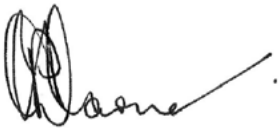
## Rounding of amounts

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

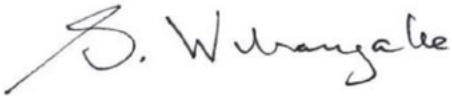
This report is made in accordance with a resolution of the Directors.

## Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance that 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 2020.



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



**Shemara Wikramanayake**
*Managing Director and Chief Executive Officer*

Sydney
8 May 2020

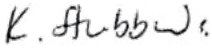
## Auditor's independence declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

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



**Kristin Stubbins**
*Partner*

PricewaterhouseCoopers

Sydney
8 May 2020

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

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# Directors' experience and special responsibilities

## Peter H Warne
BA (Macquarie), FAICD

**Age**: 64
**Resides**: New South Wales

Independent Chairman of MGL and MBL since April 2016
Independent Voting Director of MGL since August 2007
Independent Voting Director of MBL since July 2007
Mr Warne is Chairman of the BNC and a member of the BRC and BRiC

### Experience

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

He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006, he became a Director of ASX Limited, a position he still holds. Mr Warne has previously served as Chairman of ALE Property Group from 2003 to 2017 and OzForex Group Limited (now trading as OFX Limited) from 2013 to 2016, and as Deputy Chairman of Crowe Horwath Australasia Limited from 2008 to 2015.

**Listed company directorships (last three years)**
- Chairman, ALE Property Group (September 2003–May 2017)
- Director, ASX Limited (since July 2006)

**Other current directorships/appointments**
- Chairman, New South Wales Treasury Corporation
- Member, Macquarie University Faculty of Business and Economics Industry Advisory Board
- Member, ASIC Director Advisory Panel
- Board member, Allens

## Shemara R Wikramanayake
BCom LLB (UNSW)

**Age**: 58
**Resides**: New South Wales

Managing Director and Chief Executive Officer of MGL since December 2018
Executive Voting Director of MGL and MBL since August 2018

### Experience

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

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

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

**Other current directorships/appointments**
- Commissioner, Global Commission on Adaptation
- Member, Climate Finance Leadership Initiative
- Board member, Institute of International Finance

## Gary R Banks AO

BEc (Hons) (Monash), MEc (ANU)

**Age**: 70
**Resides**: Victoria

Independent Voting Director of MGL and MBL since August 2013

Mr Banks is a member of the BGCC, BNC, BRC and BRiC

### Experience

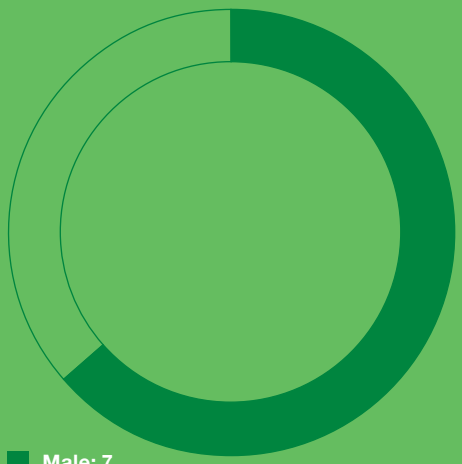
Gary Banks has extensive experience across economics, public policy and regulation in Australia and internationally. He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012 and subsequently Chief Executive of the Australia and New Zealand School of Government.

He has also held senior roles with the GATT Secretariat in Geneva, the Trade Policy Research Centre in London, the Centre for International Economics in Canberra and consulted to the World Bank, Organisation for Economic Co-operation and Development (OECD) and World Trade Organisation, as well as foreign governments.

**Other current directorships/appointments**

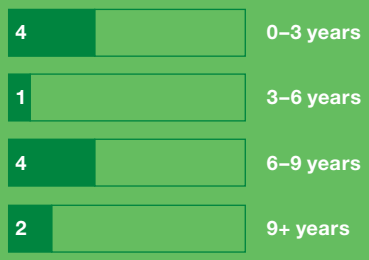
- Chairperson, Australian Statistics Advisory Council
- Special Adviser, Regulatory Policy Committee of the OECD
- Professorial Fellow and Member of the Advisory Board, Melbourne Institute, University of Melbourne
- Senior Fellow, Centre for Independent Studies
- Member, NSW Government's Economic Development Advisory Panel

## Gender diversity



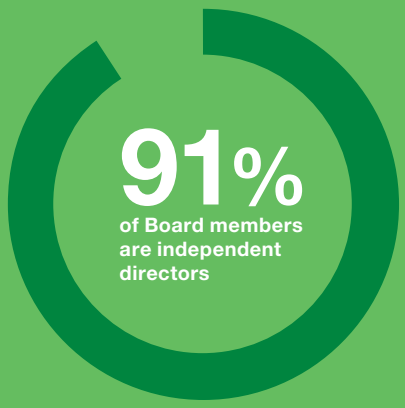
Male: 7
Female: 4

## Board tenure




Directors

## Board independence



# Directors' experience and special responsibilities

Continued

## Jillian R Broadbent AC

BA (Maths & Economics) (Sydney)

**Age**: 72
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since November 2018

Ms Broadbent is a member of the BNC, BRiC and BRC

### Experience

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

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

**Listed company directorships (last three years)**

- Director, Woolworths Group Limited (since January 2011)

**Other current directorships/appointments**

- Chair, Swiss Re Life & Health Australia Limited
- Chancellor, University of Wollongong
- Director, National Portrait Gallery of Australia
- Director, Sydney Dance Company

## Gordon M Cairns

MA (Hons) (Edin)

**Age**: 69
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since November 2014

Mr Cairns is a member of the BNC, BRC and BRiC

### Experience

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

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

**Listed company directorships (last three years)**

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

**Other current directorships/appointments**

- Director, World Education Australia

## Philip M Coffey

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

**Age**: 62
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since August 2018

Mr Coffey is a member of the BNC, BRiC, BRC and BAC

### Experience

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

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

**Listed company directorships (last three years)**

- Director, Lendlease Corporation Limited (since January 2017)

**Other current directorships/appointments**

- Director, Clean Energy Finance Corporation

## Michael J Coleman

MCom (UNSW), FCA, FCPA, FAICD

**Age**: 69
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since November 2012

Mr Coleman is Chairman of the BAC and a member of the BGCC, BNC and BRiC

### Experience

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

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

**Listed company directorships (last three years)**

- Chairman, Bingo Industries Limited (since March 2017) (listed May 2017)

**Other current directorships/appointments**

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

# Directors' experience and special responsibilities

Continued

## Diane J Grady AM

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

**Age**: 71
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since May 2011

Ms Grady is a member of the BGCC, BNC, BRC and BRiC

### Experience

Diane Grady has extensive international experience in a variety of industries having spent 25 years as a full-time independent director of public companies and non-profit boards and as a partner with McKinsey & Co where for 15 years she consulted with clients in financial services, insurance, retailing, telecommunications, consumer goods and manufacturing industries.

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

**Listed company directorships (last three years)**

- Director, Spotless Group Holdings Limited (March 2014–July 2017)

**Other current directorships/appointments**

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

## Michael J Hawker AM

BSc (Sydney), FAICD, SF Fin, FAIM, FIoD

**Age**: 60
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since March 2010

Mr Hawker is Chairman of the BRC and a member of the BAC, BRiC and BNC

### Experience

Mr Hawker has substantial expertise and experience in the financial services industry including management experience in regulated entities in Australia and internationally, and a deep understanding of risk management. He was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008 and held senior positions at Westpac and Citibank.

Mr Hawker was also President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, a board member of the Geneva Association and a member of the Financial Sector Advisory Council.

**Listed company directorships (last three years)**

- Director, Aviva plc (January 2010–March 2019)
- Director, Washington H. Soul Pattinson and Company Ltd (since October 2012)

**Other current directorships/appointments**

- Director, BUPA Global Board UK
- Director, BUPA ANZ Group
- Director, Rugby World Cup Limited
- Board member, Museum of Contemporary Art Australia

## Glenn R Stevens AC

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

**Age**: 62
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since November 2017

Mr Stevens is Chairman of the BRiC and a member of the BAC and BNC

### Experience

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

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

#### Other current directorships/appointments

- Chair, NSW Generations Fund Advisory Board
- Director, Lowy Institute
- Director, Anika Foundation
- Member, Investment Committee, NWQ Capital Management
- Deputy Chair, Temora Aviation Museum

## Nicola M Wakefield Evans

BJuris/BLaw (UNSW), FAICD

**Age**: 59
**Resides**: New South Wales

Independent Voting Director of MGL and MBL since February 2014

Ms Wakefield Evans is Chair of the BGCC and a member of the BAC, BRiC and BNC

### Experience

Nicola Wakefield Evans is an experienced Non-Executive Director and has considerable management and legal experience having spent 29 years at King & Wood Mallesons (20 years as a partner). Nicola was a corporate finance lawyer and has significant Asia-Pacific experience and has particular expertise in the financial services, resources and energy, and infrastructure sectors.

She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.

#### Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since September 2013)

#### Other current directorships/appointments

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

# Directors' experience and special responsibilities

Continued

## Company secretaries' qualifications and experience

### Dennis Leong

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

Company Secretary since October 2006

Dennis Leong is an Executive Director of Macquarie and has had responsibility for Macquarie's company secretarial requirements, general and professional risks insurances and aspects of its employee equity plans. He has over 26 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

### Ida Lawrance

BCom (Hons) (Queens), LLM (UNSW), AGIA, GAICD

Assistant Company Secretary since July 2016

Ida Lawrance is a Division Director of Macquarie and has over 20 years legal and governance experience. Prior to joining Macquarie in March 2006, Ida practiced as a lawyer in both the private and public sectors.

> **Our approach is consistent with the expectations set out by regulators, further aligns the interests of staff and shareholders and ensures we retain key people through this period of economic uncertainty."**

## Letter from the

# Chairman of the Board Remuneration Committee

On behalf of the Board, I am pleased to present the 2020 Remuneration Report.

As discussed in the Chairman's letter, the final weeks of this financial year were impacted by the extreme health, social and economic consequences of the COVID-19 pandemic. Macquarie's response to the crisis included actions to support our clients and the community, and the welfare of our people. The uncertain situation has also had an impact on our financial performance, with the recognition of additional provisions to reflect the deterioration in current conditions and the uncertainty going forward. Despite these extraordinary circumstances and resulting provisions, Macquarie's sound risk management and business approach has enabled delivery of its second highest level of profit results on record.

This year we have provided additional detail (refer to page 105) to explain what the Board has specifically considered in determining the remuneration outcomes for the Executive Committee members to balance the solid financial results and the impact of COVID-19 with the expectations of APRA, our clients, shareholders and the community.

### Performance

Macquarie delivered solid financial results notwithstanding the recent headwinds and the additional provisions taken in FY2020 due to COVID-19, following a comprehensive review of our balance sheet:

- Net profit after tax (NPAT) is down 8% compared to 2019, but up 7% compared to 2018
- Return on equity (ROE) of 14.5% is down from 18% in the prior year
- Earnings per share (EPS) of 791.0 cents per share is down 10% compared to the prior year.

## Impact of COVID-19 on shareholders

The 2020 financial year ended amid significant market volatility due to COVID-19. Macquarie's share price has not been immune to the volatility in equity markets, experiencing a significant decline in the final weeks of the financial year, albeit in line with the market. We recognise that shareholders have been impacted by the decline in the value of their shares during this period.

The share price decline also impacted Macquarie staff through their shareholdings in the company (approximately 3,600 staff have retained profit share held in Macquarie equity). For the CEO and Executive Key Management Personnel (KMP), a significant proportion of performance-based remuneration is retained, delivered in Macquarie equity and deferred for up to seven years. This results in senior executives having an ongoing significant exposure to Macquarie equity which has ensured the strong alignment of staff with shareholders. This is a longstanding feature of Macquarie's remuneration approach and we believe this has served, and continues to serve, us well throughout market cycles.

## Remuneration outcomes

The Board remains focussed on ensuring there is a robust and rigorous process in place to determine individual and company-wide remuneration outcomes. Significant oversight and judgement are applied to ensure remuneration outcomes are aligned both with individual and company-wide performance and with outcomes delivered to our shareholders, our clients and the communities in which we operate.

In determining Executive KMP remuneration outcomes this year and how these outcomes will be delivered, the Board has considered the needs and expectations of various stakeholders. The following factors were specifically considered this year:

- while Macquarie's overall profitability was down on the prior year, all Operating Groups delivered a profit for the year, with MAM and BFS delivering record profits. Our remuneration approach rewards individuals when they deliver realised outcomes. The Board believes that it is critical that Macquarie maintains its strong entrepreneurial culture that incentivises innovation, motivates further growth and drives sustained success
- the impact to the global economy and our communities from COVID-19 has introduced a higher level of uncertainty into financial markets over the short and medium-term. As a result:
  - there is an expectation from governments and regulators that capital will be available to allow the continued provision of credit and support to the economy
  - shareholders have been impacted, as noted above, through a decline in the value of their shares during this period
  - Management and the Board recognise the importance of retaining key people through this period of economic uncertainty.

After careful consideration of all these factors and competing expectations, we believe the following outcomes for the year are appropriate:

- the Executive Committee has undergone a process of renewal over the past two years making direct comparables of remuneration difficult. However, on a like-for-like basis, awarded profit share for the current Executive Committee members is down 7% on the prior year
- the CEO's profit share has been determined reflecting her first full year as CEO and, the decline in Macquarie's overall profitability. In addition, for FY2020, 100% of her profit share will be retained and delivered 90% in Macquarie equity and 10% in Macquarie-managed fund equity, thus receiving no cash component
- in line with the changes to the delivery of the CEO's profit share, there will be no cash component of profit share for all other Executive KMP for FY2020. An additional proportion of FY2020 profit share allocations will also be retained for other senior staff and delivered in Macquarie equity, limiting the cash component and capital impact of these profit share allocations
- this year, Macquarie equity for retained profit share will be issued and not purchased on market.

Our approach is consistent with the expectations set out by regulators, further aligns the interests of staff and shareholders and ensures we retain key people through this period of economic uncertainty.

In addition, for prudent capital management, the Board has resolved to pay a reduced final dividend and Macquarie Bank will not pay a final dividend to the Macquarie Group for FY2020, consistent with APRA's expectations.

The compensation expense to income ratio is higher than last year, although well below the average of our international peer group. This increase is largely driven by:

- an increase in fixed compensation reflecting increased headcount in Central Service Groups due to business growth, technology projects and ongoing regulatory compliance
- higher share-based payment expense reflecting the accelerated amortisation of prior years' equity awards for recently retired Executive Committee members ($A83 million in FY2020 compared to $A32 million in FY2019)
- lower operating revenue primarily driven by higher credit and other impairments due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

## Culture, accountability and remuneration

Macquarie's principles of Opportunity, Accountability and Integrity remain pivotal to our culture and effectively guide our staff in managing risk-reward and making decisions that realise opportunity for the benefit of our clients, our shareholders, our people and the communities in which we operate.

The Board Remuneration Committee (BRC) and the Board are able to assess Macquarie's culture in many ways including through staff survey results, human capital reporting, risk culture reporting and strategy presentations, as well as through personal observation of management and staff behaviours and actions (including meeting with staff and regional office visits).

The remuneration framework supports our principles by motivating staff to be innovative and build businesses but also be accountable for all their decisions within the business and their accompanying risk management, customer, economic and reputational consequences.

Strong risk management is a fundamental part of everyone's role at Macquarie. Staff understand that they are rewarded for their performance, including their management of risk. They also understand that there are consequences for non-compliance with Macquarie's behavioural expectations. Staff training and communications emphasise the link between risk, conduct, policy breaches and consequence management outcomes, including, where appropriate, adjustments to performance-based remuneration.

In FY2020, there were 164 (FY2019: 163) matters involving conduct/policy breaches that resulted in formal consequences. Consistent with prior years, we have disclosed further details regarding these matters (refer to page 101).

## Regulatory environment

Executive remuneration continues to be an area of focus for governments and regulators as they seek to reinforce the behavioural standards expected by customers, shareholders and the community.

As foreshadowed last year, the Banking Executive Accountability Regime (BEAR) came into effect for Macquarie on 1 July 2019 and the vesting period of PSUs awarded from FY2020 has been extended to four years. In January, consistent with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission) recommendations, Federal Treasury released a proposal paper outlining its plan to extend BEAR to a new regime, the Financial Accountability Regime (FAR), to include all APRA-regulated entities.

In July 2019, also in response to the Banking Royal Commission, APRA released the draft Prudential Standard CPS 511 *Remuneration*, which requires remuneration arrangements to consider both financial and non-financial risks, sustainable performance and long-term soundness.

Macquarie supports APRA's policy position and we believe our current remuneration practices measure up well, achieving the overall intent of the regulations. Our remuneration approach considers both financial and non-financial risks, including conduct and adverse customer outcomes, in making remuneration decisions.

We have participated in the consultation process for both the FAR and CPS 511 and will continue to engage with APRA and Federal Treasury as appropriate as more developments occur.

I look forward to receiving your views and support at the 2020 Annual General Meeting.

**Michael Hawker**
*Chairman*
*Board Remuneration Committee*

Sydney
8 May 2020

## Remuneration framework

This section explains the objectives and principles of our remuneration framework.

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

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

This approach has been fundamental in ensuring we can continue to attract, motivate and retain exceptional, entrepreneurial and ethical people across the global markets in which we operate. We hire world-class people in 31 highly competitive markets. These people come from, and compete in, various industry sectors (including hedge funds, private equity firms, global investment banks, fund managers, advisory boutiques, commodity houses and other banks as well as industries that are not specific to banking or financial services, for example, technology, accounting and engineering) across many jurisdictions.

An overview of the remuneration framework is set out below.

### Overall remuneration objectives and principles

**STRONG COMPANY PERFORMANCE OVER THE SHORT AND LONG-TERM**

**Align interests of staff, shareholders and customers** | **Attract, motivate and retain high quality, ethical people**

**The Board considers this is best achieved by supporting the following principles:**

- emphasising performance-based remuneration taking into consideration an individual's overall contribution to Macquarie
- determining variable remuneration as a share of profits (not a short-term bonus) creating a true partnership between staff and shareholders to deliver sustained results for our customers and clients
- driving behaviours that reflect Macquarie's risk culture by motivating staff to be accountable for all decisions within the business and their accompanying risk management, customer, economic and reputational consequences
- delivering remuneration in a way that provides significant long-term alignment with shareholders
- remunerating high-performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives.

CREATING A LONG-TERM FOCUS

## Remuneration structure

This section describes the way in which remuneration is structured and delivered.

Macquarie's remuneration framework works as an integrated whole. An individual's remuneration comprises fixed remuneration, profit share and, for Executive Committee members (our Executive KMP), Performance Share Units (PSUs). The table below provides an overview of these components.

| Fixed remuneration | |
|---|---|
| **Fixed** | – For Executive Committee members, is a low level and a low proportion of total remuneration, relative to the industry, but sufficient to avoid inappropriate risk-taking<br>– For risk and financial control staff, generally a higher proportion of total remuneration than for front office staff. |
| **Performance-based remuneration** | |
| **Profit share** | – All permanent employees are eligible to participate<br>– Significant portion of profit share is retained (100% for the CEO[1] and all Executive Committee members in FY2020) with a long deferral period (three to seven years for Executive Committee members)<br>– Retained profit share is delivered in a combination of Macquarie equity and Macquarie-managed fund equity to strengthen alignment with future performance<br>– Malus provisions apply to certain senior employees<br>– Retained profit share is subject to forfeiture upon leaving Macquarie except in certain circumstances (such as retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances). |
| **PSUs** | – Are only awarded to Executive Committee members to drive company-wide performance<br>– Are a meaningful incentive but not the major element of total remuneration<br>– Vesting of PSUs is subject to achievement of performance hurdles measured equally against ROE relative to an international reference group (50%) and absolute EPS growth (50%)<br>– PSU awards vest after four years[2]<br>– No retesting of hurdles<br>– An international reference group recognises the extent of Macquarie's diversification and internationalisation<br>– Malus provisions apply<br>– Unvested PSUs are subject to forfeiture upon leaving Macquarie except in certain circumstances (such as retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances). |

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

### Retained profit share: retention and vesting

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

Retention and vesting arrangements are determined by the Board Remuneration Committee (BRC), according to prevailing market conditions, having regard to regulatory and remuneration trends. For each year's allocation, once the vesting period has been determined it remains fixed for that allocation.

(1) To further align the interests of staff and shareholders and to ensure we continue to retain key people through this period of economic uncertainty due to COVID-19, 100% of FY2020 profit share is being retained for the CEO and all Executive KMP and delivered in a combination of Macquarie equity and Macquarie-managed fund equity.
(2) Macquarie is subject to the Banking Executive Accountability Regime (BEAR) effective 1 July 2019. The vesting period of PSUs awarded from FY2020 has been extended to four years, subject to performance hurdles. PSUs awarded prior to FY2020 vested in two equal tranches after three and four years.
(3) Both the MEREP and DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in Macquarie ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 30 *Employee equity participation* to the financial statements in the Financial Report. The DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment.

This year, to further align the interests of staff and shareholders and to ensure we continue to retain key people through this period of economic uncertainty due to COVID-19, the Board and Management have deemed it appropriate to increase retention rates for FY2020 profit share allocations. As a result, 100% of FY2020 profit share allocations will be retained for the CEO and all Executive Committee members (no cash component) and delivered in a combination of Macquarie equity and Macquarie-managed fund equity. For other senior staff, an additional 20%[4] of FY2020 profit share allocations will be retained, limiting the cash component of their profit share allocations. This approach is consistent with APRA's expectations.

The following table summarises the standard retention and vesting arrangements applicable for FY2020.

**FY2020 Standard profit share arrangements – retention levels, investment of retained profit share and vesting periods**

| Role | Available profit share (%)[5] | Profit share retention (%) | Retained profit share investment | | Vesting and release of profit share[6] |
|---|---|---|---|---|---|
| | | | **MEREP** (MGL ordinary shares) % | **DPS Plan** (Macquarie-managed fund equity) % | |
| CEO | 0 | 100 | 90 | 10 | One-fifth in each of years 3–7 |
| CEO Macquarie Bank | 0 | 100 | 90 | 10 | |
| Executive Committee members with Funds responsibilities | 0 | 100 | 50 | 50 | |
| Other Executive Committee members | 0 | 100 | 80–90 | 10–20 | |
| Designated Executive Directors[7] | 30–50 | 50–70 | 80–100[8] | 0–20 | |
| Other Executive Directors | 30–60 | 40–70 | 80–100[7] | 0–20 | One-third in each of years 3–5 |
| Executive Directors with Funds responsibilities | 40–60 | 40–60 | 25–50 | 50–75 | |
| Staff other than Executive Directors | 40–75 | 25–60[9] | 100[10] | 0[10] | One-third in each of years 2–4 |

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

(4) For senior staff subject to the UK Remuneration Code (the UK Code) implementing the Capital Requirements Directive IV (CRD IV), retention rates for FY2020 have been set at 20% over what their retention rate would have been if they were not subject to the UK Code.
(5) Available profit share is delivered in cash except for staff (including one Executive Committee member) subject to the UK Code implementing CRD IV, where 50% of available profit share is delivered in Macquarie equity and is subject to a 12-month hold period.
(6) For staff (including one Executive Committee member) subject to the UK Code implementing CRD IV, retained profit share invested in Macquarie equity is subject to a further 12-month hold post the vesting period.
(7) Executive Directors who have a significant management or risk responsibility in the organisation.
(8) For staff subject to the UK Code implementing CRD IV, retained profit share is invested 60% in Macquarie equity and 40% in the DPS Plan.
(9) Above certain monetary thresholds.
(10) For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of Macquarie equity and Macquarie-managed fund equity.

In addition to the arrangements set out in the table on the previous page, different arrangements may apply in certain circumstances:

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

A small number of individuals with funds responsibilities may receive a portion of their performance-based remuneration as a share of performance fees paid by Macquarie-managed funds. The company-wide profit share pool is adjusted downwards to reflect these deferred remuneration arrangements, which are also taken into account in determining the individual's profit share allocation. Consistent with market practice, these individuals are allocated an entitlement to a share of performance fees paid by a particular fund. This allocation is based on performance, seniority and the extent of the individual's involvement with the particular fund. An individual will not receive their entitlement until Macquarie has received performance fees towards the end of the fund's life, which is typically upwards of 10 years. One Executive Committee member, Mr Stanley, in his former role, participated in these arrangements for certain funds. Upon joining the Executive Committee, he will maintain his participation in these existing funds, but he will not be allocated any additional entitlements. No other Executive Committee members currently participate in these arrangements.

### Forfeiture of retained profit share – Malus Events

Since 2012, the Board or its delegate has had the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances (Malus). The current Malus provisions provide the Board or its delegate with the ability to reduce or eliminate unvested profit share awarded in respect of FY2015 onwards to certain senior employees if it is determined that the individual has at any time:

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

Each of the above is a Malus Event.

Additional provisions may apply to staff in certain jurisdictions to ensure compliance with local regulations. This includes, for example, staff in the EU, including one Executive Committee member, who are required to comply with local regulatory requirements. These individuals are subject to additional Malus and clawback provisions under EU regulations.

Macquarie has always had and continues to have, the ability to terminate staff where a Malus Event has occurred, at which time any unvested profit share would be forfeited in full. The BRC considers whether, and the extent to which, to apply Malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

### Early vesting and release of retained profit share

An Executive Director's unvested retained profit share is only paid out on termination of employment in the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances. The Board has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the conditions of early release as set out below).

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in relation to strategic business objectives, including in connection with the divestment or internalisation of Macquarie businesses, or when an employee resigns to fulfil a public service role in a governmental organisation or agency. Where such discretion is exercised, the Board may impose such other conditions as it considers appropriate.

This year, such discretion has been exercised and retained profit share was approved to be released for two executives due to the transfer of their employment to a non-majority controlled joint venture.

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

In addition to the Malus provisions set out above, where discretion has been exercised to accelerate the vesting of retained profit share for any departing Executive Director, the Board may reduce or eliminate their retained profit share, if it is determined that the Executive Director has at any time during their employment or the relevant release periods after their employment committed a Malus Event or:

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

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

Each of the above is a Post Employment Event.

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

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

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

For individuals who are allocated an entitlement to a share of performance fees paid by a particular Macquarie-managed fund, the entitlement will be forfeited if their employment ceases before five years from the date of allocation. Entitlements are subject to similar forfeiture conditions as profit share.

### Performance Share Units (PSUs)

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

Since their introduction, PSUs have been structured as DSUs with performance hurdles.[11] Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

As foreshadowed last year, the BEAR came into effect for Macquarie on 1 July 2019 and the vesting period of PSUs awarded from FY2020 has been extended to four years.

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators, as well as market practice. No change has been made to the hurdles for FY2020.

(11) A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 30 *Employee equity participation* to the financial statements in the Financial Report.

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

| | EPS CAGR hurdle | ROE hurdle |
|---|---|---|
| **Application** | 50% of PSU award | 50% of PSU award |
| **Performance measure** | Compound annual growth rate (CAGR) in EPS over the vesting period (four years)[12] | Average annual ROE over the vesting period (four years)[12] relative to a reference group of global financial institutions[13] |
| **Hurdle** | Sliding scale applies:<br>– 50% becoming exercisable at EPS CAGR of 7.5%<br>– 100% at EPS CAGR of 12%.<br>For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable. | Sliding scale applies:<br>– 50% becoming exercisable above the 50th percentile<br>– 100% at the 75th percentile.<br>For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable. |
| **Forfeiture** | – Malus provisions apply<br>– The standard policy is that unvested PSUs will be forfeited upon termination<br>– To ensure continued alignment with shareholders post-termination, in the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles<br>– Should a change of control occur,[14] the Board or the BRC has discretion to determine how unvested PSUs should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control. | |

## Rationale for hurdles

- ROE and EPS growth drive long-term shareholder value and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control
- The approach is consistent with that advocated by APRA in not using TSR as a measure
- Can be substantiated using information that is disclosed in audited financial statements
- A sliding scale diversifies the risk of not achieving the hurdles and provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test, which some have argued could promote excessive risk-taking
- Designed to reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three- to seven-year deferral of profit share for members of the Executive Committee.

## Use of an international reference group

An international reference group recognises the extent of Macquarie's diversification and internationalisation. As at 31 March 2020, total international income represented approximately 67% of Macquarie's total income, with approximately 58% of Macquarie's staff located outside Australia. The BRC considers an international reference group to be appropriate on the basis that Macquarie has no comparable Australian listed peers. These international firms broadly operate in the same markets and compete for the same people as Macquarie.

(12) PSUs awarded prior to FY2020 vested in two equal tranches after three and four years.
(13) The reference group for awards made from 2013 is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG. Comparator company information is presented in the same order throughout the Remuneration Report.
(14) Under the MEREP Plan Rules, a change in control occurs where a person acquires or ceases to hold a relevant interest in more than 30% of Macquarie shares or where the Board resolves that a person is in a position to remove one-half or more of the Non-Executive Directors.

## Macquarie's EPS CAGR performance

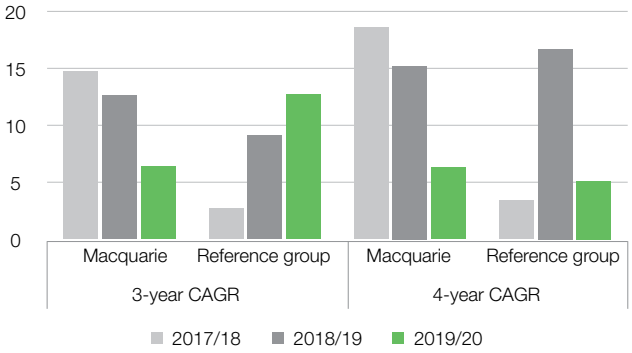
EPS for FY2020 was 791.0 cents per share which is down 10% on the prior year.

For PSUs (awarded prior to FY2020) to fully vest, Macquarie needs to achieve at least 12% CAGR over the vesting period. Supporting the rigour of the hurdle, to achieve a full vesting the following cumulative EPS is required:

- over three years, cumulative EPS growth of 40%
- over four years, cumulative EPS growth of 57%.

The below graph shows EPS CAGR for Macquarie over three and four years. The average EPS CAGR of Macquarie's international reference group is shown for comparison only, noting that the EPS performance of the reference group does not form part of Macquarie's PSU hurdle.

**Macquarie's 3- and 4-year EPS CAGR compared to an international reference group (%)**




Source: Bloomberg

## Macquarie's ROE performance compared to an international reference group

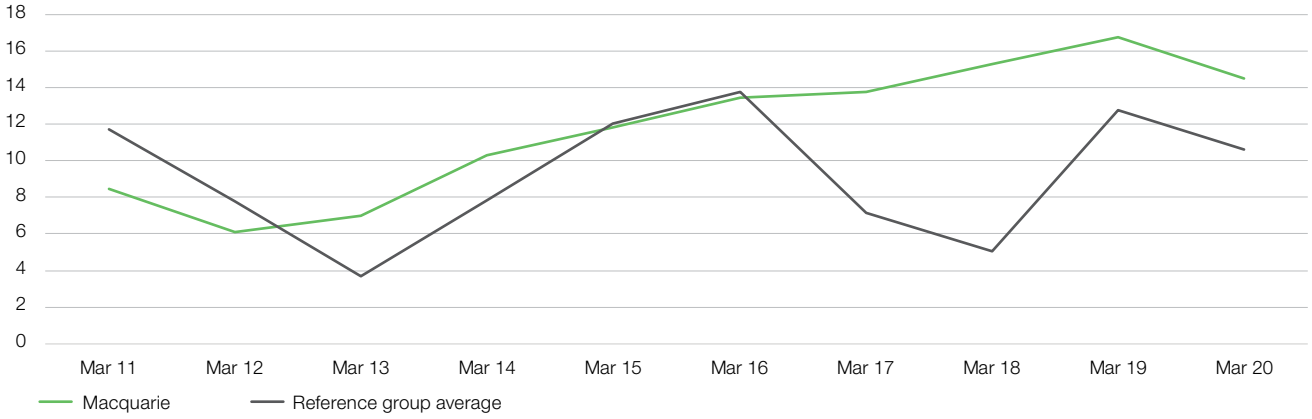
Macquarie's ROE for FY2020 of 14.5% is down from 18.0% in the prior year but remains higher than the majority of the international reference group. In addition, Macquarie's three, five and ten-year average annual ROE exceeds the majority of the reference group.

**Reference group ROE over ten years FY2011–2020**

| | 1 year average % p.a. | 3 year average % p.a. | 5 year average % p.a. | 10 year average % p.a. |
|---|---|---|---|---|
| Macquarie | **14.5** | **15.5** | **14.8** | **11.7** |
| Average of reference group | 10.6 | 9.5 | 9.9 | 9.2 |
| Company | 10.7 | 9.5 | 8.3 | 4.7 |
| Company | 4.6 | 1.4 | 1.3 | 1.9 |
| Company | 7.8 | 3.4 | (0.6) | 2.7 |
| Company | (9.7) | (3.8) | (5.0) | (0.7) |
| Company | 10.0 | 9.4 | 9.0 | 9.3 |
| Company | 14.9 | 12.7 | 11.7 | 10.7 |
| Company | 37.5 | 36.1 | 47.2 | 40.5 |
| Company | 11.8 | 10.5 | 9.6 | 7.0 |
| Company | 8.0 | 6.2 | 7.2 | 7.0 |

Source: Bloomberg (reference group) and Macquarie as reported

**Macquarie ROE versus the average of Macquarie's international reference group[15] over ten years FY2011–2020 (%)**




Source: Bloomberg (reference group) and Macquarie as reported

(15) The reference group for awards from 2013 comprises Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.

## Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. PSUs that do not meet performance hurdles expire.

The PSUs that vested in July 2019 comprised the second tranche of those awards granted in 2015 and the first tranche of those granted in 2016. The performance hurdles under each tranche were fully met and 100% of the awards became exercisable. As a result:

| PSU tranche | EPS CAGR Hurdle | | | ROE Hurdle | | |
|---|---|---|---|---|---|---|
| | Macquarie result (for vesting period) | Hurdle | Outcome | Macquarie result (for vesting period) | Hurdle | Outcome |
| **2015 Tranche 2** | 15.16% | 50% at 7.5% CAGR<br>100% at 12% CAGR | 100% exercisable | 14.83% | 50% above the 50th percentile[16]<br>100% at the 75th percentile[16] | 100% exercisable |
| **2016 Tranche 1** | 12.57% | 50% at 7.5% CAGR<br>100% at 12% CAGR | 100% exercisable | 15.29% | 50% above the 50th percentile[17]<br>100% at the 75th percentile[17] | 100% exercisable |

## Other features of Macquarie's remuneration structure

| | |
|---|---|
| **Minimum shareholding requirement** | Executive Directors are required to hold a relevant interest in Macquarie ordinary shares that have a value equal to 5% of an Executive Director's aggregate profit share allocation for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy. For Executive Committee members, compliance with this policy equates to a minimum shareholding requirement of between 180% to 720% of fixed remuneration, excluding the role-based allowance in place for one Executive KMP.[18] |
| **Promotion Awards** | Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on Director-level set with reference to an Australian dollar value. Currently these awards range from $A25,000 to $A175,000 depending on the promotion level. |
| **Hedging** | Macquarie prohibits staff from hedging shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP. |

## Employment contracts

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

| | |
|---|---|
| **Length of contract** | Permanent open-ended. |
| **Remuneration review period** | 1 April to 31 March annually. |
| **Profit share participation** | Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'. Refer to pages 93 to 96 for details. |
| **PSU participation** | Executive Committee members are eligible to receive PSUs. Refer to pages 96 to 99 for details. |
| **Termination of employment** | Requires no more than four weeks' notice by Macquarie or the Executive Committee member (Post-employment restrictions apply).[19] |
| **Post-employment restrictions** | Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie's election, for up to three months post-termination. |

(16) Peer group ROE at 50th percentile 7.71% and peer group ROE at 75th percentile 9.12%.
(17) Peer group ROE at 50th percentile 8.19% and peer group ROE at 75th percentile 9.31%.
(18) Role-based allowances are a component of fixed remuneration which may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals.
(19) Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment. In the UK, the statutory minimum notice period increases from 4 weeks to a maximum 12 weeks based on years of service.

## Approach to determining remuneration outcomes

This section provides an overview of Macquarie's approach to determining remuneration outcomes.

Macquarie's remuneration framework works as an integrated whole. An individual's remuneration comprises fixed remuneration, profit share and, for Executive Committee members (our Executive KMP), PSUs. The table below provides an overview of how these components are determined:

| Fixed remuneration | |
|---|---|
| **Fixed** | Reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements. |
| **Performance-based remuneration** | |
| **Profit share** | The company-wide profit share pool is determined through a bottom-up assessment at both the business group and individual level:<br>**Business group profit share pools:**<br>– reflect each business' contribution to company-wide profits taking into account liquidity, capital and funding usage<br>– for Central Service Groups, based on the quality and integrity of control functions and support services; not primarily determined with reference to profitability<br>– considers the risk profile of each business including consideration of any significant reputational, cultural or compliance matters<br>– also considers overall remuneration levels in the market in which each business operates<br>– other factors can impact the allocation to each business group such as quality of the income, whether the business is highly regulated or not, the maturity of the business, and the reliance on intellectual capital versus financial capital.<br>**Individual profit share allocations:**<br>– based on business profits and individual contribution to profits for front office staff<br>– primarily based on contribution to high quality control functions for risk management and financial control staff<br>– for other support staff, based on their contribution to delivering high quality services to support the businesses<br>– other factors considered include risk management and compliance (both financial and non-financial risks), business leadership (including customer outcomes), people leadership and professional conduct<br>– may be adjusted downwards based on an assessment of both financial and non-financial risks including conduct issues that have arisen during the year<br>– also considers relativities in the market in which each business operates.<br>**Company-wide profit share pool:**<br>– is an aggregate of the bottom-up assessment conducted at both the business and individual level<br>– is assessed for overall reasonableness, including consideration of:<br>  – an internal reference based on Macquarie's after-tax profits and its earnings over and above the estimated cost of capital<br>  – the resultant compensation expense to income ratio and how it compares to that of peers<br>– the Board retains discretion to amend the final pool determined in accordance with the bottom-up assessment to ensure that all relevant factors, including risk and conduct matters, have been appropriately taken into consideration. For the sixth year in a row, the company-wide pool is substantially below the internal reference described above<br>– the Chief Financial Officer (CFO) confirms that payment of the profit share pool would not result in elimination of capital surpluses. |
| **PSUs** | – The pool is determined with reference to profits over recent years<br>– The Board retains discretion to determine the final PSU pool taking into consideration the risk profile of Macquarie<br>– Individual allocations reflect role and complexity, and contribution to driving the collective performance of Macquarie<br>– The BRC considers both fair and face value when determining individual PSU allocations<br>– PSUs are granted in August each year. Details of the 2019 grants are included on pages 123 to 125 in Appendix 4. |

## Culture, accountability and remuneration

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

### Risk culture

Macquarie's *What We Stand For* principles of Opportunity, Accountability and Integrity remain pivotal to our culture and effectively guide our staff in managing risk-reward and making decisions that realise opportunity for the benefit of our clients, our shareholders, our people and the communities in which we operate. Staff are made aware that these principles must form the basis of all behaviours and actions. These behavioural expectations are outlined in the Board approved *Code of Conduct*, which is actively promoted by Management and cascaded through the organisation through multiple mechanisms. Macquarie invests significant time and effort into communicating and reinforcing our culture through senior management communications, policy reminders, training and learning and development activities. Strong risk management is a fundamental part of everyone's role at Macquarie. Staff understand that they are rewarded for their performance, including their approach to managing risk. They also understand that there are potential consequences for non-compliance with Macquarie's behavioural expectations. Staff training and communications emphasise the link between risk, conduct, policy breaches and consequence management outcomes, including, where appropriate, adjustments to performance-based remuneration.

### Alignment of remuneration with prudent risk-taking

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. Remuneration outcomes reflect an assessment of a range of factors including risk management, compliance and behavioural measures to promote good conduct and commitment to the *Code of Conduct* and *What We Stand For*. In addition, the remuneration framework is characterised by significant retention and long deferral periods, which enable risk outcomes to be considered over long periods. The Board and the BRC continue to take risk and conduct matters very seriously. There are robust processes in place to ensure that all risk, reputation and conduct-related matters are specifically considered when determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate. A wide range of risks that could have a financial or non-financial impact on Macquarie are considered, including if there has been a detriment to customers.

**To assist the Board and the BRC:**

- the Board is able to assess Macquarie's culture in a number of ways including through staff survey results, human capital reporting, risk culture reports, consequence management reports, strategy presentations as well as through personal observation of management and staff behaviour and actions (including meeting with staff and visits to overseas offices)
- the Chief Risk Officer (CRO) provides the BRC with an independent report detailing material losses, large transactions with residual risk, significant regulatory and legal matters, significant compliance and operational incidents, internal audit issues, other non-financial risk matters as well as information regarding economic capital
- the Global Head of HR discusses the CRO's report with the Group Heads to ensure any matters listed are appropriately reflected in remuneration outcomes for relevant staff and provides a report to the BRC on how this has been achieved
- the General Counsel, in conjunction with HR, considers whether there are any incidents that should be brought to the attention of the BRC which might lead to a Malus determination and reports to the BRC at year end.

The BRC conducts a detailed review of all the material presented and uses this information when considering remuneration outcomes for relevant businesses and individuals.

### Consequence management

Macquarie operates a robust consequence management process whereby incidents, breaches of policy and misconduct are regularly reported to Senior Management. Macquarie's Consequence Management Guideline applies wherever a breach of internal policy or regulatory requirement is identified. Consequences may include further training, removal of delegated authorities or permissions, adjustments to performance-based remuneration, impact on promotion, formal warnings or termination. Where an employee has received a formal warning, their performance-based remuneration will likely be impacted and in some cases, it will be reduced to zero. Promotion decisions may also be impacted. Impacts may also be applied where a formal warning has not been issued. In each case, judgement is exercised as to the appropriate consequence(s) based on all the relevant circumstances. Where an individual's employment is terminated due to a compliance or conduct concern (or they resign), retained and unvested remuneration is forfeited as per Macquarie's standard policy.

**To assist the Board and the BRC:**

- RMG and HR routinely provide information on identified breaches of policies and regulatory rules to (amongst other purposes) ensure appropriate consequence management is applied. RMG and HR data relating to employee conduct, including individual employee warnings, incidents and breaches is regularly reported to senior management
- the Global Head of HR annually reports to the BRC on the outcomes from the consequence management process and confirms these matters have been considered in determining remuneration and promotion outcomes where appropriate.

In FY2020, there were 164 (FY2019: 163) matters involving conduct/policy breaches that resulted in formal consequences. Of those:

- for 32 matters, termination of employment was the outcome, (FY2019: 23)
- for 132 matters, a formal warning was issued (FY2019: 140). Additional consequences were applied as appropriate including additional training, removal of delegated authorities or permissions, adjustments to profit share and/or impact to promotion. Of the 132 matters, 19 have resulted in individuals subsequently leaving Macquarie and 109 individuals had their profit share reduced by an average of 46%.

These matters were considered to be isolated issues and there was no evidence of broader systemic conduct issues.

## Pay for performance

This section details Macquarie's results and demonstrates the link between pay and performance.

### Macquarie's results

Macquarie delivered solid financial results in FY2020, which, while below 2019's record profit, represent Macquarie's second highest profit results on record. NPAT is down 8% compared to 2019, but up 7% compared to 2018. EPS is also down compared to 2019 by 10%. These are solid results notwithstanding the recent headwinds and the additional provisions taken in FY2020 due to COVID-19. The compensation expense to income ratio is higher than last year, but still well below the average of our international peer group. The increase is largely driven by: an increase in fixed compensation reflecting increased headcount in Central Service Groups (due to business growth, technology projects and ongoing regulatory compliance); a higher share-based payment expense reflecting the accelerated amortisation of prior years' equity awards for recently retired Executive Committee members ($A83 million in FY2020 compared to $A32 million in FY2019); and lower operating revenue primarily driven by higher credit and other impairments due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19. The table below shows that while profits are down, Executive KMP remuneration is also down, reflecting the alignment between pay and performance.

**Comparison of performance measures and executive remuneration measures: FY2019–2020**

| | Expressed as | 2020 | 2019 | Increase/ (Decrease) % |
|---|---|---|---|---|
| **Performance measures** | | | | |
| NPAT | $Am | **2,731** | 2,982 | (8) |
| Basic EPS | Cents per share | **791.0** | 883.3 | (10) |
| Ordinary Dividends | Cents per share | **430.0** | 575.0 | (25) |
| Return on equity | Percent | **14.5** | 18.0 | |
| Annual TSR[20],[21] | Percent | **(29.9)** | 32.8 | |
| **Executive remuneration measures** | | | | |
| Total Compensation Expense | $Am | **5,001** | 4,891 | 2 |
| Compensation Expense to Income ratio | Percent | **40.6** | 38.3 | |
| Average staff headcount[22] | | **15,762** | 15,309 | 3 |
| Actual staff headcount[22] | | **15,849** | 15,602 | 2 |
| CEO awarded profit share[23] | $Am | **17.4** | 19.2 | (10) |
| Current Executive KMP awarded profit share[24] | $Am | **99.4** | 106.6 | (7) |
| CEO Statutory Remuneration | $Am | **14.9** | 18.0 | (17) |
| Total Executive KMP Statutory Remuneration | $Am | **105.8** | 162.8 | (35) |

**Performance over past 10 years: FY2011–2020**

| Year ended 31 March | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | | | | | |
| NPAT ($Am) | 956 | 730 | 851 | 1,265 | 1,604 | 2,063 | 2,217 | 2,557 | 2,982 | **2,731** |
| Basic EPS (cents per share) | 282.5 | 210.1 | 251.2 | 383.6 | 502.3 | 619.2 | 657.6 | 758.2 | 883.3 | **791.0** |
| **Shareholder returns** | | | | | | | | | | |
| Return on equity (%) | 8.8 | 6.8 | 7.8 | 11.1 | 14.0 | 14.7 | 15.2 | 16.8 | 18.0 | **14.5** |
| Ordinary Dividends (cents per share) | 186 | 140 | 200 | 260 | 330 | 400 | 470 | 525 | 575 | **430** |
| Special Dividends (cents per share)[25] | – | – | – | 116 | – | – | – | – | – | **–** |
| Share price as at 31 March ($A) | 36.6 | 29.1 | 37.2 | 57.9 | 76.7 | 66.1 | 90.2 | 102.9 | 129.4 | **85.75** |
| Annual TSR (%)[21] | (19.0) | (16.0) | 34.5 | 67.2 | 40.0 | (9.2) | 46.0 | 21.3 | 32.8 | **(29.9)** |
| 10 year TSR (%)[21] | 131.9 | 56.3 | 170.4 | 189.6 | 187.7 | 83.5 | 99.0 | 257.7 | 723.6 | **220.7** |

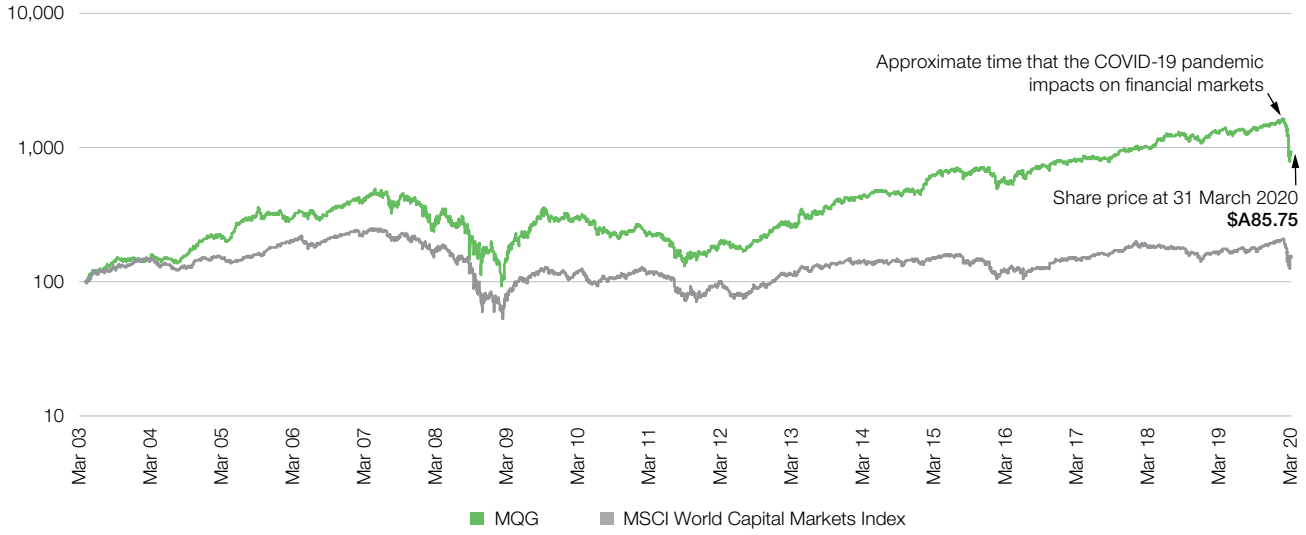
(20) Source: Bloomberg.
(21) TSR data reflects the reinvestment of gross dividends. TSR was up 24.1% for the period to 20 February 2020 before the impact of COVID-19.
(22) Headcount for both 2020 and 2019 includes staff employed in operationally segregated subsidiaries (OSS).
(23) For FY2019, Awarded Profit Share for the CEO equates to the sum of awarded profit share for Mr Moore for the period 1 April 2018 to 30 November 2018 and awarded profit share for Ms Wikramanayake for the period 1 December 2018 to 31 March 2019.
(24) Represents the full year profit share awarded to the current Executive KMP population in both FY2020 and FY2019.
(25) The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD Distribution in January 2014. The total distribution including return on capital was 373 cents per share.

## Total shareholder returns

Macquarie's total shareholder return over the long-term has been strong and continues to outperform both the MSCI World Capital Markets Index since the inception of this index and the All Ordinaries Accumulation Index (All Ords) since listing.

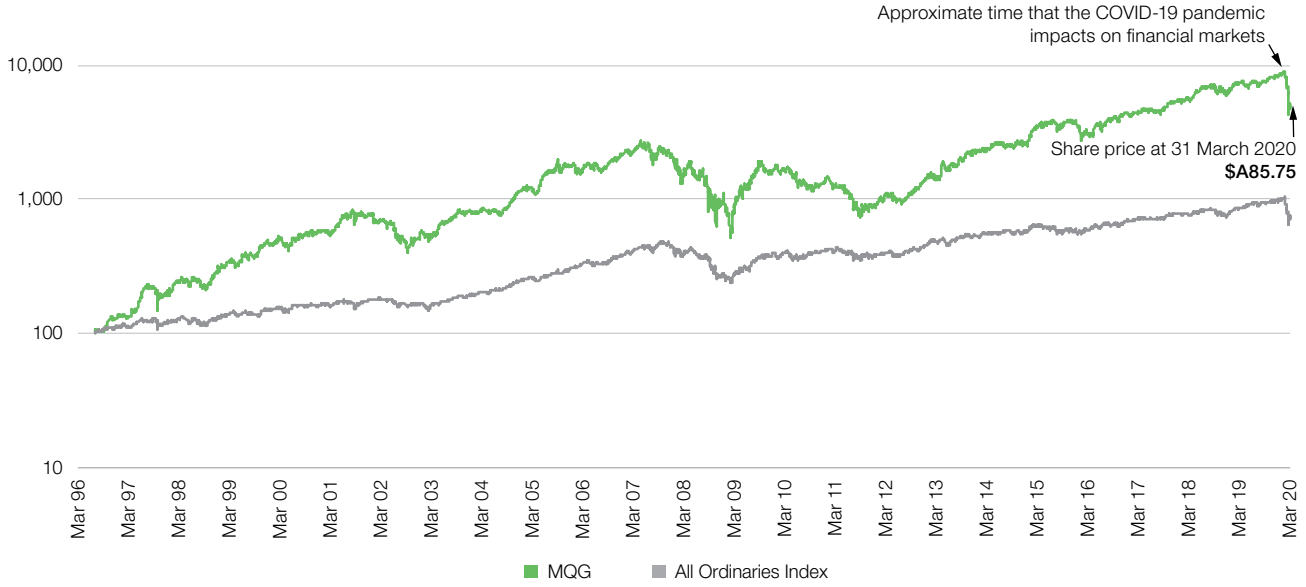
Following the recent market volatility associated with COVID-19, the share price closed at $A85.75 on 31 March 2020, well below its 20 February 2020 peak, resulting in a total shareholder return of (29.9%) for the year. The total shareholder return for the period to 20 February 2020 was 24.1%. The total shareholder return charts below are displayed on a base-10 logarithmic scale, which displays relative percentage movements over an extended historical timeframe as similar in size, without visually skewing the performance in more recent years.

**Macquarie TSR versus the MSCI Index[26]: 30 April 2003, being the date the index was first calculated, to 31 March 2020**




Source: Bloomberg

**Macquarie TSR since listing versus the All Ords Index[27]: 29 July 1996 to 31 March 2020**




Source: Bloomberg

(26) Indexed to 100 on 30 April 2003, being the date the index was first calculated. The MSCI World Capital Markets Index comprises a basket of companies that provide capital markets activities (defined by MSCI as asset management, investment banking and brokerage, and diversified capital markets activities). Macquarie TSR calculations assume continuous listing. Therefore, they are based on Macquarie Bank Limited (ASX Code: MBL) data up to and including 2 November 2007 (the last day of trading of MBL shares), and MGL (ASX Code: MQG) data from the commencement of trading of MGL ordinary shares on 5 November 2007 onwards.

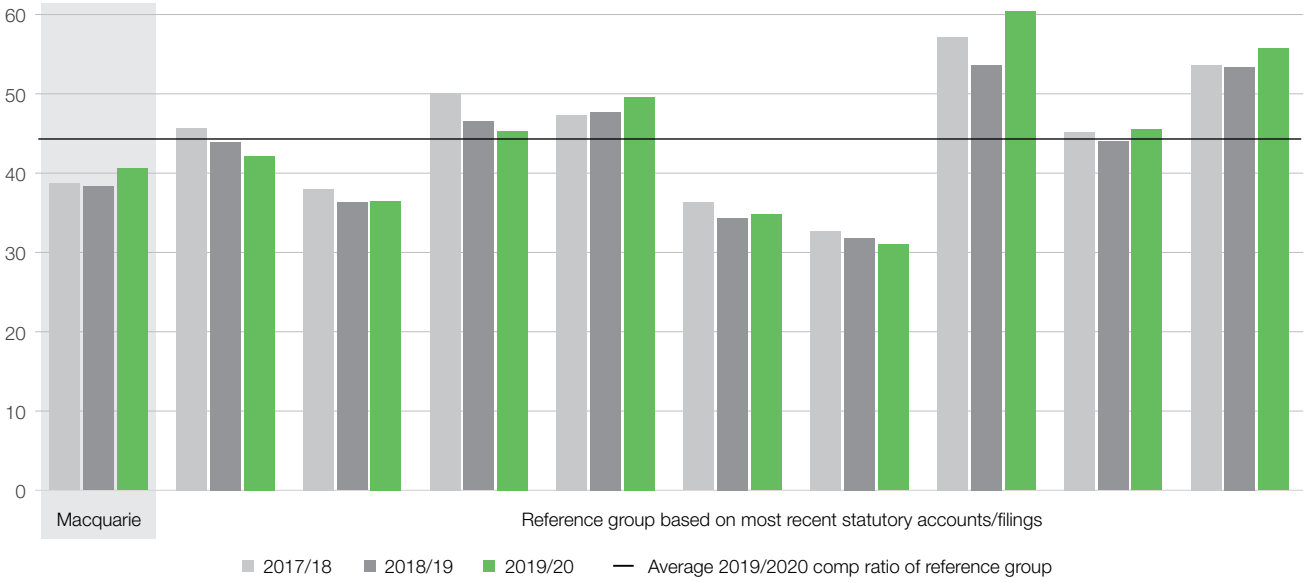
(27) Indexed to 100 on 29 July 1996, being when MBL shares were first quoted on ASX. The All Ordinaries Accumulation Index (All Ords Index) comprises the 500 largest ASX listed companies by market capitalisation. As per the footnote for the MSCI World Capital Markets Index, Macquarie TSR calculations assume continuous listing.

## Compensation expense to income ratio

In determining the reasonableness of the company-wide profit share pool, the Board considers Macquarie's compensation expense to income ratio (compensation ratio) compared to that of an international reference group as a broad guide to assess whether the share of profits distributed to staff and shareholders is equitable. The compensation ratio effectively adjusts for differences in size between organisations; however some companies are or have become part of larger organisations, often with large retail operations that can distort comparisons.

In the following chart, Macquarie's compensation ratio is compared with that of the international reference group.[28] This shows that Macquarie's compensation ratio of 40.6% is well below the average of our international peer group.

**Compensation expense to income ratio: FY2018–2020 (%)**

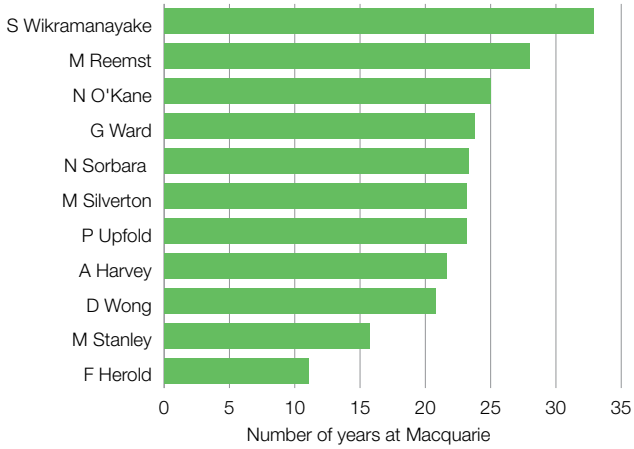



Source: Data has been calculated by Macquarie. The information is based on publicly available information for the reference group. In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some organisations.

## Tenure of Executive KMP[29]

One of the primary goals of Macquarie's remuneration framework is to attract, motivate and retain high-performing staff. The Board's view is that Macquarie continues to achieve this goal as demonstrated by the following:

- Macquarie's Executive KMP had an average tenure of 23 years with Macquarie as at 31 March 2020. Their strong leadership and deep expertise have been integral to driving company and business performance in FY2020
- as at 31 March 2020, 49% of Director-level staff had more than ten years' experience with Macquarie, while a further 23% had between five and ten years' experience with Macquarie
- the 6.1% Director-level voluntary turnover rate in FY2020 is marginally higher compared with the prior year and remains below the voluntary turnover rate across Macquarie overall.




(28) The reference group comprises Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.
(29) This includes accumulated service at acquired companies, for example, Bankers Trust Investment Bank Australia.

## Executive KMP remuneration outcomes for FY2020

This section details Executive KMP remuneration outcomes for FY2020 and demonstrates the link between pay and performance.

### Executive KMP fixed remuneration outcomes

No fixed remuneration increases are proposed for Executive KMP in 2020. In line with our pay for performance approach to remuneration, fixed remuneration for our Executive KMP in FY2020 comprised approximately 11% of total awarded remuneration, with the balance at risk and explicitly linked to performance.

In addition to a base salary and as part of fixed compensation, one Executive KMP, Mr Wong, receives a role-based allowance. Role-based allowances are a component of fixed remuneration which may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals and result in a shift in the remuneration mix between fixed and variable compensation, not an increase in total remuneration.

### Executive KMP profit share outcomes and impact of COVID-19

In determining each Executive KMP's profit share for the year, the BRC carefully considered a number of factors with respect to each Executive KMP, including the financial performance of both Macquarie overall and each business, their business and people leadership, their business judgement as well as a holistic assessment of both financial and non-financial risks, including conduct matters and outcomes for our clients and customers.

The BRC applies significant judgement in order to ensure that remuneration outcomes are aligned both with individual and company-wide performance and with outcomes delivered to our shareholders, our clients and the communities in which we operate. In determining Executive KMP remuneration outcomes this year as well as how remuneration outcomes will be delivered, the Board has considered the needs and expectations of various stakeholders. The following factors were specifically considered this year:

- while Macquarie's overall profitability was down on the prior year, all Operating Groups delivered a profit for the year, with MAM and BFS delivering record profits
- new Group Heads successfully transitioned into their roles following the retirement of several longstanding group heads. The Group's Executive Committee underwent a process of renewal during the year with several new members of the Committee based in the northern hemisphere. This reflects the international nature of Macquarie's business activities
- the CAF businesses successfully integrated into other Operating Groups with similar client bases or types of activity, following the simplification of Macquarie's organisational structure during the year, reducing the number of Operating Groups from five to four
- the effectiveness of Macquarie's strong risk management framework during the year and the investment in risk management resourcing, including internal audit, behavioural risk and financial crime risk
- the seamless transition to Group-wide remote working in response to COVID-19.

The Board has specifically considered the current external environment and the impact to the global economy and our communities from COVID-19 which has introduced a higher level of uncertainty into financial markets over the short and medium term. As a result:

- there is an expectation from governments and regulators that capital will be available to allow the continued provision of credit and support to the economy. Consistent with these expectations, the Board has resolved to pay a reduced final dividend, Macquarie Bank will not pay a final dividend to the Macquarie Group and Macquarie equity for retained profit share will be issued and not purchased on market
- shareholders have been impacted through a significant decline in the value of their shares during this period
- Management and the Board recognise the importance of retaining key people through this period of economic uncertainty.

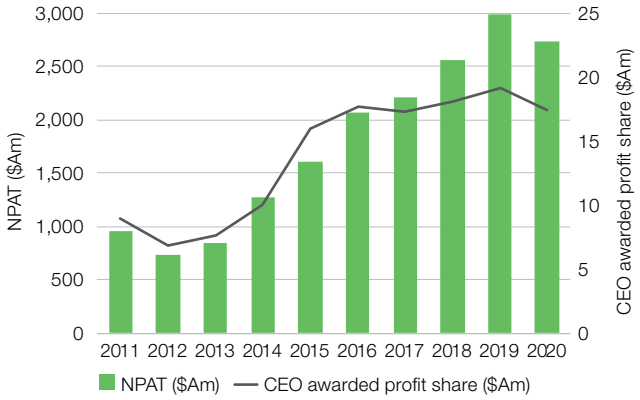
After careful consideration of all these factors and competing expectations, for FY2020, the Board determined that the total awarded profit share for the current Executive KMP[30] of $A99.4 million, representing a decrease of 7% on the prior year, is appropriate.

As previously mentioned, to further align the interests of staff and shareholders and to ensure we continue to retain key people through this period of economic uncertainty, for FY2020, Executive KMP retention rates have been increased to 100% (no cash component). 100% of Executive KMP profit share will be delivered in a combination of Macquarie equity and Macquarie-managed fund equity.

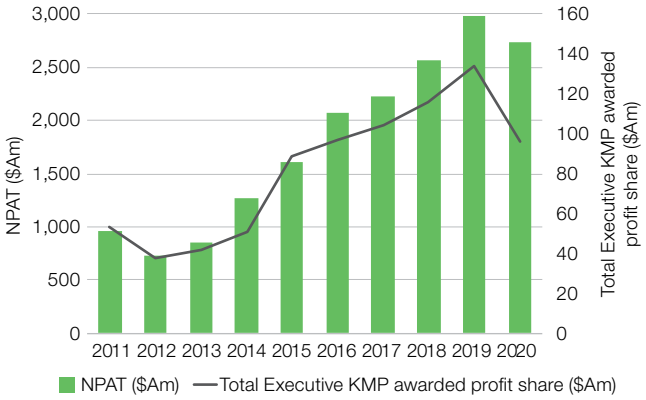
(30) Represents the full year profit share awarded to the current Executive KMP population in both FY2020 and FY2019.

The following graphs show the multi-year alignment between CEO and total Executive KMP awarded profit share and Macquarie NPAT over a ten-year period.

**CEO awarded profit share**[31]




**Total Executive KMP awarded profit share**




(31) For 2019, the graph reflects awarded profit share for the CEO role for 2019. This equates to the sum of awarded profit share for Mr Moore for the period 1 April 2018 to 30 November 2018 and awarded profit share for Ms Wikramanayake for the period 1 December 2018 to 31 March 2019.

## Executive KMP awarded pay

To clearly demonstrate the link between pay and performance, we have included awarded remuneration disclosures for fixed remuneration, profit share and PSUs as well as highlights of each Executive KMP's performance for the year. The tables on the following pages are additional disclosures that are prepared on a different basis to those included in the statutory disclosures in Appendix 2 and are not additive. Remuneration relating to the portion of the relevant periods that each person was an Executive KMP is disclosed.

### Macquarie Group

**S.R. Wikramanayake – Macquarie CEO**

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 795,740 | 722,632 |
| Available profit share | – | 4,281,930 |
| Retained profit share | 17,352,388 | 12,020,410 |
| **Total** | **18,148,128** | **17,024,972** |

Ms Wikramanayake's FY2019 awarded remuneration reflects her time in both Head of MAM role (1 April 2018 to 30 November 2018) and CEO role (1 December 2018 to 31 March 2019).

- Successfully completed first full year in the Macquarie CEO role
- Achieved solid financial outcomes representing Macquarie's second highest profit on record: NPAT of $A2,731 million, down 8% compared to 2019, but up 7% compared to 2018; ROE of 14.5% and EPS of 791.0 cents per share
- Strengthened the balance sheet in FY2020 to ensure Macquarie was well positioned for growth and resilient to market developments arising from COVID-19
- Simplified Macquarie's organisational structure as CAF businesses successfully integrated into other Operating Groups with similar client bases
- Further enhanced Macquarie's strong risk governance framework across all three lines of defence and evolved the conduct risk program
- Promoted continued investment in technology, infrastructure, systems and processes to support business growth strategies, to respond to regulatory change, and to drive efficiency, all while reducing risk
- Supported Macquarie's ongoing focus on a culture of putting customers first and delivering on customer and community expectations
- Maintained sound relationships with global regulators and responded proactively to an evolving regulatory landscape
- Maintained strong employee engagement, evidenced through the biennial staff survey and launched a refreshed diversity & inclusion strategy
- Enhanced Macquarie's leadership position in relation to climate mitigation and adaptation as a participant on the Global Commission on Adaptation and Climate Finance Leadership Initiative
- Comprehensively responded to COVID-19 focusing on employees, clients, portfolio companies and the community.

## Macquarie Bank

### M.J. Reemst – Macquarie Bank CEO

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 770,885 | 758,913 |
| Available profit share | – | 1,705,191 |
| Retained profit share | 3,982,515 | 2,560,189 |
| **Total** | **4,753,400** | **5,024,293** |

- Strong management of MBL's balance sheet in FY2020 ensuring a strong financial position and operating ratios, including leverage ratio, liquidity coverage ratio and stable funding ratio, and full compliance with Prudential Standards
- Improved Macquarie's market access, including S&P upgrade to A+ (from A), the first upgrade to MBL's rating in 28 years
- Led Macquarie Bank's compliance program with the Banking Executive Accountability Regime (BEAR) which was effective from 1 July 2019 and established the BEAR Supervisory Office
- Maintained strong relationships with global regulators, including the Central Bank of Ireland, which approved a banking licence for Macquarie Bank Europe (MBE) in FY2020
- Engaged with Treasury, regulators and industry associations on the proposed Financial Accountability Regime (FAR)
- Oversaw the restructure of the former CAF businesses between Bank and Non-Bank
- Continued focus on conduct and culture, underpinned by our long-held principles of *What We Stand For: Opportunity, Accountability and Integrity*
- Served as Chair of the Macquarie Foundation during FY2020. To mark Macquarie's 50th anniversary, the Foundation allocated $A50 million in grants to five non-profits, selected from a field of more than 1,000 applicants. In addition, the Foundation and Macquarie staff contributed $A40 million in donations and fundraising. A further $A20 million has been allocated to the Foundation for donations to help combat COVID-19 and provide relief to impacted communities.

## Macquarie Asset Management (MAM)

### M.S.W. Stanley – Group Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 727,571 | 231,730 |
| Available profit share | – | 2,044,400 |
| Retained profit share | 18,125,946 | 3,066,600 |
| **Total** | **18,853,517** | **5,342,730** |

Mr Stanley was appointed to the Executive Committee effective 1 December 2018. FY2019 awarded remuneration disclosed reflects his time as Executive KMP from the period 1 December 2018 to 31 March 2019.

(1) IPE Real Assets (Jul/Aug 2019), measured by infrastructure assets under management.

- Completed his first full year as the Head of MAM
- Delivered a record net profit contribution for MAM of $A2,177 million for FY2020, up 16% on the prior year notwithstanding the higher credit and other impairment charges recognised due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19 including a write-down of Macquarie's investment in MIC
- Increased performance fee income by 7% on the prior year to $A821 million across a broad range of funds, managed accounts and co investors across all regions
- Base fees across MAM of $A2,021 million for FY2020 increased 14% on the prior year
- Top 50 global specialist asset manager with FY2020 growth in assets under management (AUM) up 10% over the prior year to $A605.7 billion, diversified across regions, products, asset classes and investor types
- Raised new equity of $A20.1 billion in MIRA, for investments across Infrastructure, Private Credit, Agriculture and Real Estate
- Integrated MSIS Private Credit, CAF Transportation Finance and GLL into the MIRA platform
- Continued the focus on evolving MAM's operating platform, including investment in systems and platforms – including the implementation of Aladdin (MIM)
- Created the MAM Client Solutions Group, enhancing the ability to deliver a full range of capabilities and investment solutions to clients
- Acquired and integrated assets related to the mutual funds business of Foresters Investment Management Company
- Received recognition in MIM through the *Best Investment Manager 2020* award from Australia's Money Magazine Best of the Best 2020 Awards and *IMAP Small Cap Manager of the Year* award
- Maintained MIRA's position as No.1 Infrastructure Investment Manager globally.[1]

## Banking and Financial Services (BFS)

### G.C. Ward – Group Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 770,885 | 770,807 |
| Available profit share | – | 3,220,917 |
| Retained profit share | 8,059,013 | 4,835,407 |
| **Total** | **8,829,898** | **8,827,131** |

- Delivered a record net profit contribution for BFS of $A770 million for FY2020, which includes higher impairment charges primarily reflecting the deterioration in current and expected macroeconomic conditions as a result of COVID-19. This is a 2% increase on the prior year
- Sustainable growth across the product suite: Home loan portfolio of $A52.1 billion, an increase of 35%; funds on platform of $A79.1 billion, a decrease of 8% on the prior year; business lending of $A9.0 billion, an increase of 10%; total BFS deposits of $A63.9 billion, an increase of 20% on the prior year; vehicle finance portfolio of $A13.7 billion down 10% on the prior year
- Reduced operating expenses across all core banking products
- Re-launched Wrap platform with simplified pricing and enhanced digital capabilities for clients. Macquarie Wrap remains the second largest platform in Australia
- Provided business banking clients with the ability to defer loan repayments for six months for all loans up to $A10 million following COVID-19, with personal banking clients able to defer mortgage, overdraft, credit card or car loan repayments without penalty
- Significant focus on client experience and outcomes as evidenced by continued investment in digital account services, including the Macquarie Authenticator App that provides additional security for everyday banking needs
- Received a number of recent awards, including *Mortgage Choice* winner (Tier 1 Financier of the Year), Money Magazine's *Best of the Best 2020 Winner* (Best Everyday Savings Account), *2020 Mozo Experts Choice Awards* (Excellent Banking App and Internet Banking and Exceptional Everyday Account), and *Australian Business Banking Awards 2019* (Outstanding Private Bank over $A10 million) for the third consecutive year.

## Commodities and Global Markets (CGM)

### N. O'Kane – Group Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 928,940 | 846,795 |
| Available profit share | – | 7,866,928 |
| Retained profit share | 18,546,763 | 11,800,391 |
| **Total** | **19,475,703** | **20,514,114** |

Mr O'Kane's FY2019 awarded remuneration reflects his former role as Head of Commodity Markets and Finance (a division of Commodities and Global Markets).

(1) Platts Q4 Mar 20.
(2) 2019 Energy Risk Awards.
(3) Energy Risk Asia Awards 2019.
(4) 2019 Energy Risk Awards.

- Successfully transitioned into the Head of CGM role on 1 April 2019
- Delivered a net profit contribution of $A1,746 million for FY2020 even with higher credit and other impairment charges driven by write-downs on a small number of financing facilities and specific commodity equity positions as a result of COVID-19. FY2020 results are supported by:
  - diverse and stable earnings, with 65% of the portfolio represented by recurring income
  - deep longstanding client relationships, with 85% of client revenue generated from existing relationships
  - specialised expertise of staff and risk management being at the core of every business activity
- Evolved CGM's business portfolio with over 2,630 staff in 46 offices offering over 200 products across 24 markets globally
- Demonstrated diversity of the commodities platform in FY2020 with strong contributions across Global Oil, EMEA Power, Gas and Emissions, Resources, Upstream as well as North American Gas and Power. Consistent and strong performance across Fixed Income & Currencies
- Integrated CAF Asset Finance into CGM, forming the Specialised Asset Finance division
- Completed the acquisition of Societe Générale's energy commodities portfolio
- Delivered positive community outcomes across CGM business lines, for example: 10m+ smart meters in the UK enabling end consumers to reduce their energy costs and emissions
- Ranked No.1 futures broker on the ASX. Maintained No.2 physical gas marketer in North America.[1] Received a number of awards including Natural Gas / LNG House of the Year,[2] Research House of the Year,[3] Electricity and Environmental Products, House of the Year[4] and Fund Financier of the Year (Americas).

## Macquarie Capital

### M.J. Silverton – Group Co-Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 631,620 | n/a |
| Available profit share | – | n/a |
| Retained profit share | 3,791,603 | n/a |
| **Total** | **4,423,223** | **n/a** |

### D. Wong – Group Co-Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 4,015,344 | n/a |
| Available profit share | – | n/a |
| Retained profit share | 2,480,770 | n/a |
| **Total** | **6,496,114** | **n/a** |

### F. Herold – Head of Macquarie Capital Principal Finance

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 722,704 | 338,709 |
| Available profit share | – | 1,146,965 |
| Retained profit share | 6,406,635 | 1,720,447 |
| **Total** | **7,129,339** | **3,206,121** |

Mr Silverton and Mr Wong were appointed to the Executive Committee effective 1 June 2019. Awarded remuneration disclosed reflects their time as Executive KMP from the period 1 June 2019 to 31 March 2020. Mr Wong's fixed remuneration includes a role-based allowance which is a component of fixed remuneration which may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals.

Mr Herold was appointed to the Executive Committee effective 1 December 2018. FY2019 awarded remuneration disclosed reflects his time as Executive KMP from the period 1 December 2018 to 31 March 2019.

(1) Dealogic (CY19 announced and completed by deal count).

- Mr Wong and Mr Silverton succeeded Mr Bishop as Group Co-Heads of Macquarie Capital effective 1 June 2019
- Delivered a net profit contribution of $A755 million for FY2020, down 57% from FY2019 which included the realisation of several assets. The FY2020 results include higher impairment charges primarily reflecting the deterioration in current and expected macroeconomic conditions as a result of COVID-19
- Implemented a revised operational structure in FY2020 forming two global divisions designed to align with group strategy, improve the ability to work across geographies effectively and connect clients with global opportunities.

Infrastructure and Energy Group (IEG):

- maintained global number one financial advisory positions in infrastructure, renewables and power
- continued focus on green energy with over 250 projects under development or construction, with a development pipeline of >25 GW at 31 March 2020
- total investment in green energy of $A1.7 billion at 31 March 2020; investments made of $A1.5 billion and investments realised of $A0.7 billion for FY2020
- expanded into Latin America and expanded presence in Southern Europe, particularly Spain
- continued success in development of government procured and private infrastructure projects across social, transportation and data infrastructure
- renewed focus on technology enabled energy solutions by co investing in companies such as Form Energy, Zero Mass Water, Arcadia and InCharge.

Advisory and Capital Solutions, including Principal Finance (ACS):

- maintained a leading market position in ANZ for M&A[1]
- No.1 by deal count for M&A in ANZ and strong market position in global subsectors such as technology enabled services, education and resources
- expanded coverage and capabilities in the US and Europe and increased focus on collaboration and cross border activity
- integrated the former CAF Principal Finance division, headed by Florian Herold, into Macquarie Capital to create united and strengthened investing capabilities
- increased principal finance activity with more than $A3.5 billion invested in a combination of new primary debt financings and equity investments.

## Corporate Operations Group (COG)

### N. Sorbara – COO and Group Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 770,885 | 770,807 |
| Available profit share | – | 2,349,375 |
| Retained profit share | 5,689,307 | 3,527,370 |
| **Total** | **6,460,192** | **6,647,552** |

- Responsible for Technology, Market Operations, Human Resources, Business Services, Business Improvement and Strategy, Digital Transformation and Data, and the Macquarie Group Foundation
- Delivered efficiencies (through various automation, elimination of failure demand and operational excellence initiatives) and invested in technology, digital and data capabilities across all Divisions
- Initiated and continued leadership of the Macquarie response to COVID-19, including supporting 15,000 global staff to work remotely
- Material effort in regulatory reform including implementation of the BEAR regime and leading the response on the new prudential standard on remuneration
- Sponsored leadership development, innovation and diversity & inclusion initiatives across the organisation
- Continued to lead development of Sydney Metro Martin Place
- Delivered the Macquarie 50th Anniversary Award, a $A50 million donation shared between five winners seeking to initiate or build on a bold idea that addresses an area of social need.

## Risk Management Group (RMG)

### P.C. Upfold – CRO and Group Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 770,885 | 770,807 |
| Available profit share | – | 2,349,375 |
| Retained profit share | 5,689,307 | 3,527,370 |
| **Total** | **6,460,192** | **6,647,552** |

- Responsible for identifying, assessing and monitoring risks across Macquarie
- Established a Regulatory Affairs and Aggregate Risk team to manage the global regulatory environment across all financial regulators and manage Aggregate Risk centrally
- Established Financial Crime Risk as a separate division to ensure positioning to meet increasing regulatory expectations
- Investment in key risk systems continued throughout FY2020 to ensure the risk function is delivered efficiently and effectively
- Continued to strengthen capabilities in the non-financial risk space with enhanced focus on work, health and safety across all businesses
- Significantly increased the improvements to the capability, effectiveness and presence of Internal Audit and implemented additional assurance processes
- Further enhanced Macquarie's strong risk governance across all three lines of defence and evolved the conduct risk program.

## Financial Management Group (FMG)

### A.H. Harvey – CFO and Group Head

| Awarded remuneration ($A) | FY2020 | FY2019 |
|---|---|---|
| Fixed remuneration | 770,885 | 723,233 |
| Available profit share | – | 2,349,375 |
| Retained profit share | 5,689,307 | 3,527,370 |
| **Total** | **6,460,192** | **6,599,978** |

- Responsible for financial, tax and treasury services to all areas of Macquarie and responsible for Macquarie's corporate affairs team including corporate communications and investor relations
- Maintained focus in meeting Macquarie's financial, regulatory and compliance obligations and financial positioning to respond effectively to future changes
- Led Macquarie's $A1.0 billion non-underwritten institutional placement and $A700 million share purchase plan with more than 53,000 applications received from eligible shareholders
- Raised $A26 billion of term funding through securitisations and other facilities which provided flexibility for investing in new opportunities, provided the projected risk adjusted returns are attractive for shareholders, and allowed for the maintenance of capital levels in light of ongoing regulatory change
- Continued responsibility for the capital and funding, liquidity and interest rate risk management of Macquarie's balance sheet and management of the rating agencies and banking relationships
- Continued investment in technology as well as leveraging technology solutions to enhance data reporting.

## Allocation of PSUs to Executive KMP

Consistent with last year, we have disclosed PSU allocations for all Executive KMP at face and fair value.

The table below provides an estimate of the face value of the PSUs to be granted assuming a share price of $A85.75, the 31 March 2020 closing price of Macquarie's ordinary shares, and a fair value of $A54.74 per PSU. The fair value takes into account trading restrictions, the fact that PSUs do not attract dividends and the vesting performance hurdles and timeframes. As a result, the fair value of a PSU is lower than the face value of a PSU. The following assumptions were used in estimating the fair value: a risk free interest rate of 0.52% per annum, share volatility of 29.02% and a forecast dividend yield of 4.77% per annum (paid in two instalments each year).

As in previous years, the number of PSUs that will be allocated will be calculated by dividing the fair value of the award by the fair value of a PSU at the date of grant. Approval will be sought at Macquarie's 2020 Annual General Meeting to allocate PSU awards to the Macquarie CEO, who is also an Executive Voting Director.

| Executive KMP | PSU Face Value ($A) | PSU Fair Value ($A) |
|---|---|---|
| S.R. Wikramanayake | 3,994,000 | 2,550,000 |
| A.H. Harvey | 1,989,000 | 1,270,000 |
| F. Herold | 2,820,000 | 1,800,000 |
| N. O'Kane | 2,820,000 | 1,800,000 |
| M.J. Reemst | 1,989,000 | 1,270,000 |
| M.J. Silverton | 2,820,000 | 1,800,000 |
| N. Sorbara | 1,989,000 | 1,270,000 |
| M.S.W. Stanley | 2,820,000 | 1,800,000 |
| P.C. Upfold | 1,989,000 | 1,270,000 |
| G.C. Ward | 2,820,000 | 1,800,000 |
| D. Wong | 2,820,000 | 1,800,000 |

## Remuneration governance

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

### Strong Board oversight

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

- M.J. Hawker (Chairman)
- G.R. Banks, J.R. Broadbent, G.M. Cairns, P.M. Coffey, D.J. Grady and P.H. Warne.

The BRC members have the required experience and expertise in human resources, remuneration and risk to enable them to achieve effective governance of Macquarie's remuneration framework. The BRC has a regular meeting cycle and met nine times during FY2020. Attendance at meetings by the BRC members is set out in the Directors' Report. Strict processes are in place to ensure conflicts of interest are appropriately managed.

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

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

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

Macquarie's strong remuneration governance framework provides the BRC with multiple opportunities to review and challenge both individual remuneration outcomes and the company-wide profit share pool. There is a consistent and comprehensive process for the BRC to assess performance and determine remuneration outcomes for Macquarie's most senior staff.

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

- financial position and performance
- risk management and compliance
- business leadership (planning and investment in the future) and customer outcomes (including community expectations)
- people leadership and professional conduct consistent with the *Code of Conduct* and *What We Stand For*.

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

The Board and the BRC also consider formal documentation for each Executive Committee member, which covers financial performance, risk management and compliance, business leadership (including customer outcomes), people leadership, and professional conduct consistent with the *Code of Conduct* and *What We Stand For*.

The BRC also consider the risk-related matters raised in the CRO Report. Finally, the BRC considers remuneration levels for organisations in an international reference group that broadly operate in the same markets and compete for the same people as Macquarie. This information helps the BRC and Board make decisions about remuneration.

### Engagement with external stakeholders

The Chairman of the Board and the Chairman of the BRC undertake a series of meetings each year with investors and proxy advisors to communicate our remuneration approach and to hear any concerns raised by the investor community.

### Independent remuneration review

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

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

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

Pay Governance's findings included that:

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

## Non-Executive Director remuneration

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

### Non-Executive Director remuneration

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

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

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

All NEDs of MGL are also NEDs of MBL. The framework governs the remuneration of NEDs of both MGL and MBL. The CEO is not remunerated separately for acting as an Executive Voting Director.

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

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

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

Board and Committee fees are reviewed annually.[32]

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

### Minimum shareholding requirement for Non-Executive Directors

To align the interests of the Board with shareholders, the Board has a minimum shareholding requirement for NEDs, who are required to have a meaningful direct shareholding in Macquarie.

The Board minimum shareholding requirements:

- for NEDs other than the Chair, an investment equivalent to one times the average annual NED fee for the financial year ending prior to their appointment
- for the Chair, an investment equivalent to one times the annual Chair fee,

with the minimum number of shares to be determined using the share price as at the date of a NED's/Chair's appointment.

The above requirements apply to NEDs and are to be met within three years from appointment with one third of the requirement to be held after one year, two thirds after two years and in full after three years.

Under Macquarie's *Trading Policy*, NEDs may only trade Macquarie securities during designated trading windows and are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each NED's current holding of Macquarie ordinary shares is included on page 78 of the Directors' Report.

| | MGL FEES | | MBL FEES | | TOTAL FEES | |
|---|---|---|---|---|---|---|
| MGL and MBL Annual Director Fees (from 1 July 2018) | Chairman[33] $A | Member $A | Chairman $A | Member $A | Chairman $A | Member $A |
| Board | 623,000 | 182,000 | 267,000 | 78,000 | 890,000 | 260,000 |
| Board Risk Committee (BRiC) | 75,000 | 35,000 | n/a | n/a | 75,000 | 35,000 |
| Board Audit Committee (BAC) | 75,000 | 35,000 | n/a | n/a | 75,000 | 35,000 |
| Board Remuneration Committee (BRC) | 75,000 | 35,000 | n/a | n/a | 75,000 | 35,000 |
| Board Governance and Compliance Committee (BGCC) | 75,000 | 35,000 | n/a | n/a | 75,000 | 35,000 |
| Board Nominating Committee (BNC) | n/a | 8,000 | n/a | n/a | n/a | 8,000 |

(32) Macquarie has five standing Board Committees. The BAC and BRiC are joint committees of Macquarie and Macquarie Bank. The BGCC and BRC assist both Boards.
(33) The Chairman of the Board does not receive Board Committee membership fees.

## Appendix 1: Key Management Personnel (KMP) for FY2020

All the individuals listed below have been determined to be KMP for FY2020 for the purposes of the Act and as defined by AASB 124 *Related Party Disclosures*. KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of MGL and its controlled entities (together making Executive KMP) and NEDs. MGL's NEDs are required by the Act to be included as KMP for the purposes of disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management.

| Name | Position | Term as KMP for FY2020 |
|---|---|---|
| **Executive Voting Director** | | |
| S.R. Wikramanayake | CEO | Full year |
| **Non-Executive Directors** | | |
| G.R. Banks AO | Independent Director | Full year |
| J.R. Broadbent AC | Independent Director | Full year |
| G.M. Cairns | Independent Director | Full year |
| P.M. Coffey | Independent Director | Full year |
| M.J. Coleman | Independent Director | Full year |
| D.J. Grady AM | Independent Director | Full year |
| M.J. Hawker AM | Independent Director | Full year |
| G.R. Stevens AC[34] | Independent Director | Full year |
| N.M. Wakefield Evans | Independent Director | Full year |
| P.H. Warne | Independent Chairman | Full year |
| **Executives[35]** | | |
| T.C. Bishop | Former Head of Macquarie Capital | Ceased to be a member of the Executive Committee on 31 May 2019 |
| G.A. Farrell | Former Co-Head of CAF | Ceased to be a member of the Executive Committee on 1 September 2019 |
| A.H. Harvey | CFO, Head of FMG | Full year |
| F. Herold[36] | Head of Macquarie Capital Principal Finance | Full year |
| N. O'Kane | Head of CGM | Full year |
| M.J. Reemst | Macquarie Bank CEO | Full year |
| M.J. Silverton | Co-Head of Macquarie Capital | Appointed to the Executive Committee effective from 1 June 2019 |
| N. Sorbara | COO, Head of COG | Full year |
| M.S.W. Stanley | Head of MAM | Full year |
| P.C. Upfold | CRO, Head of RMG | Full year |
| G.C. Ward | Deputy Managing Director and Head of BFS | Full year |
| D. Wong | Co-Head of Macquarie Capital | Appointed to the Executive Committee effective from 1 June 2019 |

(34) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.
(35) Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 8 May 2020.
(36) Mr Herold was Co-Head of CAF until 31 August 2019. Effective 1 September 2019, Mr Herold became Head of Macquarie Capital Principal Finance following the transfer of CAF Principal Finance to Macquarie Capital.

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

| | | | SHORT-TERM EMPLOYEE BENEFITS | | |
|---|---|---|---|---|---|
| Name | Position | Year | Salary (including superannuation) $A | Performance related remuneration $A | Total short-term employee benefits $A |
| **Executive Voting Director** | | | | | |
| S.R. Wikramanayake[37] | CEO | **2020** | **795,740** | **–** | **795,740** |
| | | 2019 | 722,632 | 4,281,930 | 5,004,562 |
| **Other Executives** | | | | | |
| A.H. Harvey | CFO, Head of FMG | **2020** | **770,885** | **–** | **770,885** |
| | | 2019 | 723,233 | 2,349,375 | 3,072,608 |
| N. O'Kane[38] | Head of CGM | **2020** | **928,940** | **–** | **928,940** |
| | | 2019 | 846,795 | 7,866,928 | 8,713,723 |
| M.J. Reemst | Macquarie Bank CEO | **2020** | **770,885** | **–** | **770,885** |
| | | 2019 | 758,913 | 1,705,191 | 2,464,104 |
| N. Sorbara | COO, Head of COG | **2020** | **770,885** | **–** | **770,885** |
| | | 2019 | 770,807 | 2,349,375 | 3,120,182 |
| P.C. Upfold | CRO, Head of RMG | **2020** | **770,885** | **–** | **770,885** |
| | | 2019 | 770,807 | 2,349,375 | 3,120,182 |
| G.C. Ward | Deputy Managing Director, Head of BFS | **2020** | **770,885** | **–** | **770,885** |
| | | 2019 | 770,807 | 3,220,917 | 3,991,724 |
| **Total Remuneration – Comparable Executive KMP[39]** | | **2020** | **5,579,105** | **–** | **5,579,105** |
| | | 2019 | 5,363,994 | 24,123,091 | 29,487,085 |
| **New and Former Executives and Executive Voting Directors** | | | | | |
| T. C. Bishop[40] | Former Head of Macquarie Capital | **2020** | **120,451** | **–** | **120,451** |
| | | 2019 | 697,156 | 3,822,471 | 4,519,627 |
| B.A. Brazil[41] | Former Co-Head of CAF | **2020** | **–** | **–** | **–** |
| | | 2019 | 455,428 | 3,716,054 | 4,171,482 |
| A.J. Downe[42] | Former Head of CGM | **2020** | **–** | **–** | **–** |
| | | 2019 | 993,316 | 7,380,952 | 8,374,268 |
| G.A. Farrell[43] | Former Co-Head of CAF | **2020** | **301,127** | **–** | **301,127** |
| | | 2019 | 722,632 | 2,690,413 | 3,413,045 |
| F. Herold[44] | Head of Macquarie Capital Principal Finance | **2020** | **722,704** | **–** | **722,704** |
| | | 2019 | 338,709 | 1,146,965 | 1,485,674 |
| N.W. Moore[45] | Former CEO | **2020** | **–** | **–** | **–** |
| | | 2019 | 554,645 | 2,614,627 | 3,169,272 |
| M.J. Silverton[46] | Co-Head of Macquarie Capital | **2020** | **631,620** | **–** | **631,620** |
| | | 2019 | – | – | – |
| M.S.W. Stanley[44] | Head of MAM | **2020** | **727,571** | **–** | **727,571** |
| | | 2019 | 231,730 | 2,044,400 | 2,276,130 |
| D. Wong[46] | Co-Head of Macquarie Capital | **2020** | **4,015,344** | **–** | **4,015,344** |
| | | 2019 | – | – | – |
| **Total Remuneration – Executive KMP (including new and former executives)** | | **2020** | **12,097,922** | **–** | **12,097,922** |
| | | 2019 | 9,357,610 | 47,538,973 | 56,896,583 |

(37) Ms Wikramanayake commenced as Macquarie Group CEO effective from 1 December 2018. She was previously Head of MAM.
(38) Mr O'Kane commenced as Group Head of CGM effective from 1 April 2019. He was previously Head of Commodity Markets and Finance. Mr O'Kane's base salary is denominated in foreign currency. His base salary for FY2020 differs to FY2019 due to exchange rate movements.
(39) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2020 and FY2019.
(40) Mr Bishop ceased to be a member of the Executive Committee on 31 May 2019 and retired on 15 July 2019. His FY2020 statutory remuneration of $A3.0 million includes $A2.8 million related to the amortisation of his equity awards. As a result of his retirement, the outstanding amortisation related to his equity awards was accelerated resulting in further accounting amortisation of $A14.0 million in FY2020.
(41) Mr Brazil ceased to be a member of the Executive Committee on 30 November 2018 and retired on 26 June 2019. As a result of his retirement, the outstanding amortisation related to his equity awards was accelerated resulting in further accounting amortisation of $A23.5 million in FY2020.
(42) Mr Downe ceased to be a member of the Executive Committee on 31 March 2019 and retired on 11 October 2019. As a result of his retirement, the outstanding amortisation related to his equity awards was accelerated resulting in further accounting amortisation of $A27.5 million in FY2020.

| LONG-TERM EMPLOYEE BENEFITS | | | SHARE BASED PAYMENTS | | | | |
|---|---|---|---|---|---|---|---|
| Restricted profit share $A | Earnings on prior year restricted profit share $A | Total long-term employee benefits $A | Equity awards including shares $A | PSUs $A | Total share-based payments $A | Total Remuneration $A | Percentage of remuneration that consists of PSUs % |
| **1,733,611** | **3,137,174** | **4,870,785** | **6,914,590** | **2,324,622** | **9,239,212** | **14,905,737** | **15.60** |
| 4,065,932 | 1,517,718 | 5,583,650 | 4,765,166 | 2,682,457 | 7,447,623 | 18,035,835 | 14.87 |
| **568,397** | **197,664** | **766,061** | **2,993,294** | **1,038,757** | **4,032,051** | **5,568,997** | **18.65** |
| 352,406 | 89,210 | 441,616 | 2,369,642 | 742,495 | 3,112,137 | 6,626,361 | 11.21 |
| **1,854,676** | **563,959** | **2,418,635** | **9,083,550** | **1,472,193** | **10,555,743** | **13,903,318** | **10.59** |
| 1,180,039 | 261,910 | 1,441,949 | 6,751,745 | 1,052,331 | 7,804,076 | 17,959,748 | 5.86 |
| **397,878** | **143,063** | **540,941** | **2,151,589** | **1,362,480** | **3,514,069** | **4,825,895** | **28.23** |
| 255,779 | 70,577 | 326,356 | 1,697,792 | 1,695,773 | 3,393,565 | 6,184,025 | 27.42 |
| **568,397** | **200,360** | **768,757** | **2,930,069** | **1,362,480** | **4,292,549** | **5,832,191** | **23.36** |
| 352,406 | 90,791 | 443,197 | 2,230,146 | 1,735,880 | 3,966,026 | 7,529,405 | 23.05 |
| **568,397** | **218,930** | **787,327** | **3,191,917** | **1,362,480** | **4,554,397** | **6,112,609** | **22.29** |
| 352,406 | 102,754 | 455,160 | 2,584,621 | 1,695,773 | 4,280,394 | 7,855,736 | 21.59 |
| **1,610,459** | **542,368** | **2,152,827** | **3,826,136** | **1,915,716** | **5,741,852** | **8,665,564** | **22.11** |
| 966,275 | 241,473 | 1,207,748 | 3,008,864 | 2,413,354 | 5,422,218 | 10,621,690 | 22.72 |
| **7,301,815** | **5,003,518** | **12,305,333** | **31,091,145** | **10,838,728** | **41,929,873** | **59,814,311** | |
| 7,525,243 | 2,374,433 | 9,899,676 | 23,407,976 | 12,018,063 | 35,426,039 | 74,812,800 | |
| **–** | **43,654** | **43,654** | **2,381,319** | **418,209** | **2,799,528** | **2,963,633** | **14.11** |
| 891,910 | 328,718 | 1,220,628 | 4,481,123 | 1,725,538 | 6,206,661 | 11,946,916 | 14.44 |
| **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| 557,408 | 236,137 | 793,545 | 5,292,571 | 1,292,145 | 6,584,716 | 11,549,743 | 11.19 |
| **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| 1,107,143 | 363,707 | 1,470,850 | 6,412,322 | 1,951,829 | 8,364,151 | 18,209,269 | 10.72 |
| **–** | **110,440** | **110,440** | **4,085,998** | **1,327,779** | **5,413,777** | **5,825,344** | **22.79** |
| 403,562 | 172,308 | 575,870 | 3,577,470 | 2,467,555 | 6,045,025 | 10,033,940 | 24.59 |
| **640,063** | **367,374** | **1,007,437** | **3,204,969** | **944,580** | **4,149,549** | **5,879,690** | **16.07** |
| 172,045 | 47,689 | 219,734 | 1,003,733 | 167,152 | 1,170,885 | 2,876,293 | 5.81 |
| **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| 1,045,851 | 368,381 | 1,414,232 | 20,032,879 | 3,319,100 | 23,351,979 | 27,935,483 | 11.88 |
| **379,160** | **184,925** | **564,085** | **2,836,605** | **368,209** | **3,204,814** | **4,400,519** | **8.37** |
| – | – | – | – | – | – | – | – |
| **9,062,973** | **4,689,260** | **13,752,233** | **3,773,978** | **944,580** | **4,718,558** | **19,198,362** | **4.92** |
| 1,533,300 | 719,784 | 2,253,084 | 760,907 | 167,152 | 928,059 | 5,457,273 | 3.06 |
| **248,077** | **466,908** | **714,985** | **2,565,992** | **371,998** | **2,937,990** | **7,668,319** | **4.85** |
| – | – | – | – | – | – | – | – |
| **17,632,088** | **10,866,079** | **28,498,167** | **49,940,006** | **15,214,083** | **65,154,089** | **105,750,178** | |
| 13,236,462 | 4,611,157 | 17,847,619 | 64,968,981 | 23,108,534 | 88,077,515 | 162,821,717 | |

(43) Mr Farrell ceased to be a member of the Executive Committee and retired on 1 September 2019. His FY2020 statutory remuneration of $A5.8 million includes $A5.4 million related to the amortisation of his equity awards. As a result of his retirement, the outstanding amortisation related to his equity awards was accelerated resulting in further accounting amortisation of $A7.6 million in FY2020.
(44) Mr Herold and Mr Stanley were appointed to the Executive Committee effective from 1 December 2018.
(45) Mr Moore ceased to be a member of the Executive Committee on 30 November 2018 and retired on 24 July 2019. As a result of his retirement, the outstanding amortisation related to his equity awards was accelerated resulting in further accounting amortisation of $A10.4 million in FY2020. His FY2019 statutory remuneration of $A27.9 million includes $A9.7 million relating to FY2019 and $A18.2 million of accelerated amortisation of prior years' equity awards which have been previously disclosed and approved by shareholders.
(46) Mr Silverton and Mr Wong were appointed to the Executive Committee effective from 1 June 2019. Mr Wong's fixed remuneration includes a role-based allowance which is a component of fixed remuneration which may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals.

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

The remuneration disclosures set out in this Appendix have been prepared in accordance with Australian Accounting Standards and differ to the additional disclosures set out on pages 107 to 112.

Under the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2020 and 31 March 2019 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

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

(1) *Short-term employee benefits:*

(a) *Salary*: includes superannuation and an accrual for long service leave

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

(2) *Long-term employee benefits:*

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

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

(3) *Share-based payments:*

(a) *Equity awards including shares*: This represents the current year expense for retained profit share that is invested in Macquarie ordinary shares under the MEREP as described on pages 93 to 95. This is recognised as an expense over the respective vesting periods, or service period if shorter, as described on pages 93 to 95 and includes amounts relating to prior year equity awards that have been previously disclosed. Equity awards in respect of FY2020 performance will be granted during FY2021, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2019. The expense is estimated using the price of MGL ordinary shares as at 31 March 2020 and the number of equity awards expected to vest. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each equity award when granted and will use this validation for recognising the expense over the remaining vesting period

(b) *PSUs*: This represents the current year expense for PSUs that is recognised over the vesting period as described on pages 96 to 97. This includes amounts relating to prior year PSU awards. PSU awards in respect of FY2020 will be granted during FY2021, however Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2019. The expense is estimated using the price of MGL ordinary shares as at 31 March 2020 and the number of PSUs expected to vest. The estimate also incorporates an interest rate to maturity of 0.52% per annum, expected vesting date of 1 July 2024, and a dividend yield of 4.77% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each PSU when granted and will use this validation for recognising the expense over the remaining vesting period. Performance hurdles attached to the PSUs allow for PSUs to become exercisable upon vesting only when the relevant performance hurdles are met. The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

## Appendix 3: Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on page 114 of the Remuneration Report. The fees shown include fees paid as members of both the MGL and MBL Boards.

| | Year | Fees $A | Other benefits[47] $A | Total Compensation $A |
|---|---|---|---|---|
| G.R. Banks | **2020** | **373,000** | **–** | **373,000** |
| | 2019 | 370,500 | – | 370,500 |
| J.R. Broadbent[48] | **2020** | **317,583** | **–** | **317,583** |
| | 2019 | 122,883 | – | 122,883 |
| G.M. Cairns | **2020** | **338,000** | **–** | **338,000** |
| | 2019 | 335,500 | – | 335,500 |
| P.M. Coffey[49] | **2020** | **332,167** | **–** | **332,167** |
| | 2019 | 180,008 | – | 180,008 |
| M.J. Coleman | **2020** | **413,000** | **12,000** | **425,000** |
| | 2019 | 410,500 | 18,000 | 428,500 |
| P.A. Cross[50] | **2020** | **–** | **–** | **–** |
| | 2019 | 123,500 | – | 123,500 |
| D.J. Grady | **2020** | **373,000** | **–** | **373,000** |
| | 2019 | 370,500 | – | 370,500 |
| M.J. Hawker[51] | **2020** | **436,333** | **–** | **436,333** |
| | 2019 | 433,833 | – | 433,833 |
| G.R. Stevens[52] | **2020** | **341,667** | **–** | **341,667** |
| | 2019 | 313,750 | – | 313,750 |
| N.M. Wakefield Evans | **2020** | **413,000** | **–** | **413,000** |
| | 2019 | 410,500 | – | 410,500 |
| P.H. Warne | **2020** | **890,000** | **–** | **890,000** |
| | 2019 | 883,750 | – | 883,750 |
| **Total Remuneration – Non-Executive KMP** | **2020** | **4,227,750** | **12,000** | **4,239,750** |
| | 2019 | 3,955,224 | 18,000 | 3,973,224 |

(47) Other benefits for NEDs include due diligence fees paid to Mr Coleman of $A12,000 in FY2020 (FY2019: $A18,000).
(48) Ms Broadbent was appointed to the MGL and MBL Boards as an Independent Voting Director, effective from 5 November 2018. She became a member of the Board Risk Committee and a member of the Board Nominating Committee, effective from 5 November 2018. Ms Broadbent became a member of the Board Remuneration Committee, effective from 1 November 2019.
(49) Mr Coffey was appointed to the MGL and MBL Boards as an Independent Voting Director, effective from 28 August 2018. He became a member of the Board Risk Committee and a member of the Board Nominating Committee, effective from 28 August 2018. Mr Coffey became a member of the Board Remuneration Committee and a member of the Board Audit Committee, effective from 1 November 2019.
(50) Mrs Cross ceased to be a member of the MGL and MBL Boards, effective from 26 July 2018.
(51) Mr Hawker was Chairman of the Board Risk Committee from 1 September 2018 to 1 November 2019.
(52) Mr Stevens became a member of the Board Audit Committee effective from 1 July 2018. The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019. Mr Stevens was appointed as Chairman of the Board Risk Committee, effective from 1 November 2019.

## Appendix 4: Share disclosures

### Shareholdings of KMP and their related parties

The following tables set out details of MGL ordinary shares held during the financial year by KMP including their related parties.

| Name and position | Number of shares held at 1 April 2019[53] | Shares received on withdrawal from the MEREP[54] | Other changes[55] | Number of shares held as at 31 March 2020[56],[57] |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| S.R. Wikramanayake | 800,014 | 83,611 | – | **883,625** |
| **Non-Executive Directors** | | | | |
| G.R. Banks | 6,416 | – | 125 | **6,541** |
| J.R. Broadbent | 4,000 | – | 2,250 | **6,250** |
| G.M. Cairns | 12,734 | – | – | **12,734** |
| P.M. Coffey | 8,239 | – | 500 | **8,739** |
| M.J. Coleman[58] | 8,436 | 300 | 125 | **8,861** |
| D.J. Grady | 9,199 | – | 569 | **9,768** |
| M.J. Hawker[59] | 11,415 | – | (3,946) | **7,469** |
| G.R. Stevens | 2,584 | – | 1,316 | **3,900** |
| N.M. Wakefield Evans | 5,515 | – | 1,414 | **6,929** |
| P.H. Warne | 14,933 | – | – | **14,933** |
| **Executives** | | | | |
| T.C. Bishop | – | 37,974 | (37,974) | **–** |
| G.A. Farrell | – | 222,182 | (51,986) | **170,196** |
| A.H. Harvey | 19,042 | 26,161 | (369) | **44,834** |
| F. Herold | – | 39,245 | (39,245) | **–** |
| N. O'Kane | 4,840 | 78,405 | (78,405) | **4,840** |
| M.J. Reemst | 42,474 | 44,045 | (17,691) | **68,828** |
| M.J. Silverton | 19,802 | – | – | **19,802** |
| N. Sorbara | 9,384 | 44,153 | (44,153) | **9,384** |
| M.S.W. Stanley | 45,361 | – | – | **45,361** |
| P.C. Upfold | 75,151 | 53,632 | (53,632) | **75,151** |
| G.C. Ward | – | 68,270 | (68,270) | **–** |
| D. Wong | 168 | 15,605 | (15,605) | **168** |

(53) Or date of appointment if later.
(54) For RSUs, this represents RSUs vesting during the current financial year. For DSUs, this represents vested DSUs exercised during the current financial year.
(55) Includes on-market acquisitions and disposals.
(56) Or date of ceasing to be a KMP if earlier.
(57) In addition to the MGL ordinary shares set out in this table, Executive KMP also hold an interest in MGL ordinary shares through the MEREP, as set out in the table in page 125.
(58) A related party of Mr Coleman holds RSU awards, some of which vested during the year. Mr Coleman does not influence any investment decisions over, nor does he benefit from, this holding.
(59) Changes during the year for Mr Hawker reflect a change in related party.

## RSU and DSU awards to KMP

The following tables set out details of the RSU and DSU awards associated with Macquarie equity granted to Executive KMP. Grants made to Executive KMP prior to their joining the Executive Committee are not disclosed. PSUs are disclosed in a separate table.

A significant portion of an Executive KMP's retained profit share is invested in Macquarie equity, delivered as RSUs or DSUs. RSUs are units comprising a beneficial interest in Macquarie ordinary shares held in a trust for the staff member. DSUs are granted in jurisdictions where legal or tax rules make the grant of RSUs impractical. DSUs are structured to provide the holder with the same benefits and risks of RSU holders. There have been no alterations to the terms or conditions of the grants set out below since the grant date. RSU and DSU awards are subject to forfeiture as set out on page 95. The value of the grants at vesting could vary significantly as they are dependent on the MGL ordinary share price at the time of vesting. Retention rates, the vesting profiles and service and performance criteria for the current year are set out on pages 94 to 95. RSUs and DSUs are granted in the financial year following the year of Macquarie's performance to which the grant relates. For example, RSUs and DSUs granted to KMP in June 2019 relate to their performance in FY2019. All awards that were eligible to vest, vested during the year. No awards were forfeited during the year.

| Name and position | RSU/DSU awards granted to date[60],[61] | Grant date | Number vested/exercised during the year[62],[63] |
|---|---|---|---|
| **Executive Director** | | | |
| S.R. Wikramanayake | **65,003** | 15 Aug 19 | – |
| | 49,162 | 21 Jun 18 | – |
| | 49,025 | 22 Jun 17 | – |
| | 54,473 | 17 Jun 16 | 10,894 |
| | 42,608 | 06 Jul 15 | 8,521 |
| | 47,019 | 25 Jun 14 | 8,034 |
| | 35,957 | 25 Jun 13 | 7,191 |
| | 58,075 | 07 Jun 12 | 11,618 |
| **Executives** | | | |
| T.C. Bishop | **47,265** | 21 Jun 18 | – |
| | 38,155 | 22 Jun 17 | – |
| | 53,773 | 17 Jun 16 | 10,754 |
| | 39,035 | 06 Jul 15 | 7,807 |
| | 37,947 | 25 Jun 14 | 6,131 |
| | 45,305 | 25 Jun 13 | 9,060 |
| | 31,361 | 07 Jun 12 | 4,222 |
| G.A. Farrell | **29,711** | 24 Jun 19 | – |
| | 36,012 | 21 Jun 18 | 1,758 |
| | 45,901 | 22 Jun 17 | 45,901 |
| | 41,749 | 17 Jun 16 | 41,749 |
| | 44,959 | 06 Jul 15 | 35,968 |
| | 48,496 | 25 Jun 14 | 23,335 |
| | 46,229 | 25 Jun 13 | 18,494 |
| | 88,108 | 07 Jun 12 | 17,624 |

(60) Or during the period that the Executive was a KMP.
(61) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. For the RSUs in the above table granted prior to that date, the number of RSUs has been adjusted for the impact of the consolidation.
(62) For RSUs, this represents RSUs vesting during the current financial year in respect of grants made while a KMP. For DSUs, this represents vested DSUs exercised during the current financial year in respect of grants made while a KMP. Grants made prior to Executives becoming a KMP are not disclosed.
(63) Mr Herold and Mr Wong were granted 6,443 and 13,247 Material Risk Taker Available awards, respectively, which vest on the acquisition date of the awards and are subject to a 12-month non-disposal period. These awards represent 50% of available profit share, as discussed on page 94, footnote 5, and are a requirement under the UK regulations (the UK Code implementing CRD IV).

| Name and position | RSU/DSU awards granted to date[60],[61] | Grant date | Number vested/exercised during the year[62],[63] |
|---|---|---|---|
| A.H. Harvey | **25,945** | 24 Jun 19 | – |
| | 27,009 | 21 Jun 18 | – |
| F. Herold[63] | **33,150** | 24 Jun 19 | – |
| N. O'Kane | **91,106** | 24 Jun 19 | – |
| | 61,902 | 21 Jun 18 | – |
| M.J. Reemst | **18,831** | 24 Jun 19 | – |
| | 18,906 | 21 Jun 18 | – |
| | 21,229 | 22 Jun 17 | – |
| | 18,787 | 17 Jun 16 | 3,757 |
| | 14,810 | 06 Jul 15 | 2,962 |
| M.J. Silverton | **37,138** | 24 Jun 19 | – |
| N. Sorbara | **25,945** | 24 Jun 19 | – |
| | 27,009 | 21 Jun 18 | – |
| | 26,967 | 22 Jun 17 | – |
| | 25,049 | 17 Jun 16 | 5,009 |
| | 18,512 | 06 Jul 15 | 3,702 |
| | 17,105 | 25 Jun 14 | 3,039 |
| | 12,327 | 25 Jun 13 | 2,465 |
| M.S.W. Stanley | **41,140** | 24 Jun 19 | – |
| P.C. Upfold | **25,945** | 24 Jun 19 | – |
| | 27,009 | 21 Jun 18 | – |
| | 32,131 | 22 Jun 17 | – |
| | 33,399 | 17 Jun 16 | 6,679 |
| | 26,446 | 06 Jul 15 | 5,289 |
| G.C. Ward | **31,618** | 24 Jun 19 | – |
| | 33,211 | 21 Jun 18 | – |
| | 40,801 | 22 Jun 17 | – |
| | 32,445 | 17 Jun 16 | 6,489 |
| | 26,446 | 06 Jul 15 | 5,289 |
| | 31,696 | 25 Jun 14 | 4,847 |
| | 31,229 | 25 Jun 13 | 6,246 |
| | 46,460 | 07 Jun 12 | 9,292 |
| D. Wong[63] | **42,258** | 24 Jun 19 | – |

(60) Or during the period that the Executive was a KMP.
(61) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. For the RSUs in the above table granted prior to that date, the number of RSUs has been adjusted for the impact of the consolidation.
(62) For RSUs, this represents RSUs vesting during the current financial year in respect of grants made while a KMP. For DSUs, this represents vested DSUs exercised during the current financial year in respect of grants made while a KMP. Grants made prior to Executives becoming a KMP are not disclosed.
(63) Mr Herold and Mr Wong were granted 6,443 and 13,247 Material Risk Taker Available awards, respectively, which vest on the acquisition date of the awards and are subject to a 12-month non-disposal period. These awards represent 50% of available profit share, as discussed on page 94, footnote 5, and are a requirement under the UK regulations (the UK Code implementing CRD IV).

## PSU awards to KMP

The following tables set out details of PSU awards granted to Executive KMP.

| | GRANTED TO DATE | | | | FORFEITED/LAPSED DURING THE FINANCIAL YEAR[64] | | | EXERCISED DURING THE FINANCIAL YEAR[64] | |
|---|---|---|---|---|---|---|---|---|---|
| Name and position | Number | Date | Accounting Fair Value $A[65] | Face Value $A[66] | Number | % | Value $A | Number exercised | Value $A[67] |
| **Executive Directors** | | | | | | | | | |
| S.R. Wikramanayake | **34,198** | **15 Aug 19** | **3,385,267** | **4,035,364** | **–** | **–** | **–** | **–** | **–** |
| | 23,561 | 15 Aug 18 | 2,466,207 | 2,956,906 | – | – | – | – | – |
| | 33,552 | 15 Aug 17 | 2,449,276 | 2,944,524 | – | – | – | – | – |
| | 37,332 | 15 Aug 16 | 2,462,541 | 2,917,122 | – | – | – | 18,666 | 2,207,441 |
| | 37,374 | 17 Aug 15 | 2,495,462 | 2,951,799 | – | – | – | 18,687 | 2,211,793 |
| **Executives** | | | | | | | | | |
| T.C. Bishop | 23,561 | 15 Aug 18 | 2,466,207 | 2,956,906 | – | – | – | – | – |
| | 28,333 | 15 Aug 17 | 2,068,292 | 2,486,504 | – | – | – | – | – |
| | 31,524 | 15 Aug 16 | 2,079,426 | 2,463,285 | – | – | – | – | – |
| | 31,560 | 17 Aug 15 | 2,107,261 | 2,492,609 | – | – | – | – | – |
| G.A. Farrell | **24,139** | **15 Aug 19** | **2,389,524** | **2,848,402** | **14,081** | **58.3%** | **1,743,791** | **–** | **–** |
| | 23,561 | 15 Aug 18 | 2,466,207 | 2,956,906 | – | – | – | – | – |
| | 33,552 | 15 Aug 17 | 2,449,276 | 2,944,524 | – | – | – | – | – |
| | 37,332 | 15 Aug 16 | 2,462,541 | 2,917,122 | – | – | – | 18,666 | 2,398,674 |
| | 37,374 | 17 Aug 15 | 2,495,462 | 2,951,799 | – | – | – | 18,687 | 2,408,007 |
| A.H. Harvey | **17,032** | **15 Aug 19** | **1,686,001** | **2,009,776** | **–** | **–** | **–** | **–** | **–** |
| | 16,624 | 15 Aug 18 | 1,740,089 | 2,086,312 | – | – | – | – | – |
| F. Herold | **24,139** | **15 Aug 19** | **2,389,524** | **2,848,402** | **–** | **–** | **–** | **–** | **–** |
| N. O'Kane | **24,139** | **15 Aug 19** | **2,389,524** | **2,848,402** | **–** | **–** | **–** | **–** | **–** |
| | 23,561 | 15 Aug 18 | 2,466,207 | 2,956,906 | – | – | – | – | – |
| M.J. Reemst | **17,032** | **15 Aug 19** | **1,686,001** | **2,009,776** | **–** | **–** | **–** | **–** | **–** |
| | 16,624 | 15 Aug 18 | 1,740,089 | 2,086,312 | – | – | – | – | – |
| | 23,673 | 15 Aug 17 | 1,728,115 | 2,077,542 | – | – | – | – | – |
| | 26,339 | 15 Aug 16 | 1,737,407 | 2,058,129 | – | – | – | 13,169 | 1,598,322 |
| | 26,369 | 17 Aug 15 | 1,760,658 | 2,082,624 | – | – | – | 13,185 | 1,600,791 |
| N. Sorbara | **17,032** | **15 Aug 19** | **1,686,001** | **2,009,776** | **–** | **–** | **–** | **–** | **–** |
| | 16,624 | 15 Aug 18 | 1,740,089 | 2,086,312 | – | – | – | – | – |
| | 23,673 | 15 Aug 17 | 1,728,115 | 2,077,542 | – | – | – | – | – |
| | 26,339 | 15 Aug 16 | 1,737,407 | 2,058,129 | – | – | – | 13,169 | 1,695,356 |
| | 26,369 | 17 Aug 15 | 1,760,658 | 2,082,624 | – | – | – | 13,185 | 1,697,792 |

(64) Or during the period for which the Executive was a KMP if shorter.
(65) Based on the accounting fair value on the date of grant.
(66) Face value is calculated by multiplying the number of PSUs granted by the closing market price of Macquarie ordinary shares on the date of grant.
(67) Based on the share price at the time of exercise.

| | GRANTED TO DATE | | | | FORFEITED/LAPSED DURING THE FINANCIAL YEAR[64] | | | EXERCISED DURING THE FINANCIAL YEAR[64] | |
|---|---|---|---|---|---|---|---|---|---|
| Name and position | Number | Date | Accounting Fair Value $A[65] | Face Value $A[66] | Number | % | Value $A | Number exercised | Value $A[67] |
| M.S.W. Stanley | **24,139** | **15 Aug 19** | **2,389,524** | **2,848,402** | **–** | **–** | **–** | **–** | **–** |
| P.C. Upfold | **17,032** | **15 Aug 19** | **1,686,001** | **2,009,776** | **–** | **–** | **–** | **–** | **–** |
| | 16,624 | 15 Aug 18 | 1,740,089 | 2,086,312 | – | – | – | – | – |
| | 23,673 | 15 Aug 17 | 1,728,115 | 2,077,542 | – | – | – | – | – |
| | 26,339 | 15 Aug 16 | 1,737,407 | 2,058,129 | – | – | – | 13,169 | 1,706,946 |
| | 26,369 | 17 Aug 15 | 1,760,658 | 2,082,624 | – | – | – | 13,185 | 1,710,284 |
| G.C. Ward | **24,139** | **15 Aug 19** | **2,389,524** | **2,848,402** | **–** | **–** | **–** | **–** | **–** |
| | 23,561 | 15 Aug 18 | 2,466,207 | 2,956,906 | – | – | – | – | – |
| | 32,434 | 15 Aug 17 | 2,367,663 | 2,846,408 | – | – | – | – | – |
| | 36,087 | 15 Aug 16 | 2,380,417 | 2,819,838 | – | – | – | 18,043 | 2,332,858 |
| | 36,128 | 17 Aug 15 | 2,412,267 | 2,853,389 | – | – | – | 18,064 | 2,324,829 |

As required under the Act, Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to KMP. The accounting fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period. The 2019 PSU allocation has been determined based on a fair valuation of a PSU as at 15 August 2019. The accounting fair value of $A98.99 at this date has been estimated using a discounted cash flow method.

The following key assumptions were adopted in determining the value of the PSUs granted:

| | |
|---|---|
| Interest rate to maturity | 0.78% per annum |
| Expected vesting dates | 1 July 2022 and 1 July 2023 |
| Dividend yield | 4.96% per annum |

PSUs have a nil exercise price. PSUs awarded prior to FY2020 vest on a pro-rata basis as set out on page 97. For the 2019 grant, the first tranche will vest on 1 July 2022. The PSUs expire on 15 August 2028.

## MEREP awards of KMP and their related parties

The following tables set out details of the MEREP RSU, DSU and PSU awards held during the year for the KMP including their related parties.

Further details in relation to the MEREP RSU, DSU and PSU awards are disclosed in Note 30 *Employee equity participation* to the financial statements in the Financial Report

| Name and position | Type of Award | Number of Awards held at 1 April 2019[68] | Awards granted during the financial year[69] | Awards vested/ exercised during the financial year[70],[71] | Awards forfeited or not able to be exercised during the financial year[72] | Number of Awards held as at 31 March 2020[73] |
|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | |
| S.R. Wikramanayake | RSU | 236,853 | 65,003 | (46,258) | – | **255,598** |
| | PSU | 113,132 | 34,198 | (37,353) | – | **109,977** |
| **Executives** | | | | | | |
| T.C. Bishop | RSU | 213,218 | – | (37,974) | – | **175,244** |
| | PSU | 99,198 | – | – | – | **99,198** |
| G.A. Farrell | RSU | 219,083 | 29,711 | (184,829) | – | **63,965** |
| | PSU | 113,132 | 24,139 | (37,353) | (14,081) | **85,837** |
| A.H. Harvey | RSU | 128,966 | 25,945 | (26,161) | – | **128,750** |
| | PSU | 16,624 | 17,032 | – | – | **33,656** |
| F. Herold[74] | DSU | 114,441 | 21,638 | (39,245) | – | **96,834** |
| | RSU | – | 11,512 | – | – | **11,512** |
| | PSU | – | 24,139 | – | – | **24,139** |
| N. O'Kane | RSU | 356,118 | 91,106 | (78,405) | – | **368,819** |
| | PSU | 23,561 | 24,139 | – | – | **47,700** |
| M.J. Reemst | RSU | 90,692 | 18,831 | (17,691) | – | **91,832** |
| | PSU | 79,821 | 17,032 | (26,354) | – | **70,499** |
| M.J. Silverton | RSU | 96,681 | 37,138 | – | – | **133,819** |
| N. Sorbara | RSU | 111,471 | 25,945 | (17,799) | – | **119,617** |
| | PSU | 79,821 | 17,032 | (26,354) | – | **70,499** |
| M.S.W. Stanley[74] | DSU | 136,640 | 41,140 | – | – | **177,780** |
| | PSU | – | 24,139 | – | – | **24,139** |
| P.C. Upfold | RSU | 143,054 | 25,945 | (27,278) | – | **141,721** |
| | PSU | 79,821 | 17,032 | (26,354) | – | **70,499** |
| G.C. Ward | RSU | 163,941 | 31,618 | (32,163) | – | **163,396** |
| | PSU | 110,146 | 24,139 | (36,107) | – | **98,178** |
| D. Wong[74] | DSU | 146,212 | 42,258 | (15,605) | – | **172,865** |

(68) Or date of appointment if later.
(69) RSU and DSU awards are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs and DSUs disclosed as granted above relate to FY2019. PSUs are granted annually in August.
(70) For RSUs, this represents vested RSUs transferred to the KMP's shareholding and includes RSUs vesting during the current year in respect of all grants, including those made prior to Executives becoming a KMP. For DSUs, this represents vested DSUs exercised during the current period in respect of all grants, including those made prior to Executives becoming a KMP.
(71) There were no PSUs that vested during the year that were not exercised.
(72) Or during the period for which the Executive was a KMP if shorter.
(73) Or date of ceasing to be a KMP if earlier.
(74) DSUs are granted in jurisdictions where legal or tax rules make the grant of RSUs impractical. DSUs are structured to provide the holder with the same benefits and risks of RSU holders.

## Appendix 5: Loan disclosures

### Loans to Key Management Personnel and their related parties

Details of loans provided by Macquarie to KMP and their related parties are disclosed in the following table.[75]

| Name and Position | Balance as at 1 April 2019[76] $A'000 | Interest charged[77] $A'000 | Write downs $A'000 | Balance as at 31 March 2020 $A'000 | Highest balance during the year $A'000 |
|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | |
| D.J. Grady (related party) | 488 | 19 | – | 479 | 488 |
| M.J. Hawker (related party) | 340 | 18 | – | 560 | 560 |
| N.M. Wakefield Evans (related party) | – | 22 | – | 4,960 | 5,000 |
| P.H. Warne (related party) | 481 | 14 | – | 470 | 481 |
| **Executives** | | | | | |
| A.H. Harvey | – | 36 | – | 5,000 | 5,000 |
| M.J. Silverton | 109 | 5 | – | 224 | 226 |
| M.S.W. Stanley[78] | 207 | 6 | – | 118 | 211 |

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

Throughout this Remuneration Report financial information for Macquarie relating to the years ended 31 March 2011 through to 31 March 2020 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(75) There were no other loans provided by Macquarie to KMP and their related parties during the financial year ended 31 March 2020.
(76) Or date of appointment if later.
(77) All loans provided by Macquarie to Non-Executive Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.
(78) Mr Stanley's loan is denominated in EUR. The opening balance of €132,000 has been converted to AUD at the spot rate on 1 April 2019. The closing balance of €66,000 has been converted to AUD at the spot rate on 31 March 2020. There has been an exchange rate movement of $A18,000 during the year.

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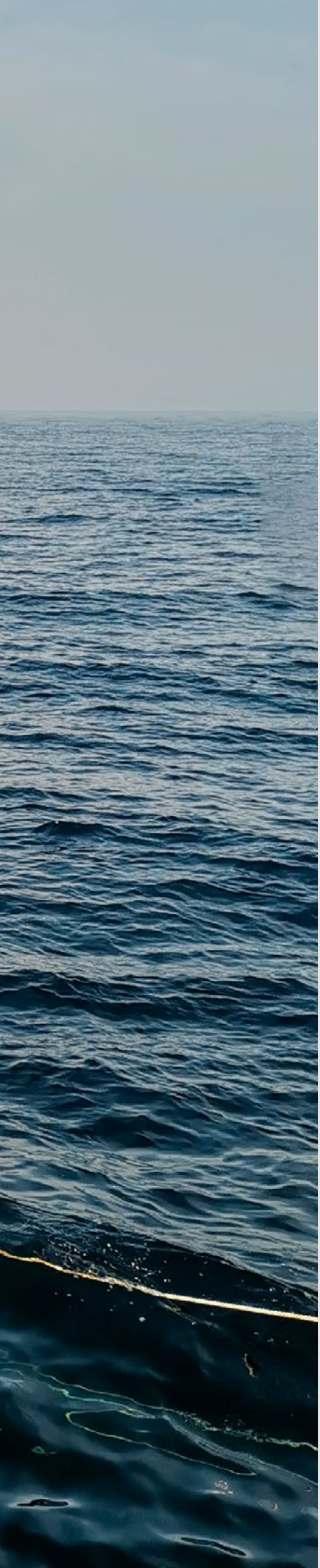
Green
Investment
Group
울산동방귀신고래2



# Financial Report

**The first commercial floating LiDAR system in South Korea**

The installation of the first floating LiDAR system in South Korea will collect wind resource data and marks a critical step in the development of Green Investment Group's (GIG) first floating offshore wind project located off the coast of Ulsan City.

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For the financial year ended 31 March 2020


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The Financial Report was authorised for issue by the board of Directors on 8 May 2020.
The Board of Directors has the power to amend and reissue the Financial Report.

# Income statements

For the financial year ended 31 March 2020

| | Notes | CONSOLIDATED 2020 $m | CONSOLIDATED 2019 $m | COMPANY 2020 $m | COMPANY 2019 $m |
|---|---|---|---|---|---|
| Interest and similar income | | | | | |
| Effective interest rate method | 2 | **4,411** | 4,611 | **828** | 766 |
| Other | 2 | **745** | 744 | **–** | – |
| Interest and similar expense | 2 | **(3,297)** | (3,595) | **(893)** | (836) |
| **Net interest income/(expense)** | | **1,859** | 1,760 | **(65)** | (70) |
| Fee and commission income | 2 | **5,837** | 5,526 | **14** | 10 |
| Net trading income | 2 | **2,861** | 2,791 | **296** | 144 |
| Net operating lease income | 2 | **745** | 950 | **–** | – |
| Share of net profits/(losses) of associates and joint ventures | 2 | **95** | (56) | **–** | – |
| Net credit impairment charges | 2 | **(805)** | (320) | **(2)** | (8) |
| Other impairment (charges)/reversal | 2 | **(235)** | (232) | **–** | 3,350 |
| Other operating income and charges | 2 | **1,968** | 2,335 | **859** | 1,761 |
| **Net operating income** | | **12,325** | 12,754 | **1,102** | 5,187 |
| Employment expenses | 2 | **(5,323)** | (5,217) | **(5)** | (5) |
| Brokerage, commission and trading-related expenses | 2 | **(964)** | (1,140) | **–** | – |
| Occupancy expenses | 2 | **(400)** | (441) | **–** | – |
| Non-salary technology expenses | 2 | **(749)** | (684) | **–** | – |
| Other operating expenses | 2 | **(1,435)** | (1,405) | **(5)** | (18) |
| **Total operating expenses** | | **(8,871)** | (8,887) | **(10)** | (23) |
| **Operating profit before income tax** | | **3,454** | 3,867 | **1,092** | 5,164 |
| Income tax expense | 4 | **(728)** | (879) | **(104)** | (39) |
| **Profit after income tax** | | **2,726** | 2,988 | **988** | 5,125 |
| **Loss/(profit) attributable to non-controlling interests:** | | | | | |
| Macquarie Income Securities | 26 | **(12)** | (15) | **–** | – |
| Other non-controlling interests | | **17** | 9 | **–** | – |
| Total loss/(profit) attributable to non-controlling interests | | **5** | (6) | **–** | – |
| **Profit attributable to ordinary equity holders of Macquarie Group Limited** | | **2,731** | 2,982 | **988** | 5,125 |
| | | **Cents per share** | Cents per share | | |
| **Basic earnings per share** | 6 | **791.0** | 883.3 | | |
| **Diluted earnings per share** | 6 | **764.5** | 868.1 | | |

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

# Statements of comprehensive income

For the financial year ended 31 March 2020

| | Notes | CONSOLIDATED 2020 $m | CONSOLIDATED 2019 $m | COMPANY 2020 $m | COMPANY 2019 $m |
|---|---|---|---|---|---|
| **Profit after income tax** | | **2,726** | 2,988 | **988** | 5,125 |
| Other comprehensive (loss)/income[1] | | | | | |
| Movements in items that may be subsequently reclassified to the income statement: | | | | | |
| Fair value through other comprehensive income (FVOCI) reserve: | | | | | |
| Revaluation losses recognised in other comprehensive income (OCI) | 26 | **(108)** | (114) | **–** | – |
| Changes in allowance for expected credit losses | 26 | **27** | 52 | **–** | – |
| Net change in cash flow hedges and cost of hedging | | | | | |
| Revaluation movement | 26 | **(29)** | (83) | **–** | – |
| Transferred to income statement | 26 | **42** | 25 | **–** | – |
| Transferred to share of reserves in associates and joint ventures | 26 | **(6)** | – | **–** | – |
| Share of other comprehensive losses of associates and joint ventures | 26 | **(101)** | (32) | **–** | – |
| Exchange differences on translation and hedge of foreign operations | | **1,230** | 422 | **–** | – |
| Movements in items that will not be subsequently reclassified to the income statement: | | | | | |
| Fair value gain attributable to own credit risk on debt that is subsequently measured at fair value through profit or loss | 26 | **61** | 6 | **11** | – |
| Total other comprehensive income | | **1,116** | 276 | **11** | – |
| **Total comprehensive income** | | **3,842** | 3,264 | **999** | 5,125 |
| Total comprehensive (income)/loss attributable to non-controlling interests: | | | | | |
| Macquarie Income Securities | | **(12)** | (15) | **–** | – |
| Other non-controlling interests | | **(21)** | 36 | **–** | – |
| Total comprehensive (income)/loss attributable to non-controlling interests | | **(33)** | 21 | **–** | – |
| **Total comprehensive income attributable to ordinary equity holders of Macquarie Group Limited** | | **3,809** | 3,285 | **999** | 5,125 |

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

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

# Statements of financial position

As at 31 March 2020

| | Notes | CONSOLIDATED 2020[1] $m | CONSOLIDATED 2019[2] $m | COMPANY 2020 $m | COMPANY 2019 $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and bank balances | | **9,717** | 8,643 | **–** | – |
| Cash collateral on securities borrowed and reverse repurchase agreements | | **37,710** | 29,871 | **–** | – |
| Trading assets | 7 | **16,855** | 17,446 | **–** | – |
| Margin money and settlement assets | 8 | **16,393** | 13,694 | **–** | – |
| Derivative assets | | **45,607** | 14,390 | **–** | – |
| Financial investments | 9 | **8,930** | 7,161 | **–** | – |
| Held for sale assets | 10 | **1,634** | 9,023 | **–** | – |
| Other assets | 10 | **6,868** | 7,736 | **18** | 41 |
| Loan assets | 11 | **94,117** | 77,811 | **–** | – |
| Due from subsidiaries | 28 | **–** | – | **32,334** | 23,379 |
| Property, plant and equipment and right-of-use assets | 13 | **5,044** | 4,701 | **–** | – |
| Interests in associates and joint ventures | 14 | **8,319** | 4,219 | **–** | – |
| Intangible assets | 15 | **3,268** | 2,031 | **–** | – |
| Investments in subsidiaries | 16 | **–** | – | **31,816** | 28,965 |
| Deferred tax assets | 17 | **1,340** | 1,031 | **–** | 8 |
| **Total assets** | | **255,802** | 197,757 | **64,168** | 52,393 |
| **Liabilities** | | | | | |
| Cash collateral on securities lent and repurchase agreements | | **2,334** | 4,838 | **–** | – |
| Trading liabilities | 18 | **5,544** | 6,907 | **–** | – |
| Margin money and settlement liabilities | 19 | **22,815** | 16,897 | **–** | – |
| Derivative liabilities | | **38,399** | 12,666 | **2** | 1 |
| Deposits | 20 | **67,342** | 56,191 | **51** | 49 |
| Held for sale liabilities | 21 | **260** | 6,809 | **–** | – |
| Other liabilities | 21 | **8,027** | 6,990 | **460** | 386 |
| Borrowings | | **17,093** | 9,318 | **10,114** | 7,131 |
| Due to subsidiaries | 28 | **–** | – | **8,901** | 959 |
| Debt issued | 22 | **64,556** | 51,389 | **13,253** | 13,036 |
| Deferred tax liabilities | 17 | **234** | 425 | **–** | – |
| **Total liabilities excluding loan capital** | | **226,604** | 172,430 | **32,781** | 21,562 |
| **Loan capital** | 24 | **7,414** | 6,963 | **2,416** | 2,409 |
| **Total liabilities** | | **234,018** | 179,393 | **35,197** | 23,971 |
| **Net assets** | | **21,784** | 18,364 | **28,971** | 28,422 |
| **Equity** | | | | | |
| Contributed equity | 25 | **7,851** | 6,181 | **10,380** | 8,767 |
| Reserves | 26 | **2,773** | 1,773 | **1,056** | 1,026 |
| Retained earnings | 26 | **10,439** | 9,807 | **17,535** | 18,629 |
| **Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited** | | **21,063** | 17,761 | **28,971** | 28,422 |
| Non-controlling interests | 26 | **721** | 603 | **–** | – |
| **Total equity** | | **21,784** | 18,364 | **28,971** | 28,422 |

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

(1) The March 2020 financial results reflect the adoption of AASB 16 *Leases* on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated the comparative financial reporting period. Refer to Note 1 for the impact on initial adoption of AASB 16.
(2) Refer to Note 1(i) *Basis of preparation* for an explanation of the re-presentation of certain comparative financial information.

# Statements of change in equity

For the financial year ended 31 March 2020

| | Notes | Contributed equity $m | Reserves $m | Retained earnings $m | Total $m | Non-controlling interests $m | Total equity $m |
|---|---|---|---|---|---|---|---|
| | | | | | | | CONSOLIDATED |
| **Balance as at 1 Apr 2018** | | 6,243 | 1,351 | 8,651 | 16,245 | 1,807 | 18,052 |
| Profit after income tax | | – | – | 2,982 | 2,982 | 6 | 2,988 |
| Other comprehensive income/(loss), net of tax | | – | 297 | 6 | 303 | (27) | 276 |
| Total comprehensive income/(loss) | | – | 297 | 2,988 | 3,285 | (21) | 3,264 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | | | |
| Dividends paid | 5,26 | – | – | (1,819) | (1,819) | – | (1,819) |
| Purchase of shares by MEREP Trust | 25 | (454) | – | – | (454) | – | (454) |
| Non-controlling interests: | | | | | | | |
| Change in non-controlling ownership interests | | – | – | (13) | (13) | (1,078) | (1,091) |
| Dividends and distributions paid or provided for | | – | – | – | – | (105) | (105) |
| Other equity movements: | | | | | | | |
| MEREP expense | 26 | – | 491 | – | 491 | – | 491 |
| Additional deferred tax benefit on MEREP expense | 26 | – | 24 | – | 24 | – | 24 |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | 370 | (370) | – | – | – | – |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | 23 | (23) | – | – | – | – |
| Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity | 25 | 2 | – | – | 2 | – | 2 |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 25,26 | (3) | 3 | – | – | – | – |
| | | (62) | 125 | (1,832) | (1,769) | (1,183) | (2,952) |
| **Balance as at 31 Mar 2019** | | 6,181 | 1,773 | 9,807 | 17,761 | 603 | 18,364 |
| Change on initial application of AASB 16 | 1(i)(a)(i) | – | – | (49) | (49) | – | (49) |
| **Restated balance as at 1 Apr 2019** | | **6,181** | **1,773** | **9,758** | **17,712** | **603** | **18,315** |
| Profit after income tax | | **–** | **–** | **2,731** | **2,731** | **(5)** | **2,726** |
| Other comprehensive income, net of tax | | **–** | **1,017** | **61** | **1,078** | **38** | **1,116** |
| Total comprehensive income | | **–** | **1,017** | **2,792** | **3,809** | **33** | **3,842** |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | | | |
| Issue of shares | 25 | **1,670** | **–** | **–** | **1,670** | **–** | **1,670** |
| Dividends paid | 5,26 | **–** | **–** | **(2,108)** | **(2,108)** | **–** | **(2,108)** |
| Purchase of shares by MEREP Trust | 25 | **(607)** | **–** | **–** | **(607)** | **–** | **(607)** |
| Non-controlling interests: | | | | | | | |
| Change in non-controlling ownership interests | | **–** | **–** | **(3)** | **(3)** | **98** | **95** |
| Dividends and distributions paid or provided for | | **–** | **–** | **–** | **–** | **(13)** | **(13)** |
| Other equity movements: | | | | | | | |
| MEREP expense | 26 | **–** | **586** | **–** | **586** | **–** | **586** |
| Additional deferred tax benefit on MEREP expense | 26 | **–** | **4** | **–** | **4** | **–** | **4** |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | **557** | **(557)** | **–** | **–** | **–** | **–** |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | **52** | **(52)** | **–** | **–** | **–** | **–** |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 25,26 | **(2)** | **2** | **–** | **–** | **–** | **–** |
| | | **1,670** | **(17)** | **(2,111)** | **(458)** | **85** | **(373)** |
| **Balance as at 31 Mar 2020** | | **7,851** | **2,773** | **10,439** | **21,063** | **721** | **21,784** |

| | Notes | Contributed equity $m | Reserves $m | Retained earnings $m | Total equity $m |
|---|---|---|---|---|---|
| | | | | | **COMPANY** |
| **Balance as at 1 Apr 2018** | | 8,849 | 902 | 15,309 | 25,060 |
| Profit after income tax | | – | – | 5,125 | 5,125 |
| Total comprehensive income | | – | – | 5,125 | 5,125 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | |
| Issue of shares | | 2 | – | – | 2 |
| Dividends paid | 5,26 | – | – | (1,805) | (1,805) |
| Purchase of shares by MEREP Trust | 25 | (454) | – | – | (454) |
| Other equity movements: | | | | | |
| MEREP expense relating to employees of subsidiaries | 26 | – | 491 | – | 491 |
| Additional deferred tax benefit on MEREP expense | 26 | – | 1 | – | 1 |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | 370 | (370) | – | – |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | 1 | (1) | – | – |
| Transfer from other liabilities on vesting of cash settled MEREP awards settled equity | | 2 | – | – | 2 |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 25,26 | (3) | 3 | – | – |
| | | (82) | 124 | (1,805) | (1,763) |
| **Balance as at 31 Mar 2019** | | **8,767** | **1,026** | **18,629** | **28,422** |
| Profit after income tax | | **–** | **–** | **988** | **988** |
| Other comprehensive income | | **–** | **–** | **11** | **11** |
| Total comprehensive income | | **–** | **–** | **999** | **999** |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | |
| Issue of shares | | **1,661** | **–** | **–** | **1,661** |
| Dividends paid | 5,26 | **–** | **–** | **(2,093)** | **(2,093)** |
| Purchase of shares by MEREP Trust | 25 | **(607)** | **–** | **–** | **(607)** |
| Other equity movements: | | | | | |
| MEREP expense relating to employees of subsidiaries | 26 | **–** | **586** | **–** | **586** |
| Additional deferred tax benefit on MEREP expense | 26 | **–** | **3** | **–** | **3** |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | **557** | **(557)** | **–** | **–** |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 25,26 | **4** | **(4)** | **–** | **–** |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 25,26 | **(2)** | **2** | **–** | **–** |
| | | **1,613** | **30** | **(2,093)** | **(450)** |
| **Balance as at 31 Mar 2020** | | **10,380** | **1,056** | **17,535** | **28,971** |

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

# Statements of cash flows

For the financial year ended 31 March 2020

| | Notes | CONSOLIDATED 2020 $m | CONSOLIDATED 2019[1] $m | COMPANY 2020 $m | COMPANY 2019 $m |
|---|---|---|---|---|---|
| **Cash flows generated from operating activities** | | | | | |
| Interest income and expense: | | | | | |
| Received | | **5,114** | 5,362 | **829** | 766 |
| Paid | | **(3,375)** | (3,547) | **(906)** | (832) |
| Fee, commission and non-interest income and expenses: | | | | | |
| Received | | **6,801** | 5,065 | **20** | 22 |
| Paid | | **(984)** | (1,090) | **–** | – |
| Operating lease income received | | **1,728** | 2,719 | **–** | – |
| Dividends and distributions received | | **383** | 309 | **848** | 1,758 |
| Operating expenses paid: | | | | | |
| Employment expenses | | **(4,841)** | (4,416) | **(2)** | (5) |
| Other operating expenses[2] | | **(2,958)** | (1,557) | **(6)** | (35) |
| Income tax paid | | **(1,043)** | (1,161) | **(390)** | (474) |
| Changes in operating assets: | | | | | |
| Net movement in trading assets and liabilities, derivatives, cash collateral and repurchase transactions, margin money and settlement balances | | **3,232** | 261 | **–** | – |
| Net movement in loan assets | | **(15,487)** | (4,205) | **3,024** | (5,880) |
| Net movement in assets under operating lease | | **(487)** | (1,668) | **–** | – |
| Net movement in other assets | | **(666)** | – | **48** | (13) |
| Changes in operating liabilities: | | | | | |
| Net movement in deposits | | **10,920** | 7,717 | **–** | 23 |
| Net movement in borrowings | | **5,973** | 4,675 | **1,653** | 4,279 |
| Net movement in debt issued | | **7,736** | (8,385) | **(1,230)** | 1,634 |
| Net movement in other liabilities[2] | | **69** | (39) | **–** | – |
| Life business: | | | | | |
| Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions | | **426** | 1,326 | **–** | – |
| Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions | | **(422)** | (1,330) | **–** | – |
| Net cash flows generated from operating activities | 27 | **12,119** | 36 | **3,888** | 1,243 |
| **Cash flows (utilised in)/generated from investing activities** | | | | | |
| Net (payments for)/proceeds from financial investments | | **(1,156)** | 841 | **–** | – |
| Associates, subsidiaries and businesses: | | | | | |
| Proceeds from disposal or capital return, net of cash deconsolidated | | **4,156** | 4,798 | **6,298** | 2,040 |
| Payments for the acquisition of or additional capital contribution | | **(4,661)** | (2,437) | **(9,146)** | (2,304) |
| Property, plant and equipment, right-of-use assets and intangible assets: | | | | | |
| Proceeds from disposals | | **81** | – | **–** | – |
| Payments for acquisitions | | **(1,165)** | (633) | **–** | – |
| Net cash flows (utilised in)/generated from investing activities | | **(2,745)** | 2,569 | **(2,848)** | (264) |
| **Cash flows utilised in financing activities** | | | | | |
| Proceeds from/(payments for) non-controlling interests | | **413** | (136) | **–** | – |
| Proceeds from the issue of ordinary shares | | **1,670** | – | **1,660** | – |
| Loan capital: | | | | | |
| Issuance | | **–** | 1,557 | **–** | 1,550 |
| Redemption | | **(429)** | (270) | **–** | (270) |
| Dividends and distributions paid | | **(2,122)** | (1,835) | **(2,093)** | (1,805) |
| Payments for acquisition of treasury shares | 25 | **(607)** | (454) | **(607)** | (454) |
| Net cash flows utilised in financing activities | | **(1,075)** | (1,138) | **(1,040)** | (979) |
| **Net increase in cash and cash equivalents** | | **8,299** | 1,467 | **–** | – |
| Cash and cash equivalents at the beginning of the financial year | 27 | **18,867** | 17,730 | **–** | – |
| Effect of exchange rate movements on cash and cash equivalents | | **1,794** | (330) | **–** | – |
| **Cash and cash equivalents at the end of the financial year** | 27 | **28,960** | 18,867 | **–** | – |

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

(1) Refer to Note 1(i) *Basis of preparation* for an explanation of the re-presentation of certain comparative financial information.
(2) Includes payments of lease liabilities following the adoption of AASB 16.

# Notes to the financial statements

For the financial year ended 31 March 2020

## Note 1
## Summary of significant accounting policies

### (i) 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 Group Limited is a for-profit company for the purposes of preparing this Financial Report.

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

#### 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.

#### Basis of measurement

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

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

#### Changes to the Consolidated Entity's statements of financial position and statements of cash flows

As part of an assessment of the impact of the AASB's revised *Conceptual Framework* (AASB framework) on the Consolidated Entity's financial statements (refer to Note 1(i)(b)), a review of client monies was undertaken to verify whether such balances met the revised definition of an asset, i.e. "a present economic resource controlled by the entity as a result of past events".

The review concluded that client-related margin money deposited with clearing houses and excess cash received from certain clients did not meet the revised definition of an asset. This was determined by taking into consideration whether the Consolidated Entity has control of these balances, and the extent of the Consolidated Entity's exposure to risks and rewards in relation to these balances. Further, in considering the practical application of the current definition of an asset to client monies, it was noted that changes in industry practice along with accounting developments with respect to the control concept necessitated a change in the Consolidated Entity's accounting policy as it relates to client monies.

As a result of the retrospective application of the revised accounting policy (refer to Note 1(xxvii) *Fiduciary assets*), the Consolidated Entity's statement of financial position has been re-presented to remove client-related margin money deposited with clearing houses as well as excess cash received from certain clients. These amendments had no impact on reserves. For the Consolidated Entity, as at 31 March 2020, this resulted in a reduction to:

- margin money and settlement assets of $6,065 million (31 March 2019: $3,580 million)
- cash and bank balances of $2,190 million (31 March 2019: $1,144 million)
- trading assets of $Nil (31 March 2019: $702 million), and
- margin money and settlement liabilities of $8,255 million (31 March 2019: $5,426 million).

The amendment to these balances impacted the Consolidated Entity's presentation of cash and cash equivalents for the purposes of the statement of cash flows. In addition to re-presenting for this change, and in order to more closely align with the Consolidated Entity's cash and liquid assets portfolio, the Consolidated Entity extended its review of the balances included in the determination of cash and cash equivalents. Whilst the review had no impact on the Company's cash and cash equivalents, the impact on the Consolidated Entity's cash and cash equivalents and statement of cash flows is explained in Note 27 *Notes to the statements of cash flows*.

Separately, the Consolidated Entity reclassified several other balances within the statement of financial position in order to better reflect the nature of the underlying asset or liability. In accordance with Note 1(xxx) *Comparatives*, comparative information has been reclassified to conform to these changes in the current year.

#### Critical accounting estimates and significant judgements

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

- determining the appropriate business model for a group of financial assets which includes determining the level at which the business model condition is applied and whether past or expected sales activity is consistent with a held to collect business model (Note 1(viii))
- assessing whether the cash flows generated by a financial asset constitute solely payment of principal and interest (SPPI) may require the application of judgement, particularly for certain subordinated or non-recourse positions, and in the determination of whether compensation for early termination of a contract is reasonable (Note 1(viii))

## Note 1
### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

- the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss (ECL) including the determination of significant increase in credit risk (SICR), forecasts of economic conditions and the weightings assigned thereto (Note 1(xxiii) and Note 12)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including reversal of impairment (Note 1(ii), Note 1(xxiii), Note 14 and Note 16)
- the impairment of goodwill and other identifiable intangible assets (Note 1(xxiii) and Note 15)
- 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 1(xi) and Note 36)
- distinguishing between whether assets or a business is acquired under a business combination, particularly the determination of whether a substantive process exists that, together with an integrated set of activities and assets, significantly contributes to the ability to create an output (Note 1(iii))
- determination of significant influence over associates, joint control over joint 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 1(ii))
- 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 1(vii), Note 4 and Note 17)
- recognition and measurement of certain revenue streams including performance fees from Macquarie managed funds and other capital market investments and transactions (Note 1(v))
- recognition and measurement of provisions related to actual and potential claims, determination of contingent liabilities, and supplemental rent, maintenance liabilities and end of lease compensation (Note 1(v))
- the application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 1(xi) and Note 33)
- the timing of derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 1(ii)).

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

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

#### Coronavirus (COVID-19) impact

##### Background

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global economies and equity, debt and commodity markets. The Consolidated Entity has considered the impact of COVID-19 and other market volatility in preparing its financial statements.

While the specific areas of judgement as noted on the previous page did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impacts of such a pandemic, and the short duration between the declaration of the pandemic and the preparation of these financial statements, changes to the estimates and outcomes that have been applied in the measurement of the Consolidated Entity's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

##### Impact of COVID-19 on the macro-economic outlook

Forward-looking information, including a detailed explanation of the scenarios and related probabilities considered in determining the Consolidated Entity's forward-looking assumptions for the purposes of its expected credit loss (ECL), has been provided in Note 12 to the financial statements. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how COVID-19 and its social and economic consequences will flow, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

##### Processes applied

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty beyond what has been disclosed above
- updated its economic outlook – principally for the purposes of inputs into its ECL through the application of forward-looking information, but also for input into the impairment analysis of financial and non-financial asset classes and disclosures such as fair value disclosures of financial assets and liabilities
- reviewed external market communications to identify other COVID-19 related impacts
- reviewed public forecasts and experience from previous downturns

## Note 1
### Summary of significant accounting policies continued

### (i) Basis of preparation continued

- conducted several internal processes to ensure consistency in the application of the expected impact of COVID-19 across all asset classes
- assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19
- ran multiple stress testing scenarios, which are an integral component of Consolidated Entity's risk management framework and a key input to the capital adequacy assessment process, to assess the potential impacts of the COVID-19 pandemic on its portfolio to assist in the organisation's prudent risk management, and
- considered the impact of COVID-19 on the Consolidated Entity's financial statement disclosures.

#### Consideration of the statements of financial position and further disclosures

Key statements of financial position sheet items and related disclosures that have been impacted by COVID-19 were as follows:

**Trading assets, trading liabilities and financial investments**

Given recent market volatility, the Consolidated Entity reviewed the appropriateness of the inputs to its valuations, which included the use of correlations, price volatilities, funding costs and bid offer, counterparty and own credit spreads. The impact of changes in valuation inputs has also been considered in terms of the classification of exposures in the fair value hierarchy, transfers within the fair value hierarchy and the Level 3 sensitivity analysis. The Consolidated Entity's financial investments include a portfolio of unlisted equity investments which, in accordance with the Consolidated Entity's accounting policies, are measured at FVTPL. The determination of the investments' carrying value included a consideration of the impact of COVID-19.

**Derivative assets and liabilities**

Given recent market volatility, the Consolidated Entity reviewed the appropriateness of the inputs to its valuations. These included valuation adjustments (XVA) and notably the credit valuation adjustment (CVA), debit valuation adjustment (DVA) and funding valuation adjustment (FVA). The impact of changes of inputs to the valuations has also been considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy.

**Held for sale assets and liabilities**

Held for sale assets and liabilities includes certain disposal groups and investments in associates and joint ventures for which the conditions precedent relating to the disposal were met subsequent to 31 March 2020. For these and other items that are classified as held for sale, the appropriateness of the held for sale classification at the reporting date was reassessed and affirmed. Further, the impact of COVID-19 on the carrying value of the assets and liabilities that were classified as held for sale was assessed. Refer to Note 10 and Note 21.

**Loan assets, due from subsidiaries and other assets**

In response to COVID-19 the Consolidated Entity and the Company undertook a review of wholesale and retail credit portfolios, loans to its subsidiaries and other financial asset exposures, as applicable, and the ECL for each. The review considered the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. The ECL methodology, SICR thresholds, and definition of default remained consistent with prior periods. The model inputs, including forward-looking information, scenarios and associated weightings, together with the determination of the staging of exposures were however revised. The impact of COVID-19 on the credit risk management disclosures, notably in relation to credit quality and collateral and other credit enhancements was also considered. Refer to Note 12 and Note 34.

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

Included in the group's property, plant and equipment and right-of-use assets at 31 March 2020 is a portfolio of rotorcraft assets. Given the impact of COVID-19, the portfolio was subject to impairment testing which concluded that no material impairment was required. Refer to Note 13.

**Interest in associates and joint ventures, investments in subsidiaries and interests in unconsolidated structured entities**

The Consolidated Entity's investments in associates and joint ventures is diversified, has been acquired over time and covers various sectors (including infrastructure and green energy) and geographic locations. When it has been assessed that there is an indicator of impairment the Consolidated Entity tests the carrying amount of each of its investments for impairment, by comparing the investment's recoverable amount with its carrying value. Disclosures with respect to the Consolidated Entity's equity accounted interests in Macquarie AirFinance Limited, East Anglia ONE Limited and Macquarie Infrastructure Corporation (MIC) have been provided. In addition to the Company assessing its investments in subsidiaries for impairment, the Company and Consolidated Entity re-affirmed that there were no circumstances as a result of COVID-19 that would affect the existing control conclusion for its subsidiaries, including structured entities, nor did it highlight instances in which the Company or Consolidated Entity now had control of such entities. Refer to Note 14 and Note 16.

**Intangible assets**

Consistent with the Consolidated Entity's accounting policies, the Consolidated Entity has tested goodwill and indefinite life intangible assets for impairment and has reviewed the carrying value of its finite life intangible assets at the reporting date for indicators of impairment and, where applicable, reviewed the measurement of the carrying value of such intangible assets. Such assessment incorporated a consideration of COVID-19. Refer to Note 15.

## Note 1
### Summary of significant accounting policies continued

### (i) Basis of preparation continued

#### Debt issued and loan capital

Debt-related covenants were assessed to determine whether there were any breaches for which disclosure is required. The Consolidated Entity identified no such breaches at 31 March 2020 nor at the time at which these financial statements were authorised for issue. Refer to Note 22 and Note 24.

#### Hedge accounting

An assessment was conducted as to the impact of COVID-19 with respect to whether the hedged forecasted cash flows in cash flow hedge relationships remain highly probable at the balance date. Based on available facts as at 31 March 2020, including announcements from governments and regulators, as well as discussions with our clients, the modelling of the hedged future cash flows were determined to remain highly probable and hence hedge accounting has continued to be applied.

#### Risk management

The Consolidated Entity's robust risk management framework continues to be applied across the Operating and Central service groups and RMG continues to monitor the impact of COVID-19 on the Consolidated Entity's risk profile. Non-financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Consolidated Entity's risk management framework.

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

#### (i) AASB 16 *Leases*

AASB 16 replaced AASB 117 *Leases* (AASB 117) for the Consolidated Entity's financial year that commenced on 1 April 2019. Subject to certain exceptions, contracts that are leases within the scope of AASB 16 from the lessee's perspective require the recognition of a right-of-use (ROU) asset and a related lease liability. The classification of leases where the Consolidated Entity is a lessor remains unchanged under AASB 16.

#### Transition

The Consolidated Entity has applied AASB 16 from 1 April 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under both AASB 117 and Interpretation 4 *Determining whether an arrangement contains a lease*. The resultant reclassifications and adjustments arising upon transition to AASB 16 have been recognised as a transition adjustment to the opening retained earnings on 1 April 2019.

For leases of office space, a transition adjustment was recognised as an adjustment to the Consolidated Entity's retained earnings at 1 April 2019 for leases where the Consolidated Entity measured the ROU asset as if AASB 16 had always been applied. For other leases, the ROU asset was measured based on the lease liability as at the transition date.

At transition, the Consolidated Entity recognised lease liabilities of $949 million as part of other liabilities and ROU assets of $737 million as part of property, plant and equipment and right-of-use assets. After adjusting related amounts previously recorded on the statements of financial position, this resulted in a reduction to retained earnings of $49 million (post tax). As permitted by AASB 16 the transition adjustment has been determined by the Consolidated Entity by electing practical expedients to not recognise short-term or leases of low value assets on its statement of financial position at the transition date. Judgement has been applied by the Consolidated Entity in determining the transition adjustment which includes the determination of which contractual arrangements represent a lease, the period over which the lease exists, the incremental borrowing rate, and the variability of future cash flows.

The table below presents a reconciliation of the operating lease commitments as disclosed in the Consolidated Entity's 31 March 2019 financial statements, to the lease liabilities recognised on the transition date:

| Particulars | Consolidated 2019 $m |
|---|---|
| Operating lease commitments disclosed as at 31 March 2019 | 1,118 |
| Add: technology assets not recognised as a lease under AASB 117 | 16 |
| (Less): leases executed but not yet effective on transition date | (94) |
| (Less): impact of discounting the future lease cash flows at the incremental borrowing rate of each lease (weighted average rate of 3.13%) | (91) |
| **Lease liability recognised as at 1 April 2019** | **949** |

The key changes in the Consolidated Entity's significant accounting policies following the transition to AASB 16 have been included within the relevant sections of this note. Accounting policies applicable to the prior period have been provided in italics as appropriate for comparability purposes.

#### (ii) AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

AASB Interpretation 23 (Interpretation 23) clarified the application of the recognition and measurement criteria in AASB 112 *Income Taxes* (AASB 112) where there is uncertainty over income tax treatments and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates.

## Note 1
### Summary of significant accounting policies continued

### (i) Basis of preparation continued

The amount is determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements are reassessed as and when new facts and circumstances are presented.

Interpretation 23 is effective for the Consolidated Entity's annual financial reporting period beginning on 1 April 2019. The Consolidated Entity's existing recognition and measurement accounting policies, together with accounting related judgements, were in alignment with those required by Interpretation 23 and hence no transition adjustment to retained earnings was required. On adoption of Interpretation 23 the Consolidated Entity has amended the presentation of its uncertain tax positions by increasing its opening income tax payable to $589 million with an offsetting decrease in deferred tax liabilities to $249 million. The Consolidated Entity has not restated the comparative financial reporting period.

#### (iii) AASB 123 *Borrowing costs*

An amendment to AASB 123 *Borrowing costs* (AASB 123) clarified that, to the extent an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. Borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset are capitalised to that asset and are thus excluded from this calculation until substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The amendment to AASB 123 is applicable to borrowing costs that the Consolidated Entity incurred on or after 1 April 2019. The application of the amendment did not have a material impact on the Consolidated Entity's financial statements.

#### (iv) AASB 119 *Employee benefits*

An amendment to AASB 119 *Employee Benefits* (AASB 119) specifies how an entity should account for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment requires the use of assumptions for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The amendment to AASB 119, which was applied by the Consolidated Entity from 1 April 2019 did not have a material impact on the Consolidated Entity's financial statements.

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

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

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

The UK Financial Conduct Authority (the regulator of LIBOR, the most widely used interest rate benchmark) has confirmed that it will no longer compel or persuade panel banks to submit rates for the calculation of LIBOR beyond the end of 2021. As such, there can be no guarantee that LIBOR will be determined after 2021 on the same basis as at present, if at all. Therefore, LIBOR is being replaced with alternative reference rates (ARRs). For example, the ARR for GBP LIBOR is SONIA (Sterling Overnight Index Average), calculated from unsecured cash transactions reported to the Bank of England, and SOFR (Secured Overnight Funding Rate) for USD LIBOR, calculated from overnight transactions in the USD Treasury repurchase market.

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

In Australia, measures have been taken to reform BBSW, the most widely used Australian dollar interest benchmark, such that it is expected to continue for the foreseeable future with the nominated ARR for AUD being the RBA Cash Rate (also known as AONIA). Nevertheless, reforms in global interest rate benchmarks may change market practices in Australia. For example, some parties may develop a preference to use AONIA instead of BBSW, or contracts may include more robust terms to deal with a potential future cessation of BBSW.

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

## Note 1
### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

**The Consolidated Entity's IBOR project**

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

The scope of the project to manage the impacts of IBOR reform across the Consolidated Entity includes:

- assessing the impacts and risks of LIBOR transition across Operating and Support Groups including legal agreements, systems, models and processes
- assessing the impact on clients and developing plans to support their transition to ARRs
- developing ARR products and implementing plans for operational readiness
- monitoring market developments with respect to both LIBOR and ARRs, including any changes to accounting standards and other regulator activity
- the identification of the impact of the reform on separate legal entities within the Consolidated Entity, including those entities that are subject to separate regulatory requirements and oversight and responding to regulator and other industry bodies regarding IBOR-related requests for information.

**Impacts on financial reporting**

AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, issued in October 2019, amended AASB 9 *Financial Instruments* (AASB 9) and AASB 7 *Financial Instruments: Disclosure*, to provide certain relief from applying specific hedge 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 and is mandatorily effective for annual reporting periods beginning on or after 1 January 2020. The Consolidated Entity elected to early adopt the amendments and there are no significant impacts on the Consolidated Entity's financial statements.

Impacted hedge relationships include those that hedge the variability of cash flows (cash flow hedges) and fixed interest rate risk (fair value hedges) due to the likely cessation of USD LIBOR and GBP LIBOR to which the Consolidated Entity's hedging relationships are exposed. With the BBSW having been reformed, the Consolidated Entity has not applied the relief to instruments referencing BBSW.

The amendments provide the following relief:

- when determining whether a forecast transaction is highly probable, the Consolidated Entity assumes that the interest rate benchmark on which its hedged cash flows are based are not altered as a result of the IBOR reform. The amendment also applies to cash flow hedges that have been discontinued with an amount remaining in the Consolidated Entity's cash flow hedge reserve
- in determining that there is an economic relationship between the hedged item and the hedging instrument, the Consolidated Entity has assumed that the interest rate benchmark on which the hedged cash flows and/or hedged risk are based are not altered as a result of the IBOR reform
- for hedges of a non-contractually specified benchmark component of interest rate risk, the Consolidated Entity is required to determine that the risk component is separately identifiable only at the inception of the hedging relationship.

The Consolidated Entity will cease to apply the relief when (a) the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the IBOR based cash flows; or (b) the hedging relationship is discontinued, whichever is earlier.

Note 33 *Hedge accounting* provides further information about hedging relationships for which the Consolidated Entity has applied the relief.

In April 2020, the IASB released an exposure draft on proposed amendments to various accounting standards, including IFRS 9 *Financial Instruments*, to address the accounting issues that will arise following the transition to ARRs. The proposed amendments provide guidance on a number of accounting matters such as:

- the accounting for the modification of financial assets and financial liabilities, including lease liabilities required for transition
- hedge accounting relating to post-transition issues
- additional quantitative and qualitative disclosure requirements.

The final amendments are expected to be published during the second half of 2020. The Consolidated Entity will continue to monitor these developments to determine the impact thereof on its project and its financial statements.

#### (b) New Australian Accounting Standards and amendments to Australian Accounting Standards and Interpretations that are not yet effective for the financial year

**(i) AASB Revised Conceptual Framework for Financial Reporting**

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

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

# Note 1
## Summary of significant accounting policies continued

### (i) Basis of preparation continued

The AASB Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts. The application of the AASB Framework from 1 April 2020 is not expected to have a material impact on the Consolidated Entity's financial statements. However, management's impact assessment of the AASB Framework identified changes necessary to the Consolidated Entity's statement of financial position for the year ended 31 March 2020, as explained in Note 1(i) *Basis of preparation*.

### (ii) Principles of consolidation

#### Subsidiaries

The consolidated Financial Report reflects the financial performance and financial position of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) which the Consolidated Entity controls. The Consolidated Entity controls an entity where it has:

- power to direct the relevant activities
- exposure, or rights, to significant variable returns, and
- the ability to utilise power to affect the entity's returns.

The determination of control is based on current facts and circumstances and is continuously assessed. The Consolidated Entity has power over an entity when it has existing substantive rights that provide it with the current ability to direct the entity's relevant activities. Relevant activities are 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 whether it has exposure or rights to variable returns that, in aggregate, are significant.

All variable returns are considered in making that assessment including, but not limited to, returns from debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

#### Structured entities

Structured Entities (SEs) are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities of the SE are directed by means of contractual arrangements. When assessing whether the Consolidated Entity controls (and therefore consolidates) a SE, judgement is required as to whether the Consolidated Entity has power over the relevant activities as well as exposure, or rights, to significant variable returns of the SE.

Where the Consolidated Entity has power over the SE's relevant activities, is exposed to significant variable returns through the residual risk associated with its involvement in SEs and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements.

#### Consolidation

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains but only to the extent that there is no evidence of impairment. Non-controlling interests (NCI) in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

Where control of an entity was obtained during the financial year, its results are included in the consolidated income statement from the date on which control was obtained. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The Consolidated Entity determines the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities and the capacity to influence returns 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.

Subsidiaries held by the Company are carried in its financial statements at cost less impairment.

#### Interests in associates and joint ventures

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control. Existing ownership interests (including in-substance existing ownership interests) in associates and joint ventures are accounted for under the equity method. Equity accounting is applied from the date that the Consolidated Entity has significant influence or joint control and ceases when the Consolidated Entity no longer has significant influence or joint control.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence the financial and operating policies or jointly control the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

## Note 1
### Summary of significant accounting policies continued

#### (ii) Principles of consolidation continued

The equity method of accounting is applied in the consolidated Financial Report and requires the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or loss in the consolidated income statement, and the share of the post-acquisition movements in reserves in the consolidated statement of comprehensive income. 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, which are in the nature of debt and in-substance form part of the net investment in the associate or joint venture, but to which the equity method is not applied, are accounted for in accordance with the Consolidated Entity's financial instruments' accounting policies. Subsequently, the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures* are applied. The Consolidated Entity calculates expected credit losses on these loans in accordance with AASB 9.

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 as impairment charges as part of other operating income and charges. 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.

#### Changes in ownership interests

When acquiring additional interests of a financial asset (such that it becomes an associate, joint venture or subsidiary) or an investment in an associate or joint venture (such that it becomes a subsidiary) and the underlying entity constitutes a business, previously held interests are revalued to their current fair value and any gain or loss is immediately 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 current fair value and any gain or loss is immediately recognised in investment income as part of other operating income and charges. To the extent the sale represents a contribution to an associate or joint venture, retained ownership interests are not revalued.

Changes in the Consolidated Entity's interest in a subsidiary that does not result in the loss of control are accounted for directly within equity. Increases in the Consolidated Entity's ownership of 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.

#### (iii) 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 measure NCI either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities.

Goodwill is measured as the excess of the consideration exchanged, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the business acquired and is recognised as part of intangible assets in the statement of financial position. Goodwill is subsequently measured at cost less accumulated impairments.

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 directly 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.

# Note 1
## Summary of significant accounting policies continued

### (iii) Business combinations continued

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.

### (iv) Foreign currency translation

#### Functional and presentation currency

The functional currency of each entity in the Consolidated Entity is determined as the currency of the primary economic environment in which the entity operates. The Consolidated Entity's 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

Foreign currency transactions are translated into each entity's functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in net trading income, except when deferred in OCI as a result of meeting cash flow hedge or net investment hedge accounting requirements (refer to Note 33 *Hedge accounting*).

Translation differences on financial instruments measured at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement.

Translation differences on financial assets classified as FVOCI are included in the income statement, including when they form part of fair value hedge relationships (refer to Note 1(viii) *Financial instruments* and Note 1(xi) *Derivative instruments and hedging activities*).

#### Subsidiaries and other entities

The results and financial position of all entities that have a functional currency other than Australian dollars are translated into Australian dollars as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and 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).

For net investment in foreign operations where such investments are designated as qualifying hedged items in a 'Net investment in foreign operation hedge', refer to Note 1(xi) *Derivative instruments and hedging activities*.

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.

When a foreign operation is disposed of, exchange differences recognised in the FCTR are reclassified to the income statement and recognised in investment income as part of other operating income and charges. Where there is a partial disposal of the foreign operation, without resulting in the loss of control, a proportionate share of the accumulated FCTR is reattributed within equity to non-controlling interest. When there is a partial disposal of a foreign operation that is an associate or joint arrangement, without resulting in loss of significant influence or joint control, a proportionate share of the accumulated FCTR is reclassified to profit or loss.

### (v) Revenue and expense recognition

#### Net interest income

Interest income and interest expense (with the exception of borrowing costs that are capitalised on a qualifying asset which is not measured at fair value) are recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost, and debt financial assets classified as at fair value through OCI. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the income statement 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.

## Note 1
### Summary of significant accounting policies continued

#### (v) Revenue and expense recognition continued

Interest income on financial assets that are not credit-impaired is determined by applying the financial asset's EIR to the financial asset's gross carrying amount. Interest income on financial assets that are not classified as POCI but are subsequently classified as credit-impaired (stage III), is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying value after deducting the impairment loss).

Interest income and expense on financial assets and liabilities that are classified as FVTPL is accounted for on a contractual rate basis.

#### Fee and commission income

Revenue earned by the Consolidated Entity from its contracts with customers primarily consists of the following categories of fee and commission income:

##### Base and other asset management fees, and performance fees

The Consolidated Entity earns base and other asset management and performance fees for providing asset management services for listed and unlisted funds, managed accounts and co-investments arrangements. It has been determined that the provision of asset management services is typically a single performance obligation.

Base management fees are recognised over the life of the contract as the asset management services are provided. Any associated performance fees are deemed to be a variable component of the same asset management service and are recognised only when it is highly probable that the performance hurdles are met, and a significant reversal of cumulative fees recognised to date will not occur. Determining the amount and timing of performance fees to be recognised involves judgement, the use of estimates (including management estimates of underlying asset values) and consideration of a number of criteria relating to both the fund or managed account in which the asset(s) are held, as well as the underlying asset(s), as follows:

- the extent to which performance fee liabilities have been accrued by funds or managed account to date or consideration of the current valuation case of the assets in relation to the performance fee hurdle rate
- the proportion of assets realised and returns on those assets
- nature of remaining underlying fund or managed account assets and potential downside valuation risks on each
- time remaining until realisation of the assets and the fund life or asset management services timeline
- consideration of the ability to dispose of the asset, including any barriers to divest.

##### Mergers and acquisitions, advisory and underwriting fees

The Consolidated Entity earns revenue through its role as advisor on corporate transactions as well as through its role as manager and underwriter of equity and debt issuances. The revenue from these arrangements is recognised at a point in time, and when it has been established that the customer has received the benefit of the service such that the performance obligation is satisfied. For advisory services this is typically at the time of closing the transaction.

Where mandates contain rights to invoice upon reaching certain milestones, the Consolidated Entity assesses whether distinct services have been transferred at these milestones and accordingly recognises revenue. If not, the fee recognition will be deferred until such time as the performance obligation has been completed. Management of capital raisings and underwriting of debt or equity capital raisings are each considered distinct performance obligations that are typically satisfied on the allocation date of the underwritten securities.

##### Brokerage and other trading-related income

The Consolidated Entity enters into contracts with customers to act as an agent to buy and sell securities and fees related to this service are recognised on trade date. The brokerage and commission income is presented net of any rebates.

##### 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, lending services, stock borrow and lending activities and income on structured products which are recognised when the performance obligation is satisfied.

#### Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term. It comprises operating lease income and supplemental rent and is presented net of the related depreciation expense.

#### Supplemental rent, maintenance liability and end of lease compensation

Generally, under operating lease contracts the lessee is responsible for maintenance. Supplementary rent received from lessees in relation to maintenance is recognised as a maintenance liability where the lessee is responsible for maintenance and the Consolidated Entity is obligated to reimburse lessees for the maintenance.

In certain circumstances, the Consolidated Entity, as lessor, agrees to an alternative mechanism related to maintenance known as end of lease compensation. This compensation is typically calculated on the basis of the condition of each major component at the end of the lease relative to the commencement of the lease measured by hours, number of cycles or calendar time at an agreed rate specified in the lease. The expected compensation for the use of the asset is accrued over the term of the lease and receipt of this compensation is deferred until the end of the lease.

# Note 1
## Summary of significant accounting policies continued

### (v) Revenue and expense recognition continued

In other leases, the lessee is required to enter into a contract with an approved third party maintenance service provider and make payments on a monthly basis to the service provider based on hours operated.

Maintenance liabilities are recognised separately and are disclosed in Note 21 *Held for sale and other liabilities*.

#### 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 at fair value through profit or loss 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 from other changes in fair value.

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

#### Dividends

Dividends or distributions on financial assets are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends and distributions from associates and joint ventures reduce the carrying amount of the investment in the Consolidated Entity's statement of financial position. Dividends or distributions from subsidiaries, associates and joint ventures are recognised in the income statement of the Company when the right to receive the dividend or distribution is established.

#### Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

### (vi) Segment reporting

Operating segments are identified on the basis of internal reports to Senior Management about components of the Consolidated Entity that are regularly reviewed by Senior Management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to Senior Management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising five reportable segments as disclosed in Note 3 *Segment reporting*.

Information about products and services is based on the financial information used to produce the Consolidated Entity's financial statements. Information about geographical segments is based on the jurisdiction of the respective entities.

### (vii) Taxation

The balance sheet approach to tax effect accounting has been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences or tax losses.

Deferred tax liabilities are recognised when such temporary differences give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered, or the liabilities are settled under enacted or substantively enacted tax law.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to either settle on a net basis or realise the asset and settle the liability simultaneously.

Current and deferred taxes attributable to amounts recognised in OCI are also recognised in OCI.

The Consolidated Entity exercises judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery.

Factors considered include the ability to offset tax losses within the tax consolidated group in Australia or groups of entities in overseas jurisdictions, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

The Consolidated Entity undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Consolidated Entity estimates the amount expected to be paid to/(recovered from) tax authorities based on its understanding and interpretation of the law. Uncertain tax positions are presented as current or deferred tax assets or liabilities.

## Note 1
### Summary of significant accounting policies continued

#### (vii) Taxation continued

#### Tax consolidation

The Consolidated Entity's Australian tax liabilities are determined according to tax consolidation legislation.

The Company, together with all eligible Australian resident wholly owned subsidiaries of the Company, comprise a tax consolidated group with the Company as the head entity. As a consequence, the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses.

The tax consolidated group recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB Interpretation 1052 *Tax Consolidation Accounting*. Under the terms and conditions of a tax funding agreement, the Company 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.

Should the Company 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 Company and entities in the tax consolidated group.

#### Goods and Services tax (GST)

Where GST (or other value added tax) is not recoverable from global tax authorities, it is either capitalised to the statement of financial position as part of the cost of the related asset or is recognised in the income statement. Where GST (or other value added tax) is recoverable from or payable to global tax authorities, the amount is recorded as a separate asset or liability in the statement of financial position.

#### (viii) 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 for (in the case of instruments not classified at FVTPL) 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 earned 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 data 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 the income statement over the life of the transaction or when the inputs become observable. The Consolidated Entity applies this day 1 profit or loss policy to all financial instruments measured at fair value.

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
- consideration of whether each of the financial instruments has its own terms and conditions and each may be transferred or settled separately.

#### Derecognition of financial instruments

#### Financial assets

Financial assets are derecognised from the statement of financial position when:

- the rights to cash flows have expired, or
- the Consolidated Entity has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

A financial asset is transferred if, and only if, the Consolidated Entity i) transfers the contractual rights to receive the cash flows of the financial asset, or ii) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement where:

- the Consolidated Entity is not obligated to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- the Consolidated Entity is prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
- the Consolidated Entity is obligated to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Consolidated Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. Any interest in the transferred and derecognised financial asset that is created or retained by the Consolidated Entity is recognised as a separate asset or liability. In transfers where control over the asset is retained, the Consolidated Entity continues to recognise the asset to the extent of its continuing involvement as determined by the extent to which it is exposed to changes in the value of the transferred asset.

# Note 1
## Summary of significant accounting policies continued

### (viii) Financial instruments continued

#### Financial liabilities

Financial liabilities are derecognised from the statement of financial position when the Consolidated Entity's obligation has been discharged, cancelled or has expired.

Gains and losses arising from the derecognition of debt financial assets or financial liabilities that are subsequently measured at amortised cost are recognised in other income as part of other operating income and charges, while those arising from the derecognition of debt financial assets or financial liabilities that are subsequently measured at FVTPL or at FVOCI are recognised as investment income as part of other operating income and charges.

#### Financial guarantee contracts

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
- 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 instrument 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 recorded in other income.

For financial instruments measured at amortised cost, and for debt financial assets measured at FVOCI, when the modification does not result in derecognition, a gain or loss is recognised in other income reflecting the adjustment of the gross carrying amount to reflect the renegotiated or modified contractual cash flows, discounted at the original EIR.

#### Classification and subsequent measurement

#### Financial assets

Financial assets are classified based on the business model within which the asset is held and on the basis of the financial asset's contractual cash flow characteristics.

##### Business model assessment

The Consolidated Entity determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

(i) how the performance of the financial assets held within that business model is evaluated and reported to the Consolidated Entity's Senior Management personnel and senior executives

(ii) 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

(iii) 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).

The Consolidated Entity exercises judgement to determine the appropriate level at which to assess its business models and its intention with respect to its financial assets.

##### Solely payment of principal and interest (SPPI)

The contractual cash flows of a financial asset are assessed to determine whether these represent SPPI on the principal amount outstanding. This includes an assessment of whether 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:

(i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements, and

(iii) the financial asset has not been classified as DFVTPL.

Interest income is determined in accordance with the EIR method.

##### Fair value through other comprehensive income

A financial asset is subsequently measured at FVOCI if the following conditions are met:

(i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements, and

(iii) 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 as a credit impairment charge in other operating income and charges) and foreign exchange gains and losses (which are recognised in net trading income). When debt financial assets at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI and recognised in investment income as part of other operating income and charges.

## Note 1
### Summary of significant accounting policies continued

#### (viii) Financial instruments continued

**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 FVPTL
- 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)
- 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
- financial assets that fail the SPPI test (FVTPL).

Equity financial assets are measured at FVTPL.

Changes in the fair value of HFT financial assets are recognised in net trading income. Changes in the fair value of financial assets that are DFVTPL and FVTPL are recognised as investment income as part of other operating income and charges.

The interest component of financial assets that are classified as HFT, DFVTPL and FVTPL is recognised in interest 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 held for trading, in which case they are classified as HFT, or have been designated to be measured at FVTPL (DFVTPL). A financial liability may be DFVTPL if:
- the liability contains embedded derivatives which must otherwise be separated and carried at fair value, or
- such a designation eliminates or significantly reduces an accounting mismatch that would otherwise have arisen.

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.

The changes in fair value of financial liabilities that are classified as HFT are recognised as part of net trading income. Changes in the fair value of financial liabilities that are classified as DFVTPL are recognised in other income and charges as part of other operating income and charges, with the exception of changes in fair value relating to changes in the Consolidated Entity's own credit risk that is presented separately in OCI and is not subsequently reclassified to profit or loss. The interest component of financial liabilities that are classified as HFT or DFVTPL is recognised in interest expense.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported on the statement of financial position, when there is a current legally enforceable right to offset the amounts and either there is an intention to settle on a net basis or realise the financial asset and settle the financial liability simultaneously.

#### (ix) 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 subject to the arrangement is not derecognised from the statement of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

These transactions include:
- reverse repurchase transactions, where the Consolidated Entity purchases on underlying under an agreement to resell
- repurchase transactions, where the Consolidated Entity sells on 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 followed 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 35 *Measurement categories of financial instruments*.

Repurchase agreements are measured at DFVTPL to eliminate an accounting mismatch created by managing these agreements together with the reverse repurchase agreements measured at FVTPL.

# Note 1
## Summary of significant accounting policies continued

### (x) Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of these assets and liabilities. 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 profit or loss arising from revaluing that contract to fair value is recognised in the income statement. Refer to Note 1(viii) for the detailed *Financial Instruments*' accounting policy.

Trading assets (long positions) comprise financial instruments such as debt and equity securities, bank bills, treasury notes, loans and commodity contracts purchased with the intent of being actively traded either individually or as part of a portfolio. It also includes commodities for which the Consolidated Entity has a trading intention.

Trading liabilities comprise obligations to deliver assets (short positions) across the same trading categories and which the Consolidated Entity intends to actively trade.

Trading assets and liabilities are classified as HFT. Commodity inventory is measured at fair value less costs to sell in accordance with the broker-trader exception, 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.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of trading assets and liabilities. 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 profit or loss arising from revaluing that contract to fair value is recognised as part of net trading income in the income statement. When the Consolidated Entity becomes party to a sale contract, and the derecognition criteria are met, it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

### (xi) Derivative instruments and hedging activities

Derivative instruments entered into by the Consolidated Entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity, credit and equity markets. These derivative instruments are principally used by the Consolidated Entity for the purposes of risk management of existing and forecast financial and non-financial assets and liabilities and are also entered into for client trading purposes.

Derivatives are recognised in the statement of financial position as an asset where they have a positive fair value at the reporting date or as a liability where they have a negative fair value at the reporting date.

Fair values are obtained from quoted prices in active markets where available, and 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 1(viii) *Financial instruments*.

The Consolidated Entity applies trade date accounting to the recognition and derecognition of derivative financial instruments.

#### Hedge accounting

As part of its ongoing business, the Consolidated Entity is exposed to several financial risks, principally that of interest rate, foreign exchange rate and commodity price risk (collectively referred to as the hedged risk or exposure). The Consolidated Entity has limited appetite for such risks and has policies and practices in place to ensure that these risks are effectively managed. The Consolidated Entity mitigates these risks through the use of derivative financial instruments, and, in the case of foreign currency risk, foreign-denominated debt issued (collectively referred to as hedging instruments). In order to account for the difference in measurement bases or location of the gains and losses between the exposure that is being hedged and the hedging instrument, the Consolidated Entity applies hedge accounting as detailed in the table on the following page.

## Note 1
### Summary of significant accounting policies continued

#### (xi) Derivative instruments and hedging activities continued

| | Fair value hedge | Cash flow hedge | Net investment hedge |
|---|---|---|---|
| **Nature of hedge** | The hedge of the fair value risk of a financial asset or non-financial asset or liability. | The hedge of the change in cash flows of a financial asset or liability or a highly probable forecast transaction. | The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates. |
| **Hedged risk** | – Interest rate risk<br>– Commodity price risk | – Interest rate risk<br>– Foreign exchange risk (spot)<br>– Commodity price risk | – Foreign exchange risk (spot) |
| **Hedged item** | – Fixed interest rate financial assets and liabilities<br>– Commodity transportation contracts | – Floating interest rate financial assets and liabilities<br>– Foreign currency denominated interest bearing financial assets and liabilities<br>– Highly probable forecast commodity sales | – Foreign operations |
| **Hedging instruments** | – Interest rate swaps<br>– Commodity forward contracts<br>– Cross currency swaps | – Interest rate swaps<br>– Cross currency swaps<br>– Commodity swaps and futures | – Foreign exchange forward contracts<br>– Foreign currency denominated issued debt |
| **Designation and documentation** | At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements. | | |
| **Hedge effectiveness method** | All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that:<br>– an economic relationship exists between the hedged item and the hedging instrument<br>– credit risk does not dominate the changes in value of either the hedged item or the hedging instrument<br>– the hedge ratio is reflective of the Consolidated Entity's risk management approach.<br>The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument. | | |
| **Accounting treatment for the hedging instrument** | Fair value through the income statement. | 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. | Fair value through the foreign currency translation reserve as part of OCI and recognised in the income statement at the time at which there is a disposal of the hedged foreign operation or to non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated. |
| **Accounting treatment for the hedged item** | Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk. | Accounted for on an amortised cost basis or under other accounting standards as appropriate (such as executory contracts for the purchase and sales of commodities). | Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI. |

## Note 1
### Summary of significant accounting policies continued

#### (xi) Derivative instruments and hedging activities continued

| | Fair value hedge | Cash flow hedge | Net investment hedge |
|---|---|---|---|
| **Accounting treatment for hedge ineffectiveness** | Recognised as part of net trading income in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument. | Recognised as part of net trading income in the income statement to the extent to which changes in the fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item. | |
| **Accounting treatment if the hedge relationship is discontinued** | Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an EIR basis. | The gain or loss remains in the cash flow hedge reserve to the extent that the hedged cash flows are still expected to take place and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.<br><br>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. | The gain or loss remains recognised in the FCTR until such time as there is a disposal of the hedged foreign operation or is recognised in non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated. |
| **Other accounting policies** | None | The foreign currency basis spread of the hedging instrument, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the cost of hedging reserve and released to the income statement at the time at which the hedged exposure affects the income statement. | |

## Note 1
### Summary of significant accounting policies continued

#### (xii) 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 margin and variance margin which varies based on trading activities. Settlement balances represent outstanding trade timing balances as at the reporting date due to the timing difference between trade date 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.

#### (xiii) 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 are in the nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities.

Financial investments are initially recognised on trade date at fair value (adjusted for directly attributable transaction costs for debt investments subsequently measured at FVOCI) and subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments Note 1(viii).

#### (xiv) 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 at fair value on settlement date (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments in Note 1(viii).

Certain finance lease receivables are also presented as part of loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 1(viii).

#### (xv) 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) less, accumulated depreciation and, where applicable, accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the asset.

ROU assets are measured at cost and comprise of the amount that corresponds to the amount recognised for the lease liability on initial recognition together with any lease payments made at or before the commencement date (less any lease incentives received), initial direct costs and restoration-related costs.

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

Depreciation to allocate the difference between cost and residual values over the estimated useful life is calculated on the following bases:

- diminishing balance method for aviation assets
- unit of production method for certain infrastructure assets
- straight-line basis for all other assets.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Annual depreciation rates are summarised below:

| Property, plant and equipment | Depreciation rates |
|---|---|
| Buildings | 2 to 3.3% |
| Furniture, fittings and leasehold improvements[1] | 10 to 20% |
| Equipment | 33 to 50% |
| Infrastructure assets[2] | 2 to 12% |
| Aviation[3] | 2 to 8% |
| Meters | 5 to 15% |
| Rail cars | 3 to 5% |
| Telecommunications | 41% |
| Other operating lease assets | 2 to 50% |

| Right-of-use asset | Depreciation rates |
|---|---|
| Property | 3 to 67% |
| Commodity Storage | 32 to 67% |
| Others | 14 to 67% |

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.
(2) Includes infrastructure assets, for which depreciation is calculated on a unit of production basis.
(3) Includes aircraft, for which depreciation is calculated on a diminishing-value basis.

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 relating to corporate building leases is presented as part of 'occupancy expenses' while depreciation relating to leases entered into by trading-related businesses is presented as part of net trading income in the income statement. The Consolidated Entity does not recognise a right-of-use asset for short term or low value leases, instead the expense is recognised over the lease term as appropriate as part of 'operating expenses' in the income statement.

# Note 1
## Summary of significant accounting policies continued

### (xvi) Goodwill and other identifiable intangible assets

#### Goodwill

Goodwill is measured as the excess of consideration, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the business acquired. Goodwill arising from business combinations is included in intangible assets in the statement of financial position.

#### 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
- management rights: carried at cost less accumulated amortisation and accumulated impairment loss. Certain management right intangible assets have indefinite useful lives as the underlying income stream is related to the management of funds that have no defined end date and are expected to operate perpetually. For management rights that have a finite useful life, amortisation is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life usually being a period not exceeding 20 years
- 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.

Amortisation of intangible assets is recognised in other operating expenses and impairments are recognised in other operating income and charges.

#### 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. Amortisation of computer software programmes and impairments, where applicable, is recognised in other operating expenses.

Costs incurred on the maintenance of software is expensed as incurred and recognised in other operating expenses.

### (xvii) Deposits

Deposits include customer deposits, business banking and home loan deposits, and other balances such as client monies which are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

### (xviii) 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, such as performance fees, these are recorded as contract assets. 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 interests in businesses, subsidiaries, associates and joint ventures and other assets and liabilities, and subsidiaries that are acquired exclusively with a view to sell or distribute (disposal group) for which the carrying amount will be recovered principally through a sale or distribution transaction rather than continuing use.

These assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and it is highly probable that it, they will be sold or distributed 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 are 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 is satisfied.

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 the income statement. 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.

## Note 1
### Summary of significant accounting policies continued

#### (xviii) Other assets and liabilities continued

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.

#### Life investment linked assets and liabilities

Life investment policies consist of two components: a financial instrument (deposit component) and an investment management fee. The investment management fee is recognised in the income statement over the period for which the service is provided.

The deposit component of the financial instrument is designated at FVTPL to eliminate the accounting mismatch created by the Life investment linked assets, which are managed on a fair value basis and are measured at FVTPL. Life investment contract liabilities are directly linked to the performance and market value of the assets that back them and the fair value is measured as the minimum current surrender value. Withdrawals and surrenders of life investment contracts are treated as a reduction in the investment contract liability.

#### Employee benefit provisions

A liability for employee benefits is recognised by the entity that has the obligation to the employee. Generally, this is consistent with the legal position of the parties to the employment contract.

Liabilities for unpaid salaries, salary-related costs and provisions for annual leave are recorded in the statement of financial position at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made.

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled or is transferred to another entity and the Company and Consolidated Entity are legally released from the obligation and do not retain a constructive obligation.

#### Dividends

Where a dividend is determined or resolved by the Board of Directors of the Company, consideration is given to the record date when determining the date on which the provision for the dividend is recognised, with a corresponding reduction in retained earnings.

#### (xix) Borrowings

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

#### (xx) Due to/from subsidiaries

Transactions between the Company and its subsidiaries principally arise from the provision of lending arrangements and acceptance of funds on deposit, intercompany services and transactions and the provision of financial guarantees. Refer to Note 1(v) *Revenue and expense recognition* and Note 1(viii) *Financial instruments*. Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 1(viii)), such that the net amount is reported in the statement of financial position.

#### (xxi) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at amortised cost using the EIR method and at fair value for DFVTPL items in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 1(viii).

#### (xxii) Loan Capital

Loan capital represents issued debt with terms and conditions that qualify for inclusion as capital under Australian Prudential Regulatory Authority (APRA) Standards. For compound instruments that have both equity and liability features, the liability component is initially measured at fair value plus directly attributable transaction costs (and is thereafter measured at amortised cost using the EIR method), with the residual being accounted for within the Consolidated Entity's equity.

Capital instruments with conversion features, such as Common Equity Capital Trigger Events or Non-Viability Trigger Events, are assessed as to whether they contain embedded derivatives and, where applicable, are recognised separately as derivative assets and liabilities with changes in the fair value being recognised as part of net trading income in the income statement.

#### (xxiii) Impairment

#### Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost or are classified as FVOCI, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts. 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 or macroeconomic information (FLI). Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD).

# Note 1
## Summary of significant accounting policies continued

### (xxiii) Impairment continued

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 12 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

#### (i) Stage I – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition. ECL is determined based on the PD over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

#### (ii) Stage II – Lifetime ECL 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 applies its judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Consolidated Entity's process to determine whether there has been a SICR is provided in Note 12 *Expected credit losses*.

Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based upon the contractual maturity of the financial asset. For revolving facilities, the Consolidated Entity exercises judgement based on the behavioural, rather than contractual characteristics of the facility type.

#### (iii) Stage III – Lifetime ECL 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, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for FLI.

#### (iv) Purchased or originated credit-impaired financial assets

POCI financial assets are initially recognised at fair value with interest income subsequently determined using a credit-adjusted EIR. The credit-adjusted EIR is the EIR adjusted for expected credit losses on initial recognition.

The ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for FLI or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit adjusted EIR, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in the income statement as either an impairment gain or loss.

#### Presentation of loss allowances

The loss allowances for ECL are presented in the statement of financial position as follows:

- loan assets, loans to related body corporate entities and subsidiaries, associates and joint ventures measured at amortised cost – as a deduction to the gross carrying amount
- loan assets, loans to associates and joint ventures, and debt financial investments measured at fair value through OCI – as a reduction in the OCI reserve account under equity. The carrying amount of the asset is not adjusted as it is recognised 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 – as a provision included in other liabilities.

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from the financial asset, and all possible collateral has been realised, the financial asset is written off, either partially or in full, against the related provision. Recoveries of loans previously written off are recorded based on the cash received.

### Impairment of interests in associates and joint ventures

The Consolidated Entity performs an assessment at each reporting date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The main indicators of impairment are significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost.

In making this judgement, the Consolidated Entity evaluates, among other factors, the normal volatility in share price and the period of time for which fair value has been below cost. If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in the associate or joint venture is tested for impairment by comparing the recoverable amount, being the higher of fair value less costs to sell and value-in-use, with its carrying amount.

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.

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.

## Note 1
### Summary of significant accounting policies continued

#### (xxiii) Impairment continued

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 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 right-of-use assets, an assessment is made at each reporting date for indications of impairment.

Impairment losses are recognised in other impairment charges as part of other operating income and charges for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date. A reversal is recognised only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments (refer to Note 3 *Segment reporting*) and assessed for impairment.

#### (xxiv) Performance based remuneration

#### Share-based payments

The Consolidated Entity 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 30 *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 a corresponding increase in equity with reference to the vesting period of those awards. 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. On vesting, the amount recognised in the share-based payments reserves is transferred to contributed equity. For the Company, the accounting is dependent on whether the Company is compensated for its obligations under the MEREP award. To the extent that employing subsidiaries compensate the Company for the MEREP offered to their employees, a recharge liability due to subsidiaries is recognised by the Company at grant date representing the payment received in advance of the award being settled. This liability reduces over the vesting period with a corresponding increase in the share-based payments reserve. MEREP liabilities are recognised and disclosed in Note 28 *Related party information*. To the extent that employing subsidiaries do not compensate the Company for the MEREP offered to their employees', the Company reflects the provision of the equity settled award as a contribution to its subsidiary and as a result increases its investment in the subsidiary with a corresponding increase in the share-based payments reserve. On vesting, amounts recognised in the share-based payments reserve are transferred to contributed equity.

*Cash settled awards:* The award liability is measured with reference to the number of awards and the fair value of those awards at each reporting date. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. Changes in the value of the liability are recognised in employment expenses.

#### Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash with reference to the performance period to which the profit share relates.

# Note 1
## Summary of significant accounting policies continued

### (xxv) Leases

At the inception of a contract, the Consolidated Entity assesses whether a contract is, or contains, a lease. At inception, or on reassessment of a contract that contains a lease component, the Consolidated Entity allocates the consideration in the contract to each lease component unless an election is made to account for the lease and non-lease components as a single lease component.

#### (i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods and may include extension options. Leases are recognised as an ROU asset (as explained in Note 1(xv) *Property, plant and equipment and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

##### Lease liability

Lease liabilities are initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Lease payments are allocated between principal and interest expense. Interest expense is, unless capitalised on a qualifying asset which is not measured at fair value, recognised as part of 'interest and similar expense' in the income statement 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 in the income statement 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, in the income statement, where the carrying value of the ROU asset has been fully written down.

##### 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 '*held for sale and other liabilities*' (refer to Note 21) in the statement of financial position.

*Prior to the adoption of AASB 16, where the Consolidated Entity was the lessee in an operating lease arrangement, the total fixed payments were charged to the income statement on a straight-line basis over the period of the lease. The difference between the cumulative expense recognised and cash paid was recorded on the balance sheet as either a payable or receivable as appropriate.*

#### (ii) Accounting where the Consolidated Entity is a lessor

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are classified as operating leases.

##### Finance lease

Where finance leases are granted to third parties, the present value of the minimum lease payments plus an estimate of the value of any unguaranteed residual value is recognised as a receivable and included in loan assets.

The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Interest income is recognised over the term of the lease using the EIR method, which reflects a constant rate of return. Finance lease income is presented within interest and similar income in the income statement.

##### Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over its useful life in accordance with the rates specified in Note 1(xv) *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.

### (xxvi) 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 proceeds.

### (xxvii) Fiduciary assets

The Consolidated Entity engages in trust, fund or other fiduciary activities that result in the holding or placing of assets on behalf of third parties. Where such assets are controlled, and future economic benefits are expected to be realised by the Consolidated Entity, such assets and the income thereon are reflected in the statement of financial position and income statement respectively. Where this is not the case, these assets and the income thereon are excluded from the Consolidated Entity's financial statements as they are not the assets of the Consolidated Entity. Fee income earned, by the Consolidated Entity relating to its responsibilities from fiduciary activities is included in the Consolidated Entity's income statement.

## Note 1
### Summary of significant accounting policies
continued

#### (xxviii) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank 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 thus restricted from use.

#### (xxix) Investment property

Investment properties are initially recognised at cost and subsequently stated at fair value at each reporting date. Any change in fair value is recognised in other income as part of other operating income and charges.

#### (xxx) Comparatives

Where necessary, comparative information has been reclassified to conform to changes in presentation in the current year.

#### (xxxi) Rounding of amounts

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

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |

## Note 2
## Operating profit before income tax

| | | | | |
|---|---|---|---|---|
| **Net interest income/(expense)** | | | | |
| Interest and similar income | | | | |
| Effective interest rate method[1] | **4,411** | 4,611 | **828** | 766 |
| Other | **745** | 744 | **–** | – |
| Interest and similar expense[2] | **(3,297)** | (3,595) | **(893)** | (836) |
| Net interest income/(expense) | **1,859** | 1,760 | **(65)** | (70) |
| **Fee and commission income** | | | | |
| Base and other asset management fees[3] | **2,356** | 2,119 | **–** | – |
| Performance fees | **821** | 859 | **–** | – |
| Mergers and acquisitions, advisory and underwriting fees | **1,060** | 1,006 | **–** | – |
| Brokerage and other trading-related income | **870** | 932 | **–** | – |
| Other fee and commission income | **730** | 610 | **14** | 10 |
| Total fee and commission income | **5,837** | 5,526 | **14** | 10 |
| **Net trading income[4]** | | | | |
| Commodities[5],[6] | **1,793** | 1,982 | **–** | – |
| Equities | **647** | 543 | **–** | – |
| Credit, interest rate, foreign exchange and other products | **421** | 266 | **296** | 144 |
| Net trading income | **2,861** | 2,791 | **296** | 144 |
| **Net operating lease income** | | | | |
| Rental income[7] | **1,748** | 2,290 | **–** | – |
| Depreciation and other operating lease-related charges | **(1,003)** | (1,340) | **–** | – |
| Net operating lease income | **745** | 950 | **–** | – |
| **Share of net profits/(losses) of associates and joint ventures** | **95** | (56) | **–** | – |

(1) Includes interest income calculated using the effective interest method of $4,228 million (2019: $4,379 million) in the Consolidated Entity and $828 million (2019: $766 million) in the Company on the financial assets that are measured at amortised cost and $183 million (2019: $232 million) in the Consolidated Entity on financial assets measured at FVOCI.
(2) Includes interest expense calculated using the effective interest method of $3,196 million (2019: $3,395 million) in the Consolidated Entity and $893 million (2019: $836 million) in the Company on financial liabilities measured at amortised cost.
(3) Includes $2,053 million (2019: $1,815 million) of base fee income.
(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships; fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk and foreign currency gains and losses on foreign-denominated monetary assets and liabilities. Refer to Note 1(xi) *Derivative instruments and hedging activities*.
(5) Includes $701 million (2019: $419 million) of transportation, storage and certain other trading-related costs.
(6) Year ended 31 March 2020 includes $41 million depreciation on ROU assets for trading-related businesses. Refer to Note 1 for the impact on initial adoption of AASB 16.
(7) Includes $45 million (2019: $131 million) of net supplemental rent, the net income recognised after reflecting the maintenance reimbursement obligation to the lessee, primarily related to Macquarie AirFinance Limited (MAF) that was classified as held for sale as at 31 March 2019 and was subsequently disposed of during the current year.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| **Note 2** | | | | |
| **Operating profit before income tax continued** | | | | |
| **Credit and other impairment (charges)/reversal** | | | | |
| **Credit impairment (charges)/reversal** | | | | |
| Loan assets | **(618)** | (173) | **–** | – |
| Loans to associates and joint ventures | **(13)** | (89) | **–** | – |
| Other assets | **(81)** | (39) | **1** | (10) |
| Margin money and settlement assets | **(71)** | – | **–** | – |
| Financial investments | **(12)** | (35) | **–** | – |
| Undrawn credit commitments and financial guarantees | **(24)** | 2 | **(3)** | 2 |
| Gross credit impairment charges | **(819)** | (334) | **(2)** | (8) |
| Recovery of loans previously written off | **14** | 14 | **–** | – |
| **Net credit impairment charges** | **(805)** | (320) | **(2)** | (8) |
| **Other impairment (charges)/reversal** | | | | |
| Interests in associates and joint ventures | **(119)** | (207) | **–** | – |
| Intangible assets and other non-financial assets | **(116)** | (25) | **–** | – |
| Investment in subsidiaries (Note 16) | **–** | – | **–** | 3,350 |
| Total other impairment (charges)/reversal | **(235)** | (232) | **–** | 3,350 |
| **Total credit and other impairment charges** | **(1,040)** | (552) | **(2)** | 3,342 |
| **Other operating income and charges** | | | | |
| **Investment income** | | | | |
| Net gain on equity investments | **76** | 161 | **–** | – |
| Net (loss)/gain on debt investments | **(38)** | 17 | **–** | – |
| Net gain on interests in associates and joint ventures | **1,235** | 1,097 | **–** | – |
| Net gain on the disposal of businesses and subsidiaries held for sale | **291** | 624 | **–** | – |
| Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale | **113** | 203 | **–** | – |
| Dividends from subsidiaries (Note 28) | **–** | – | **848** | 1,758 |
| Total investment income | **1,677** | 2,102 | **848** | 1,758 |
| Other income and charges[(1),(2)] | **291** | 233 | **11** | 3 |
| **Total other operating income and charges** | **1,968** | 2,335 | **859** | 1,761 |
| **Net operating income** | **12,325** | 12,754 | **1,102** | 5,187 |

(1) Includes $17 million (2019: $31 million) of loss on derecognition of loans at amortised cost and $15 million fair value gains (2019: $34 million loss) on loans measured at FVTPL.

(2) Includes $626 million (2019: $136 million) of income and $808 million (2019: $158 million) of expenses relating to subsidiaries that do not form part of the Consolidated Entity's integrated business operations.

## Note 2
### Operating profit before income tax continued

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| **Employment expenses** | | | | |
| Salary and related costs including commissions, superannuation and performance-related profit share | **(4,395)** | (4,357) | **(5)** | (5) |
| Share-based payments[1] | **(586)** | (522) | **–** | – |
| Provision for long service and annual leave | **(20)** | (12) | **–** | – |
| Total compensation expenses | **(5,001)** | (4,891) | **(5)** | (5) |
| Other employment expenses including on-costs, staff procurement and staff training | **(322)** | (326) | **–** | – |
| Total employment expenses | **(5,323)** | (5,217) | **(5)** | (5) |
| **Brokerage, commission and trading-related expenses** | | | | |
| Brokerage and other trading-related expenses | **(722)** | (841) | **–** | – |
| Other fee and commission expenses | **(242)** | (299) | **–** | – |
| Total brokerage, commission and trading-related expenses | **(964)** | (1,140) | **–** | – |
| **Occupancy expenses** | | | | |
| Operating lease expenses[2] | **(200)** | (256) | **–** | – |
| Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements | **(72)** | (77) | **–** | – |
| Other occupancy expenses | **(128)** | (108) | **–** | – |
| Total occupancy expenses | **(400)** | (441) | **–** | – |
| **Non-salary technology expenses** | | | | |
| Information services | **(218)** | (207) | **–** | – |
| Depreciation on own use asset: equipment (Note 13) | **(26)** | (23) | **–** | – |
| Service provider and other non-salary technology expenses | **(505)** | (454) | **–** | – |
| Total non-salary technology expenses | **(749)** | (684) | **–** | – |
| **Other operating expenses** | | | | |
| Professional fees | **(505)** | (478) | **–** | – |
| Travel and entertainment expenses | **(183)** | (186) | **–** | – |
| Indirect and other taxes | **(138)** | (117) | **–** | (17) |
| Advertising and promotional expenses | **(110)** | (92) | **–** | – |
| Amortisation of intangible assets | **(70)** | (47) | **–** | – |
| Auditor's remuneration (Note 39) | **(40)** | (38) | **–** | – |
| Communication expenses | **(29)** | (27) | **–** | – |
| Depreciation on own use assets: infrastructure assets | **(27)** | (31) | **–** | – |
| Other expenses | **(333)** | (389) | **(5)** | (1) |
| Total other operating expenses | **(1,435)** | (1,405) | **(5)** | (18) |
| **Total operating expenses** | **(8,871)** | (8,887) | **(10)** | (23) |
| **Operating profit before income tax** | **3,454** | 3,867 | **1,092** | 5,164 |

(1) Includes share-based payments related gains of $3 million (2019: $29 million expense) for cash settled awards.
(2) Includes $167 million of depreciation of ROU assets relating to property leases following the adoption of AASB 16. Prior year includes operating lease rentals under AASB 117.

## Note 3
### Segment reporting

#### (i) Operating segments

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

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

In the first half, all businesses of the Corporate and Asset Finance (CAF) Operating group were aligned to other Operating Groups, where they have the greatest opportunities in terms of shared clients and complementary offerings as follows:

- CAF Principal Finance joined Macquarie Capital, to bring together all principal investing activity and enhance our ability to invest directly and alongside clients and partners
- CAF Transportation Finance joined MAM, reflecting its evolution towards a fiduciary business following the sale of Macquarie AirFinance to a joint venture
- CAF Asset Finance moved to CGM, reflecting a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients
- in addition, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance in the Bank Group to MAM in the Non-Bank Group.

Comparatives have been reclassified to reflect this reorganisation between the Operating Groups. The financial information disclosed relates to the Consolidated Entity's ordinary activities.

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

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income and multi-asset solutions
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a diverse range of tailored specialised asset finance solutions globally across a variety of industries and asset classes
- **Macquarie Capital** has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, and providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors. It also has global capability in the development and construction of infrastructure and energy projects, and in relation to renewable energy projects, the supply of green energy solutions to corporate clients.

The Corporate segment, which is not considered an Operating Group, comprises head office and central service groups, including Group Treasury. As applicable, the Corporate segment holds certain legacy investments, assets and businesses that are no longer core for strategic reasons and are not allocated to any of the Operating Groups.

Items of income and expense within the Corporate segment include the net result of managing Macquarie's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable. Other items of income and expenses include earnings from investments, central credit and asset related impairments, including certain additional central overlays on expected credit losses, unallocated head office costs and costs of central service groups, the Consolidated Entity's performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to certain non-controlling interests and holders of Macquarie Income Securities (MIS). The MIS were repaid on 15 April 2020, followed by a redemption on 16 April 2020.

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

#### Internal funding arrangements

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

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

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

# Note 3
## Segment reporting continued

### (i) Operating segments continued

#### Transactions between Operating Segments

Operating Segments that enter into arrangements with other Operating Segments must do so on commercial terms or as agreed by the Consolidated Entity's Chief Executive Officer or Chief Financial Officer. There is a requirement for accounting symmetry in such transactions.

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

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

For businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are required to be measured at fair value. The changes in fair value (volatility) are recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for changes in fair value that are attributable to the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of the non-trading businesses, with changes in fair value recognised within the Corporate segment and managed via the application of hedge accounting.

#### Central service groups

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

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

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

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

#### Income tax

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

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

## Note 3
### Segment reporting continued

#### (i) Operating segments continued

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

| | Macquarie Asset Management $m | Banking and Financial Services $m |
|---|---|---|
| Net interest and trading (expense)/income | **(402)** | **1,728** |
| Fee and commission income/(expense) | **3,207** | **445** |
| Net operating lease income | **380** | **–** |
| Share of net profits/(losses) of associates and joint ventures | **224** | **2** |
| Credit and other impairment charges | **(231)** | **(148)** |
| Other operating income and charges | **465** | **8** |
| Internal management revenue/(charge) | **89** | **2** |
| Net operating income | **3,732** | **2,037** |
| Total operating expenses | **(1,554)** | **(1,267)** |
| Operating profit/(loss) before income tax | **2,178** | **770** |
| Income tax expense | **–** | **–** |
| (Profit)/loss attributable to non-controlling interests | **(1)** | **–** |
| **Net profit/(loss) attributable to ordinary equity holders** | **2,177** | **770** |
| **Reportable segment assets** | **8,434** | **76,776** |
| | | |
| Net interest and trading (expense)/income | (469) | 1,678 |
| Fee and commission income/(expense) | 2,830 | 476 |
| Net operating lease income | 662 | – |
| Share of net profits/(losses) of associates and joint ventures | 114 | 8 |
| Credit and other impairment charges | (105) | (82) |
| Other operating income and charges | 188 | 21 |
| Internal management revenue/(charge) | 107 | 2 |
| Net operating income | 3,327 | 2,103 |
| Total operating expenses | (1,453) | (1,347) |
| Operating profit/(loss) before income tax | 1,874 | 756 |
| Income tax expense | – | – |
| (Profit)/loss attributable to non-controlling interests | (2) | – |
| **Net profit/(loss) attributable to ordinary equity holders** | 1,872 | 756 |
| **Reportable segment assets** | 16,315 | 63,893 |

| Commodities and Global Markets $m | Macquarie Capital $m | Corporate $m | Total $m |
|---|---|---|---|
| | | | **CONSOLIDATED 2020** |
| **2,939** | **(41)** | **496** | **4,720** |
| **1,271** | **951** | **(37)** | **5,837** |
| **360** | **–** | **5** | **745** |
| **23** | **(197)** | **43** | **95** |
| **(258)** | **(267)** | **(136)** | **(1,040)** |
| **98** | **1,396** | **1** | **1,968** |
| **12** | **64** | **(167)** | **–** |
| **4,445** | **1,906** | **205** | **12,325** |
| **(2,699)** | **(1,168)** | **(2,183)** | **(8,871)** |
| **1,746** | **738** | **(1,978)** | **3,454** |
| **–** | **–** | **(728)** | **(728)** |
| **–** | **17** | **(11)** | **5** |
| **1,746** | **755** | **(2,717)** | **2,731** |
| **133,604** | **16,786** | **20,202** | **255,802** |
| | | | CONSOLIDATED 2019 |
| 2,940 | 87 | 315 | 4,551 |
| 1,222 | 1,023 | (25) | 5,526 |
| 285 | – | 3 | 950 |
| 20 | (191) | (7) | (56) |
| (165) | (175) | (25) | (552) |
| 136 | 2,049 | (59) | 2,335 |
| (4) | 41 | (146) | – |
| 4,434 | 2,834 | 56 | 12,754 |
| (2,689) | (1,073) | (2,325) | (8,887) |
| 1,745 | 1,761 | (2,269) | 3,867 |
| – | – | (879) | (879) |
| (2) | 13 | (15) | (6) |
| 1,743 | 1,774 | (3,163) | 2,982 |
| 98,030 | 8,950 | 10,569 | 197,757 |

## Note 3
### Segment reporting continued

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

The table below represents a disaggregation of fee and commission income by Operating Segment:

| | Macquarie Asset Management $m | Banking and Financial Services $m | Commodities and Global Market $m | Macquarie Capital $m | Corporate $m | Total $m |
|---|---|---|---|---|---|---|
| | | | | | | CONSOLIDATED 2020 |
| **Fee and commission income/(expense)** | | | | | | |
| Base and other asset management fees | **2,132** | **219** | **5** | **–** | **–** | **2,356** |
| Performance fees | **821** | **–** | **–** | **–** | **–** | **821** |
| Mergers and acquisitions, advisory and underwriting fees | **53** | **–** | **78** | **940** | **(11)** | **1,060** |
| Brokerage and other trading-related income | **10** | **50** | **809** | **1** | **–** | **870** |
| Other fee and commission income | **191** | **176** | **379** | **10** | **(26)** | **730** |
| **Total fee and commission income/(expense)** | **3,207** | **445** | **1,271** | **951** | **(37)** | **5,837** |
| | | | | | | CONSOLIDATED 2019 |
| **Fee and commission income/(expense)** | | | | | | |
| Base and other asset management fees | 1,877 | 233 | 9 | – | – | 2,119 |
| Performance fees | 765 | – | – | 94 | – | 859 |
| Mergers and acquisitions, advisory and underwriting fees | 35 | – | 71 | 904 | (4) | 1,006 |
| Brokerage and other trading-related income | 8 | 67 | 857 | – | – | 932 |
| Other fee and commission income | 145 | 176 | 285 | 25 | (21) | 610 |
| **Total fee and commission income/(expense)** | 2,830 | 476 | 1,222 | 1,023 | (25) | 5,526 |

# Note 3
## Segment reporting continued

### (iii) Products and services

Segment reporting based on products and services is based on the following activities of the Consolidated Entity:
- **Financial markets**: trading in fixed income, equities, foreign exchange and commodities and broking services
- **Lending**: corporate and structured finance, banking activities, home loans, asset financing and leasing
- **Capital markets**: advisory and capital raising services, underwriting, facilitation and principal lending and investments
- **Asset and wealth management**: distribution and manufacture of funds and wealth management products.

| | CONSOLIDATED | |
|---|---|---|
| | 2020 $m | 2019 $m |
| **Revenue from external customers** | | |
| Financial markets | **6,039** | 5,950 |
| Lending | **5,472** | 5,792 |
| Capital markets | **4,116** | 3,713 |
| Asset and wealth management | **3,585** | 3,219 |
| **Total revenue from external customers[1]** | **19,212** | 18,674 |

Following the alignment of certain businesses between Operating Groups, the product and services classification has been aligned based the information relating to core product and services offered by each Operating Group.

### (iv) Geographical areas

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

| | CONSOLIDATED 2020 | | CONSOLIDATED 2019 | |
|---|---|---|---|---|
| | Revenue from external customers $m | Non-current assets[2] $m | Revenue from external customers $m | Non-current assets[2] $m |
| Australia | **7,049** | **2,663** | 6,520 | 2,730 |
| Americas[3] | **5,457** | **4,359** | 5,284 | 3,618 |
| Europe, Middle East and Africa[4] | **5,408** | **9,268** | 5,657 | 4,291 |
| Asia Pacific | **1,298** | **581** | 1,213 | 357 |
| **Total** | **19,212** | **16,871** | 18,674 | 10,996 |

### (v) Major customers

The Consolidated Entity does not rely on any major customers.

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, income associated with investing activities and other income.
(2) Non-current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and right-of-use assets and investment properties.
(3) Includes external revenue generated in the United States of America of $5,053 million (2019: $4,998 million).
(4) Includes external revenue generated in the United Kingdom of $4,266 million (2019: $4,083 million).

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| **Note 4 Income tax expense** | | | | |
| **(i) Income tax (expense)/benefit** | | | | |
| Current tax expense | **(1,027)** | (1,236) | **(95)** | (42) |
| Deferred tax benefit/(expense) | **299** | 357 | **(9)** | 3 |
| **Total income tax expense** | **(728)** | (879) | **(104)** | (39) |
| **(ii) Reconciliation of income tax expense to *prima facie* tax payable** | | | | |
| *Prima facie* income tax expense on operating profit[1] | **(1,036)** | (1,160) | **(327)** | (1,549) |
| Tax effect of amounts which are non-assessable/(non deductible) in calculating taxable income: | | | | |
| Rate differential on offshore income | **375** | 289 | **15** | 9 |
| Impairment reversal on subsidiaries | **–** | – | **–** | 1,006 |
| Intra-group dividend | **–** | – | **254** | 527 |
| Other items | **(67)** | (8) | **(46)** | (32) |
| **Total income tax expense** | **(728)** | (879) | **(104)** | (39) |
| **(iii) Tax (expense)/benefit relating to items of OCI** | | | | |
| FVOCI reserve | **22** | 9 | **–** | – |
| Own credit risk | **(26)** | (3) | **–** | – |
| Cash flow hedges | **(22)** | 11 | **–** | – |
| Foreign currency translation and net investment hedge reserve | **–** | 1 | **–** | – |
| Share of other comprehensive expense of associates and joint ventures | **6** | 13 | **–** | – |
| **Total tax (expense)/benefit relating to items of OCI** | **(20)** | 31 | **–** | – |
| **(iv) Deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)** | | | | |
| Property, plant and equipment | **(1)** | 16 | **–** | – |
| Intangible assets | **(36)** | 17 | **–** | – |
| Financial investments and interests in associates and joint ventures | **87** | (41) | **–** | – |
| Tax losses | **(22)** | 35 | **–** | – |
| Operating and finance lease assets | **98** | 55 | **–** | – |
| Loan assets and derivatives | **28** | (9) | **–** | – |
| Other assets and liabilities | **145** | 284 | **(9)** | 3 |
| **Total deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)** | **299** | 357 | **(9)** | 3 |

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

(1) *Prima facie* income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (2019: 30%).

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |

## Note 5
## Dividends paid or provided for

### (i) Dividends paid

| | | | | |
|---|---|---|---|---|
| Ordinary share capital and exchangeable shares | | | | |
| Final dividend paid (2019: $3.60 (2018: $3.20) per share) | **1,224** | 1,089 | **1,215** | 1,080 |
| Interim dividend paid (2020: $2.50 (2019: $2.15) per share) | **884** | 730 | **878** | 725 |
| **Total dividends paid (Note 26)[1]** | **2,108** | 1,819 | **2,093** | 1,805 |

The 2020 interim and 2019 final dividends paid during the period were franked at 40% and 45% respectively, based on tax paid at 30% (2018 final dividend franked at 45% based on tax paid at 30%; 2019 interim dividend franked at 45% based on tax paid at 30%). The dividends paid to the holders of the exchangeable shares were not franked (refer to Note 25 *Contributed equity* for information on exchangeable shares).

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in Note 25 *Contributed equity.*

### (ii) Dividends not recognised at the end of the financial year

Since the end of the financial year, the Directors have resolved to pay a final dividend of $1.80 per fully paid ordinary share, 40% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 3 July from retained profits, but not recognised as a liability at the end of the period is $638 million[2]. This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 31 March 2020.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cash dividend per ordinary share (distribution of current year profits) ($ per share) | **4.30** | 5.75 | **4.30** | 5.75 |
| Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2019: 30%) ($m) | **264** | 198 | **264** | 198 |

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of income tax payable as at the end of the financial year
- franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

(1) Includes $15 million (2019: $14 million) of dividend equivalent amount paid to Deferred Share Unit (DSU) holders as described in Note 30 *Employee equity participation.*
(2) This liability will be reduced to the extent that the Company issues shares to meet DRP elections.

## Note 6
### Earnings per share

Basic earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders (adjusted by profit attributable to all the dilutive potential ordinary shares) by the weighted average number of ordinary shares and potential ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

| | CONSOLIDATED | |
|---|---|---|
| | 2020 | 2019 |
| | CENTS PER SHARE | |
| **Basic earnings per share** | **791.0** | 883.3 |
| **Diluted earnings per share** | **764.5** | 868.1 |
| **Reconciliation of earnings used in the calculation of basic and diluted earnings per share** | $m | $m |
| Profit after income tax | **2,726** | 2,988 |
| (Profit)/loss attributable to non-controlling interests: | | |
| Macquarie Income Securities | **(12)** | (15) |
| Other non-controlling interests | **17** | 9 |
| **Total profit attributable to ordinary equity holders of MGL** | **2,731** | 2,982 |
| Less: profit attributable to participating unvested MEREP awards[1] | **(95)** | (120) |
| **Total earnings used in the calculation of basic earnings per share** | **2,636** | 2,862 |
| Add back: | | |
| Profit attributable to dilutive participating unvested MEREP awards | **58** | 82 |
| Interest expense on loan capital, net of tax (where applicable) | | |
| Macquarie Group Capital Notes (MCN) | **–** | 6 |
| Macquarie Bank Capital Notes (BCN) | **18** | 21 |
| Macquarie Group Capital Notes 2 (MCN2) | **32** | 34 |
| Macquarie Group Capital Notes 3 (MCN3) | **46** | 43 |
| Macquarie Group Capital Notes 4 (MCN4) | **43** | 1 |
| **Total earnings used in the calculation of diluted earnings per share** | **2,833** | 3,049 |
| | NUMBER OF SHARES | |
| **Total weighted average number of equity shares (net of treasury shares) adjusted for participating unvested MEREP awards used in the calculation of basic earnings per share[2]** | **333,234,377** | 324,004,686 |
| Weighted average number of equity shares used in the calculation of diluted earnings per share: | | |
| Weighted average number of equity shares used in the calculation of basic earnings per share | **333,234,377** | 324,004,686 |
| Potential dilutive equity shares[3]: | | |
| Weighted average unvested MEREP awards | **10,146,584** | 12,077,131 |
| Weighted average MCN | **–** | 989,050 |
| Weighted average BCN | **3,598,513** | 3,397,148 |
| Weighted average MCN2 | **5,138,983** | 4,200,780 |
| Weighted average MCN3 | **9,678,078** | 6,459,001 |
| Weighted average MCN4 | **8,763,412** | 98,130 |
| **Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share** | **370,559,947** | 351,225,926 |

(1) For details of MEREP awards, refer to Note 30 *Employee equity participation.*
(2) Includes weighted average number of equity shares for additional equity shares issued during the current year under the Institutional Private Placement and Share Purchase Plan.
(3) For details of loan capital included in potential dilutive equity shares, refer to Note 24 *Loan capital.*

## Note 6
### Earnings per share continued

The table below describes treatment of capital instruments with conditional payment obligations issued by the Consolidated Entity and the Company for earnings per share calculation purposes.

| Issuer | Macquarie Group Limited | Macquarie Bank Limited | Macquarie Bank Limited |
|---|---|---|---|
| Instrument type | Macquarie Group Capital Notes | Macquarie Bank Capital Notes | Macquarie Additional Capital Securities |
| Issuances | MCN, MCN2, MCN3, MCN4 | BCN | MACS |
| Basic earnings per share treatment | MCN, MCN2, MCN3 and MCN4 have not been included in the determination of basic earnings per share. | BCN has not been included in the determination of basic earnings per share. | MACS has not been included in the determination of basic earnings per share. |
| Diluted earnings per share treatment | MCNs have been included in diluted earnings per share in the previous year to the extent of the conversion features measured as if 7 June 2018, being the redemption date, was the conversion date.<br><br>MCN2, MCN3 and MCN4 have been included in diluted earnings per share to the extent of the conversion features measured as if 31 March 2020 was the conversion date. | BCNs have been included in diluted earnings per share to the extent of conversion features measured as if 24 March 2020, being the redemption date, was the conversion date. | MACS have not been included in diluted earnings per share as these are perpetual securities without a mandatory conversion at a fixed date. |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2020 $m** | 2019 $m | **2020 $m** | 2019 $m |
| **Note 7 Trading assets** | | | | |
| Equities | | | | |
| Listed | **4,437** | 8,287 | **–** | – |
| Unlisted | **2** | 1 | **–** | – |
| Debt securities | | | | |
| Commonwealth and foreign government securities | **6,763** | 4,762 | **–** | – |
| Corporate loans and securities | **605** | 1,409 | **–** | – |
| Treasury notes | **318** | 81 | **–** | – |
| Other debt securities | **2** | 36 | **–** | – |
| Commodity contracts | **943** | 679 | **–** | – |
| Commodities | **3,785** | 2,191 | **–** | – |
| **Total trading assets** | **16,855** | 17,446 | **–** | – |

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

## Note 8
### Margin money and settlement assets

| | | | | |
|---|---|---|---|---|
| Margin money | **7,238** | 3,480 | **–** | – |
| Security settlements | **6,698** | 7,330 | **–** | – |
| Commodity settlements | **2,457** | 2,884 | **–** | – |
| **Total margin money and settlement assets[1]** | **16,393** | 13,694 | **–** | – |

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

## Note 9
### Financial investments

| | | | | |
|---|---|---|---|---|
| Equities | | | | |
| Listed | **255** | 260 | **–** | – |
| Unlisted | **1,046** | 1,051 | **–** | – |
| Debt securities | | | | |
| Bonds and NCDs | **7,232** | 5,100 | **–** | – |
| Money market securities | **162** | 317 | **–** | – |
| Corporate loans and securities | **135** | 166 | **–** | – |
| Other debt securities | **100** | 267 | **–** | – |
| **Total financial investments** | **8,930** | 7,161 | **–** | – |

Of the above amounts, $3,446 million (2019: $2,740 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

(1) During the year, the Consolidated entity undertook a review of client monies and concluded that certain client-related margin money and settlement balances did not meet the definition of an asset under the conceptual framework and therefore should not be presented in the statements of financial position as at 31 March 2020. Previous year balances were represented to conform to the current year presentation. Refer to Note 1(i) *Changes to the Consolidated Entity's statements of financial position and statements of cash flows* for further detail.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |

## Note 10
### Held for sale and other assets

| | | | | |
|---|---|---|---|---|
| **Held for sale assets** | | | | |
| Assets of disposal groups and interests in associates and joint ventures held for sale[1],[2] | **1,634** | 9,023 | **–** | – |
| **Other assets** | | | | |
| Debtors and prepayments[3] | **3,405** | 3,719 | **2** | 16 |
| Commodity-related receivables | **1,525** | 2,816 | **–** | – |
| Income tax receivable | **807** | 397 | **16** | 25 |
| Life investment linked contracts and other unitholder assets | **307** | 381 | **–** | – |
| Property and other inventory | **545** | 299 | **–** | – |
| Other | **279** | 124 | **–** | – |
| **Total other assets** | **6,868** | 7,736 | **18** | 41 |

Of the above amounts, $7,564 million (2019: $16,119 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $18 million (2019: $38 million) by the Company.

| | CONSOLIDATED 2020 | | | CONSOLIDATED 2019 | | |
|---|---|---|---|---|---|---|
| | Gross $m | ECL allowance[4] $m | Net $m | Gross $m | ECL allowance[4] $m | Net $m |

## Note 11
### Loan assets

| | | | | | | |
|---|---|---|---|---|---|---|
| Home loans[5] | **56,653** | **(62)** | **56,591** | 43,056 | (60) | 42,996 |
| Asset financing[5] | **16,866** | **(302)** | **16,564** | 18,667 | (244) | 18,423 |
| Corporate, commercial and other lending | **18,960** | **(557)** | **18,403** | 14,667 | (233) | 14,434 |
| Investment lending | **2,562** | **(3)** | **2,559** | 1,961 | (3) | 1,958 |
| **Total loan assets** | **95,041** | **(924)** | **94,117** | 78,351 | (540) | 77,811 |

Of the above amount $27,811 million (2019: $22,669 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity. Following the economic consequences of COVID-19 at the reporting date the timing of contractual recovery is subject to evolving regulatory and industry support for counterparties requesting such support.

(1) Previous year includes assets of $7,995 million relating to the Consolidated Entity's interest in MAF that was classified as held for sale during 31 March 2019, and subsequently disposed of to a joint venture during current year. Refer to Note 40 *Acquisitions and disposals of subsidiaries and businesses* for further information.
(2) Subsequent to 31 March 2020, material conditions precedent were met for the sale of $1,187 million of assets and $114 million of liabilities (Refer to Note 21 *Held for sale and other liabilities*) relating to disposal groups and interest in associates and joint ventures that were classified as held for sale at 31 March 2020. Several of these sales were closed during April 2020. A total pre-tax gain of approximately $326 million is expected to be recognised by the Consolidated Entity in the half-year ending 30 September 2020 in relation to the disposal of these assets and liabilities.
(3) Includes $891 million (2019: $681 million) of fee and commission receivables and $270 million (2019: $1,201 million) of fee-related contract assets.
(4) The ECL allowance carried against loan assets measured at FVOCI is not represented in the table as the allowance is included in reserves. Refer to Note 12 *Expected credit losses*.
(5) Includes $16,402 million (2019: $10,753 million) held by consolidated Structured Entities (SEs), which are available as security to note holders and debt providers.

## Note 11
### Loan assets continued

#### Repossessed collateral

In the event of a customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. During the financial year the Consolidated Entity has not repossessed any assets held as security. During the previous year the Consolidated Entity repossessed assets with a carrying value of $32 million for corporate commercial and other lending where the customer defaulted on facilities.

#### Finance lease receivables

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

| | **CONSOLIDATED 2020** | | | CONSOLIDATED 2019 | | |
|---|---|---|---|---|---|---|
| | **Gross investment in finance lease receivables $m** | **Unearned income $m** | **Present value of minimum lease payments receivable $m** | Gross investment in finance lease receivables $m | Unearned income $m | Present value of minimum lease payments receivable $m |
| Within one year | **2,169** | **(209)** | **1,960** | 2,170 | (214) | 1,956 |
| Between one and two years | **1,599** | **(144)** | **1,455** | 1,565 | (162) | 1,403 |
| Between two and three years | **1,112** | **(100)** | **1,012** | 1,274 | (127) | 1,147 |
| Between three and four years | **641** | **(59)** | **582** | 770 | (80) | 690 |
| Between four and five years | **282** | **(26)** | **256** | 408 | (41) | 367 |
| Later than five years | **68** | **(3)** | **65** | 62 | (2) | 60 |
| **Total** | **5,871** | **(541)** | **5,330** | 6,249 | (626) | 5,623 |

## Note 12
### Expected credit losses

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

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

#### Model inputs

The Consolidated Entity models the ECL for on-balance sheet financial assets measured at amortised cost or FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees and letters of credit. 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. These groupings are subject to review to ensure that the portfolios remain homogeneous.

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. The EAD is estimated taking into consideration a range of possible scenarios including both repayments and future drawdowns of unutilised commitments up to the potential date of 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. In calculating the PD, credit performance information for each portfolio is gathered and statistically analysed to determine a point in time PD. 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 forward-looking information (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. These factors include collateral, seniority, industry, recovery costs and the structure of the facility. LGD estimates are also adjusted for FLI.

## Note 12
### Expected credit losses continued

#### Method of determining significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Quantitative factors are described below for the Consolidated Entity's material retail and wholesale portfolios. Qualitative factors include, but are not limited to, whether an exposure has been identified and placed on CreditWatch. Where there is a deteriorating credit risk profile, the exposures are monitored through the CreditWatch reports. The business remains responsible for management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. All exposures on CreditWatch are classified as stage II or, if defaulted, as stage III.

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

In response to COVID-19 the Consolidated Entity undertook a review of its wholesale and retail credit portfolios and the ECL for each. The review considered the macroeconomic outlook, client and customer credit quality, the type of collateral held, exposure at default and the effect of payment deferral options as at the reporting date. While these model inputs including forward-looking information were revised, the ECL models, SICR thresholds, and definitions of default remain consistent with prior periods.

#### Retail exposures

Exposures are assigned a behavioural score which considers the exposure's lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposure's behaviour. The score includes factors such as limit utilisation, payment history (including delinquency) and product specific features (for example cash advances for credit cards or changes in novation status for selected car leases).

SICR movement thresholds between origination and reporting date for behavioural score movements have been established that, where exceeded, result in the exposure being categorised as stage II. Where the behavioural score subsequently improves such that the change since origination is back within the SICR threshold, the exposure is assessed for categorisation back to stage I. The pre-defined SICR thresholds are periodically reviewed and calibrated based on historical default experience.

The Consolidated Entity completed a review of the retail exposures in March 2020. Judgement resulted in a number of counterparties being downgraded due to the increasing risk of default arising from the macroeconomic environment as at 31 March 2020. The deferral of contractual payments for short periods of time has not been treated as an automatic indicator of SICR by and of themselves.

#### 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. The internal ratings for each exposure are reviewed at least once a year, or more frequently if necessary, to ensure any deterioration is identified and reflected in an adjustment to their rating.

Furthermore, other indicators of deterioration in credit quality are regularly monitored, such as payment history, credit limit utilisation, requests to modify the debt for forbearance, changes in the exposure's business, external data from credit reference agencies, media reports, external credit ratings, external quoted bonds and credit default swap prices.

Where an exposure's assigned credit rating deteriorates beyond pre-defined thresholds, the exposure is categorised as stage II. If the exposure's rating subsequently improves so that it does not exceed the threshold, the exposure is assessed for reclassification to stage I. 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. The rating methodology is periodically reviewed and calibrated based on historical default experience.

The Consolidated Entity completed a review of the wholesale exposures in March 2020. Judgement resulted in a number of counterparties being downgraded due to the increasing risk of default arising from the macroeconomic environment as at 31 March 2020.

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.

## Note 12
### Expected credit losses continued

#### Definition of default

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

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

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

#### Forward-looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The Consolidated Entity has identified a number of key indicators that are used in modelling the ECL, the most significant of which are gross domestic product (GDP), the unemployment rate, the level of house prices, interest rates, equity indices and commodity prices. The predicted relationships between these key indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the development of internal models, and the calibration and validation process.

These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial year.

The Consolidated Entity has used judgement to apply overlays in adjusting modelled ECL results during the period. These overlays reflect the Consolidated Entity's assessment of how ECL outcomes may vary to the modelled outcomes using the key indicators noted above. The total quantum of overlays at the balance date was not material to the Consolidated Entity's ECL.

RMG is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, three possible economic scenarios have been developed, being an upside, downside and base case scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposure's PDs and LGDs. The scenarios and the assigned probabilities are updated semi-annually or more frequently if a material disruption event were to occur. In prior periods the Consolidated Entity used four scenarios, broadly representing base, upside, downside and severe downside scenarios. In the current macroeconomic environment, the Consolidated Entity considered three rather than four scenarios to be more reflective of the potential macro-economic outcomes as at the reporting date.

The scenarios, including its underlying indicators, 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. Previously the Consolidated Entity has anchored the upside and downside scenarios initially to a certain degree of deviation in GDP growth from the baseline. At the reporting date the Consolidated Entity adopted an alternate approach recognising that COVID-19 is the key driver of the macroeconomic outlook at the reporting date.

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

The scenarios are refined through consultation with internal specialists and have historically been benchmarked to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks, when available.

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

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

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

## Note 12
### Expected credit losses continued

The Consolidated Entity reviews and, where appropriate, updates its FLI, which includes the scenarios and related probabilities, on a semi-annual basis. Changes in the scenarios and the probabilities assigned have occurred during the reporting period.

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

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

The modelled ECL for each scenario is sensitive to the length of time between a downturn and a recovery, and the period of time recovery action takes to complete, as it influences both the probability of default, and the value of collateral that may be utilised.

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

| Scenario | Weighting | Expectation |
|---|---|---|
| **Baseline**<br>A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$1,400 million[1] | Probable | **Global:** The baseline assumes widespread restrictions on movement are required to contain the spread of COVID-19. Chinese GDP is expected to contract ~2% year on year in the quarter ended March 2020 with growth returning in the following quarter, albeit below the pre-COVID-19 trend as the spread of the virus slows growth in the western hemisphere.<br>In the rest of the world, the impact to GDP is expected to lag China by one quarter, with global GDP contracting by ~6.5% year on year in the June quarter as a result of the travel and social gathering restrictions, recovering to pre-COVID-19 levels by mid-2021. Falls in consumption and investment levels are expected to lead to historically high unemployment rates with credit markets continuing to see material movements in credit spreads. The impact expected in mid-2020 will be broadly spread across the major advanced economies with differences driven by the respective stimulus packages and government approaches to the containment of COVID-19.<br>Globally, the virus peak is assumed to occur in late April/early May, with social activities gradually resuming from July, which in conjunction with co-ordinated fiscal and monetary stimulus leads to output beginning to stabilise and quarterly growth resuming in the September quarter. Equity markets are expected to grow strongly in the second half of the year driven by this stimulus support.<br>**Australia:** With business activity impacted unemployment rates rise to ~9% in mid-2020 with a recovery occurring to broadly pre-COVID-19 levels over the following 3 years. Australian GDP contracts by ~9% year on year in mid-2020, recovering to pre-COVID-19 levels in late 2021. House prices decline ~15% during 2020, before recovering to pre-COVID-19 levels in early 2021. The Reserve Bank of Australia (RBA) maintains the cash rate at its current lows until 2023.<br>**United States:** The unemployment rate rises to ~14% in mid-2020 and is expected to decline, but remain above pre-COVID-19 levels, reaching ~9% in early 2023. US GDP contracts by ~10% year on year by mid-2020, returning to pre-COVID-19 levels by mid-2022. 10-year government bond yields are expected to recover slightly post September but remain at historical lows.<br>**Europe:** EU GDP is expected to contract by ~13% year on year by mid-2020, with GDP remaining slightly below pre-COVID-19 levels by early 2023. The unemployment rate rises to ~12% by mid-2020 and returns to pre-COVID-19 levels of ~7% by 2023. The ECB maintains its policy rate in slightly negative territory. |

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

## Note 12
### Expected credit losses continued

| Scenario | Weighting | Expectation |
|---|---|---|
| **Downside**<br><br>A 100% weighting to this scenario would result in a of total expected credit loss provision on balance sheet at the reporting date of ~$1,900 million [1] | Possible | **Global:** The downside assumes the spread of COVID-19 takes longer to contain leading to movement restrictions being maintained and delaying the expected recovery for an additional two quarters above the baseline scenario.<br><br>The impact on the global economy and markets of this scenario is more pronounced and there is a more permanent reduction in GDP growth potential. Government stimulus is increased but the recovery continues to be weaker than assumed in the baseline scenario. China's economic rebound is constrained and does not return to pre-COVID-19 levels.<br><br>Globally, the virus peak occurs in late 2020, with social activities gradually starting to resume in the December quarter of 2020. Global GDP remains suppressed through 2020, returning to ~4.5% year on year growth in mid-2021. Government debt and central banks' balance sheets increase further. Equity and commodity prices remain lower for longer, while consumption and investment are impacted for a longer duration. Credit spreads remain high during the period, and the economic impact is broadly spread across the globe.<br><br>**Australia:** With business activity impacted more severely, unemployment rates rise to ~11% in early-2021 before declining to ~7% (or ~2% above pre-COVID-19 levels) over the following three years. Australian GDP contracts by ~9% year on year by the end of 2020 and continues to be slightly below pre-COVID-19 levels in 2023. House prices decline ~30% by early 2021, before recovering to pre-COVID-19 levels by early 2023. The Reserve Bank of Australia (RBA) maintains the cash rate at its current throughout the forecast period.<br><br>**United States:** The unemployment rate rises to ~17% by mid-2020 before gradually declining to ~4% above the pre-COVID-19 levels by 2023. US GDP contracts by ~10% year on year by mid-2020 before returning to pre-COVID-19 levels by 2023. 10-year government bond yields remain below 1% for the forecast period.<br><br>**Europe:** EU GDP growth contracts by ~13% year on year by mid-2020, with GDP likely to still be ~5% below pre-COVID-19 levels at the end of 2022. The unemployment rate rises to ~16% by the end of 2020 and remains slightly above pre-COVID-19 levels at ~8% in 2023. The ECB maintains interest rates in negative territory for the forecast period. |
| **Upside**<br><br>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 ~$1,200 million[1] | Unlikely | **Global:** The scenario assumes that either a treatment is found for COVID-19 or the spread of COVID-19 diminishes significantly by May 2020, allowing employees to return to work quickly resulting in the contraction in the first half of 2020 being proceeded by a return to normality. Global interest rates start slowly normalising in 2021. House prices in Australia increase ~24% from current levels by end-2024. China's growth rebounds strongly but remains below 6%. |

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

## Note 12
### Expected credit losses continued

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

| | GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1] | | | | ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortised cost $m | FVOCI $m | Other[2] $m | Total exposure $m | Amortised cost $m | FVOCI $m | Other $m | Total ECL allowance $m |
| | | | | | | | | AS AT 31 MARCH 2020 |
| Cash and bank balances[3] | 9,717 | – | – | 9,717 | – | – | – | – |
| Cash collateral on securities borrowed and reverse repurchase agreements[3] | 6,689 | 23,064 | – | 29,753 | – | – | – | – |
| Margin money and settlement assets | 15,909 | – | – | 15,909 | 71 | – | – | 71 |
| Financial investments | – | 7,345 | – | 7,345 | – | 15 | – | 15 |
| Held for sale and other assets | 3,879 | – | 270 | 4,149 | 143 | – | – | 143 |
| Loan assets | 92,342 | 1,592 | – | 93,934 | 924 | 182 | – | 1,106 |
| Loans to associates and joint ventures | 799 | 117 | – | 916 | 88 | 62 | – | 150 |
| Undrawn credit commitments and financial guarantees[4] | – | – | 6,792 | 6,792 | – | – | 56 | 56 |
| **Total** | 129,335 | 32,118 | 7,062 | 168,515 | 1,226 | 259 | 56 | 1,541 |
| | | | | | | | | AS AT 31 MARCH 2019 |
| Cash and bank balances[3] | 8,643 | – | – | 8,643 | – | – | – | – |
| Cash collateral on securities borrowed and reverse repurchase agreements[3] | 10,724 | – | – | 10,724 | – | – | – | – |
| Margin money and settlement assets | 13,135 | – | – | 13,135 | – | – | – | – |
| Financial investments | – | 5,310 | – | 5,310 | – | 91 | – | 91 |
| Held for sale and other assets | 3,290 | 68 | 1,201 | 4,559 | 102 | – | – | 102 |
| Loan assets | 77,398 | 623 | – | 78,021 | 540 | 78 | – | 618 |
| Loans to associates and joint ventures | 392 | 217 | – | 609 | 69 | 50 | – | 119 |
| Undrawn credit commitments and financial guarantees[4] | – | – | 6,834 | 6,834 | – | – | 29 | 29 |
| **Total** | 113,582 | 6,218 | 8,035 | 127,835 | 711 | 219 | 29 | 959 |

(1) Gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) Other represents contract assets and undrawn credit commitments and financial guarantees.
(3) Consists of short-term, fully collateralised or high quality liquid assets with minimal expected and historical losses. In the current year, and on a prospective basis, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio have been assessed to be measured at FVOCI and are hence subject to ECL.
(4) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

## Note 12
### Expected credit losses continued

There are no material ECL in the Company except for ECL on related party receivables of $29,466 million (March 2019: $22,308 million) presented as 'Due from Subsidiaries' on balance sheet and certain off balance sheet exposures of $5,877 million (March 2019: $4,505 million), carrying a total ECL allowance of $37 million (March 2019: $35 million). Movement during the period is primarily due to the increase in underlying exposures during the year.

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

| | Margin money and settlement assets $m | Financial investments $m | Held for sale and other assets $m | Loan assets $m | Loans to associates and joint ventures $m | Undrawn credit commitments and financial guarantees $m | Total $m |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 Apr 2018** | – | 52 | 128 | 572 | 31 | 33 | 816 |
| Impairment charge/(reversal) (Note 2) | – | 35 | 39 | 173 | 89 | (2) | 334 |
| Amounts written off, previously provided for | – | – | (63) | (129) | – | – | (192) |
| Foreign exchange, reclassifications and other movements | – | 4 | (2) | 2 | (1) | (2) | 1 |
| **Balance as at 31 Mar 2019** | – | 91 | 102 | 618 | 119 | 29 | 959 |
| Impairment charge (Note 2) | **71** | **12** | **81** | **618** | **13** | **24** | **819** |
| Amounts written off, previously provided for | **–** | **–** | **(19)** | **(156)** | **–** | **–** | **(175)** |
| Foreign exchange, reclassifications and other movements | **–** | **(88)** | **(21)** | **26** | **18** | **3** | **(62)** |
| **Balance as at 31 Mar 2020** | **71** | **15** | **143** | **1,106** | **150** | **56** | **1,541** |

'Foreign exchange reclassifications and other movements' within the current period include the derecognition of financial investments on restructuring and the recovery of previously provided for debtors within other assets.

The $582 million increase in ECL provisions during the year was predominately driven by an impairment charge of $819 million, reflecting counterparties that have been impacted by COVID-19 and subsequent material market moves, and portfolio impairments for counterparties who have experienced a deterioration in relative credit quality in combination with a general increased loss expectation throughout the portfolio as a result of a deterioration in the global macroeconomic environment. This impairment charge was partially offset by loans, and their associated impairment provisions, being partially written off or restructured.

### ECL on loan assets

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

| | LIFETIME ECL | | | |
|---|---|---|---|---|
| | Stage I 12 month ECL $m | Stage II Not credit impaired $m | Stage III Credit impaired $m | Total ECL Allowance $m |
| **Balance as at 1 Apr 2018** | 147 | 239 | 186 | 572 |
| Transfers during the year | 55 | (60) | 5 | – |
| Impairment (reversal)/charge (Note 2) | (44) | 17 | 200 | 173 |
| Amounts written off, previously provided for | – | – | (129) | (129) |
| Foreign exchange, reclassifications and other movements | – | 3 | (1) | 2 |
| **Balance as at 31 Mar 2019** | 158 | 199 | 261 | 618 |
| Transfers during the year | **27** | **(13)** | **(14)** | **–** |
| Impairment charge (Note 2) | **97** | **170** | **351** | **618** |
| Amounts written off, previously provided for | **–** | **–** | **(156)** | **(156)** |
| Foreign exchange, reclassifications and other movements | **3** | **2** | **21** | **26** |
| **Balance as at 31 Mar 2020** | **285** | **358** | **463** | **1,106** |

## Note 13
### Property, plant and equipment and right-of-use assets

| | CONSOLIDATED 2020 | | | CONSOLIDATED 2019 | | |
|---|---|---|---|---|---|---|
| | Cost $m | Accumulated depreciation and impairment $m | Carrying value $m | Cost $m | Accumulated depreciation and impairment $m | Carrying value $m |
| **Assets for own use** | | | | | | |
| Land and buildings | **381** | **(26)** | **355** | 326 | (21) | 305 |
| Furniture, fittings and leasehold improvements | **1,049** | **(676)** | **373** | 719 | (564) | 155 |
| Equipment | **175** | **(123)** | **52** | 149 | (110) | 39 |
| Infrastructure assets | **273** | **(129)** | **144** | 224 | (59) | 165 |
| **Total assets for own use** | **1,878** | **(954)** | **924** | 1,418 | (754) | 664 |
| **Assets under operating lease** | | | | | | |
| Aviation | **1,193** | **(79)** | **1,114** | 1,114 | (87) | 1,027 |
| Meters | **2,454** | **(910)** | **1,544** | 1,912 | (664) | 1,248 |
| Telecommunications | **1,139** | **(715)** | **424** | 1,588 | (622) | 966 |
| Rail cars | **–** | **–** | **–** | 805 | (193) | 612 |
| Others | **315** | **(98)** | **217** | 305 | (121) | 184 |
| **Total assets under operating lease** | **5,101** | **(1,802)** | **3,299** | 5,724 | (1,687) | 4,037 |
| **Right-of-use assets[1]** | | | | | | |
| Property | **875** | **(173)** | **702** | – | – | – |
| Commodity storage | **129** | **(45)** | **84** | – | – | – |
| Others | **51** | **(16)** | **35** | – | – | – |
| **Total right-of-use assets[1]** | **1,055** | **(234)** | **821** | – | – | – |
| **Total property, plant and equipment and right-of-use assets** | **8,034** | **(2,990)** | **5,044** | 7,142 | (2,441) | 4,701 |

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

Included within property, plant and equipment and right-of-use assets is a portfolio of aviation assets under operating lease which substantially comprise of rotorcraft assets. Indicators of impairment existed for some of the portfolio and impairment testing was completed. The carrying value for these assets was compared to the recoverable amount being fair value less cost to sell or value-in-use determined with reference to current market values and future value forecasts from independent appraisal firms and management's view of lease placements and downtime. While COVID-19 and the recent oil price volatility did not have a significant impact on the rotorcraft business at 31 March 2020, continued low oil prices and a protracted recovery may adversely impact rotorcraft operators resulting in a decrease in demand for rotorcraft, reduced market lease rates and/or rotorcraft values, which may result in impairments in future reporting periods.

(1) Represents operating leases following the adoption of AASB 16. As permitted by AASB 16, the Consolidated Entity has not restated the comparative financial reporting periods. Refer to Note 1(i)(a)(i) *Summary of significant accounting policies* for the impact on initial adoption of AASB 16.

## Note 13
### 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:

| | Land and buildings $m | Furniture, fittings and leasehold improvements $m | Equipment $m | Infrastructure assets $m | Total $m |
|---|---|---|---|---|---|
| **Assets for own use** | | | | | |
| Balance as at 1 Apr 2018 | 260 | 186 | 32 | 697 | 1,175 |
| Acquisitions/additions | 69 | 79 | 29 | 470 | 647 |
| Disposals | (18) | (7) | (1) | (689) | (715) |
| Reclassification and other adjustments | (2) | (32) | 1 | (304) | (337) |
| Impairments | – | – | – | (1) | (1) |
| Foreign exchange movements | 1 | 4 | 1 | 26 | 32 |
| Depreciation expense[1] | (5) | (75) | (23) | (34) | (137) |
| **Balance as at 31 Mar 2019** | 305 | 155 | 39 | 165 | 664 |
| Acquisitions/additions | **80** | **277** | **40** | **129** | **526** |
| Disposals | **(29)** | **(10)** | **(1)** | **(102)** | **(142)** |
| Reclassification and other adjustments | **1** | **(3)** | **(4)** | **(7)** | **(13)** |
| Impairments | **–** | **–** | **–** | **(39)** | **(39)** |
| Foreign exchange movements | **3** | **22** | **5** | **29** | **59** |
| Depreciation expense[1] | **(5)** | **(68)** | **(27)** | **(31)** | **(131)** |
| **Balance as at 31 Mar 2020** | **355** | **373** | **52** | **144** | **924** |

| | Aviation $m | Meters $m | Telecommunications $m | Rail cars $m | Other $m | Total $m |
|---|---|---|---|---|---|---|
| **Assets under operating lease** | | | | | | |
| Balance as at 1 Apr 2018 | 7,501 | 1,088 | 708 | 686 | 268 | 10,251 |
| Acquisitions/additions | 710 | 415 | 1,105 | – | 62 | 2,292 |
| Disposals | (151) | (31) | (272) | (41) | (100) | (595) |
| Reclassification and other adjustments[2] | (7,139) | (46) | – | – | – | (7,185) |
| Impairments | (8) | – | (4) | – | – | (12) |
| Foreign exchange movements | 613 | 6 | – | (4) | 11 | 626 |
| Depreciation expense | (499) | (184) | (571) | (29) | (57) | (1,340) |
| **Balance as at 31 Mar 2019** | 1,027 | 1,248 | 966 | 612 | 184 | 4,037 |
| Acquisitions/additions | **27** | **420** | **347** | **–** | **105** | **899** |
| Disposals | **(47)** | **–** | **(330)** | **–** | **(26)** | **(403)** |
| Reclassification and other adjustments[3] | **(9)** | **(51)** | **–** | **(589)** | **(19)** | **(668)** |
| Impairments | **(3)** | **–** | **(11)** | **(40)** | **–** | **(54)** |
| Foreign exchange movements | **153** | **142** | **1** | **44** | **22** | **362** |
| Depreciation expense | **(34)** | **(215)** | **(549)** | **(27)** | **(49)** | **(874)** |
| **Balance as at 31 Mar 2020** | **1,114** | **1,544** | **424** | **–** | **217** | **3,299** |

(1) Includes depreciation expense of $4 million (2019: $3 million) on infrastructure assets, $1 million (2019: $Nil) on equipment and $1 million (2019: $3 million) on buildings, furniture, fittings and leasehold improvements relating to certain subsidiaries presented under other income and charges in Note 2 *Operating profit before income tax*.
(2) Reclassification of $7,139 million relates to MAF assets that have been reclassified as held for sale during March 2019, which were subsequently disposed of.
(3) Reclassification of $589 million relates to Rail assets that have been reclassified to held for sale during March 2020.

## Note 13
### Property, plant and equipment and right-of-use assets continued

| | Property $m | Commodity storage $m | Others $m | Total $m |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| Balance as at 31 Mar 2019[1] | – | – | – | – |
| Change on initial application of AASB 16 | 616 | 92 | 29 | 737 |
| **Restated balance as at 1 Apr 2019** | 616 | 92 | 29 | 737 |
| Acquisitions/additions | **226** | **26** | **51** | **303** |
| Disposals | **(15)** | **–** | **(7)** | **(22)** |
| Depreciation | **(165)** | **(41)** | **(17)** | **(223)** |
| Foreign exchange movements and other adjustments | **40** | **7** | **(21)** | **26** |
| **Balance as at 31 Mar 2020** | **702** | **84** | **35** | **821** |

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

| | CONSOLIDATED | |
|---|---|---|
| | 2020 $m | 2019 $m |
| **Assets under operating lease** | | |
| Within one year | **422** | 818 |
| Between one and two years | **149** | 350 |
| Between two and three years | **95** | 107 |
| Between three and four years | **36** | 66 |
| Between four and five years | **12** | 30 |
| Later than five years | **11** | 19 |
| **Total future minimum lease payments receivable** | **725** | 1,390 |

## Note 14
### Interests in associates and joint ventures

| | CONSOLIDATED | |
|---|---|---|
| | 2020 $m | 2019 $m |
| Equity investments with no provisions for impairment | **6,415** | 2,748 |
| Equity investments with provisions for impairment | | |
| Gross carrying value | **1,600** | 1,423 |
| Less: provisions for impairment | **(648)** | (483) |
| Equity investments with provisions for impairment | **952** | 940 |
| Total equity investments in associates and joint ventures[2] | **7,367** | 3,688 |
| Loans to associates and joint ventures | **1,040** | 600 |
| Less: credit impairment charges[3] | **(88)** | (69) |
| Total loans to associates and joint ventures | **952** | 531 |
| **Total interests in associates and joint ventures[4],[5]** | **8,319** | 4,219 |

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

(1) As permitted by AASB 16, the Consolidated Entity has not restated comparable financial reporting periods Refer to Note 1(i)(a)(i) *Summary of significant accounting policies* for the impact on initial adoption of AASB 16.
(2) Includes investments in Macquarie-managed funds (excluding the Consolidated Entity's interest in MIC) of $1,185 million (2019: $1,148 million).
(3) Excludes credit losses of $62 million (2019: $50 million) which has been recognised on loans to associates classified as FVOCI. The loans are measured at fair value and hence these expected credit losses have also been recognised in OCI.
(4) Includes $6,880 million (2019: $2,948 million) relating to interests in associates and $1,439 million (2019: $1,271 million) relating to interests in joint ventures.
(5) Financial statements of associates and joint ventures have various reporting dates which have been adjusted to align with the Consolidated Entity's reporting date.

## Note 14
### Interests in associates and joint ventures continued

#### Disclosure of principal associates

The Consolidated Entity's principal associates at the balance date are:

| Associates | Carrying value 2020 ($m) | Carrying value 2019 ($m) | Ownership interest | Nature of activities | Financial reporting date |
|---|---|---|---|---|---|
| East Anglia ONE Limited | 2,834 | – | 40.0% | Offshore wind farm | 31 December |
| Macquarie Infrastructure Corporation (MIC) | 763 | 777 | 15.5% | Infrastructure business | 31 December |
| Macquarie AirFinance Limited | 789 | – | 50.0% | Aircraft leasing | 31 March |

#### East Anglia ONE Limited

On 30 August 2019, the Consolidated Entity acquired a 40.0% interest in East Anglia ONE Limited, a UK offshore wind farm. The investment has been partially funded with asset-specific borrowings of $2,345 million.

The carrying value of the investment in associate represents the Consolidated Entity's share in the fair value of the net assets of the associate at the date of acquisition, adjusted for the additional investment contributions and the Consolidated Entity's share of the associate's profit or loss since the date of acquisition. The net assets of the associate, including purchase price allocation adjustments and subsequent equity accounting, is $7,036 million as at 31 March 2020, primarily in the nature of property, plant and equipment. The total contribution to the Consolidated Entity's income statement and reserves during the year was not material. East Anglia ONE Limited is in the later stages of construction and certain phases of the offshore wind farm have been partly commissioned. The carrying value has been assessed as being recoverable at 31 March 2020.

#### Macquarie Infrastructure Corporation

The Consolidated Entity holds a 15.5% interest in Macquarie Infrastructure Corporation (MIC) and accounts for it as an interest in associate on the basis of exercising significant influence through its advisory contract, Board representation and secondment of key management. MIC owns, operates and invests in a portfolio of infrastructure businesses and is listed on the New York Stock Exchange. The carrying value of the investment in associate represents the recoverable value of the Consolidated Entity's share as determined on the basis of its value-in-use (VIU). The VIU is calculated in accordance with accounting standards and does not represent the Consolidated Entity's view of the investment's underlying value. VIU was determined using the income approach where the significant inputs included the current five-year cash flow forecast, terminal value and the applicable discount rate. The forecast cash flows included the estimated impact of COVID-19. The recoverable value was based on VIU, which is higher than the fair value less costs to sell of the investment based on the listed share price by $215 million, as the share price was impacted by general market sentiment and uncertainty over the impact of COVID-19 disruptions on the portfolio assets. Based on the VIU, the Consolidated Entity recognised an impairment charge of $94 million on its interest in MIC.

#### Macquarie AirFinance Limited

In the six-month period to 30 September 2019, the Consolidated Entity disposed of Macquarie AirFinance Limited (MAF) business to a newly formed joint venture of which the Consolidated Entity held a 75% interest (Refer to Note 40). In the six-month period to 31 March 2020, the Consolidated Entity disposed of a 25% interest in the joint venture and the remaining 50% retained interest is accounted as an equity-accounted associate due to retaining significant influence.

The associate has net assets of $1,583 million as at 31 March 2020 comprising of total assets of $9,072 million, primarily relating to aviation assets under operating leases, and total liabilities of $7,489 million (excluding shareholder debt). The total contribution of the associate to the Consolidated Entity's share of reserves was $36 million.

MAF has evaluated its business for indicators of impairment. This evaluation included assessing aircraft sale prices, leasing rates, aircraft usage globally and the impact of COVID-19, which included rent deferrals and extended downtime assumptions. An immaterial impairment charge was recognised by MAF of which the Consolidated Entity's 50% share was equity accounted. No impairment was recognised in relation to the Consolidated Entity's investment in Macquarie AirFinance Limited. The global reduction in airline movements due to the COVID-19 pandemic has created challenges in predicting the medium to long term impact on aircraft lessors, including the Consolidated Entity's 50% investment in Macquarie AirFinance Limited. Whilst MAF continues to support its customers who have requested rent deferrals, a protracted recovery resulting in further airline distress and potentially repossession could result in additional impairments in the MAF business in future reporting periods.

## Note 15
### Intangible assets

| | CONSOLIDATED 2020 | | | CONSOLIDATED 2019 | | |
|---|---|---|---|---|---|---|
| | Cost $m | Accumulated amortisation and impairment $m | Carrying value $m | Cost $m | Accumulated amortisation and impairment $m | Carrying value $m |
| Goodwill | **1,975** | **(258)** | **1,717** | 1,260 | (228) | 1,032 |
| Intangible assets with indefinite lives | **337** | **–** | **337** | 291 | – | 291 |
| Customer and servicing contracts | **619** | **(219)** | **400** | 191 | (166) | 25 |
| Other identifiable intangible assets | **1,188** | **(374)** | **814** | 1,044 | (361) | 683 |
| **Total intangible assets** | **4,119** | **(851)** | **3,268** | 2,786 | (755) | 2,031 |

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

Goodwill and intangible assets with indefinite lives comprises of $1,239 million (2019: $1,116 million) related to the Consolidated Entity's integrated business and $815 million (2019: $207 million) related to the Consolidated Entity's other consolidated investments.

No material impairment charge was recognised in relation to the integrated businesses' goodwill and intangible assets with indefinite lives. For certain assets, a value-in-use model was used that incorporated significant inputs for cash flow projections for up to five years, long-term terminal growth rates ranging from 2% to 3% and pre-tax discount rates ranging from 15% to 17%. The values assigned to significant inputs represent the Consolidated Entity's assessment of future trends in the relevant cash generating unit and have been based on historical data from both external and internal sources. For indefinite life intangible assets, a fair value model was used based on external valuations that concluded that no impairment was required to be recognised.

No impairment charge was recognised in relation to the Consolidated Entity's other consolidated investments' goodwill and intangible assets with indefinite lives. The recoverable amount of the goodwill and intangible assets with indefinite lives relating to these investment activities is based on the fair value less costs to sell of the asset or cash generating unit. The fair value less costs to sell has been determined primarily using earnings multiple valuation methodologies. Key assumptions for these valuation methodologies include earnings multiples ranging from 9x to 16x, referencing market transactions of comparable companies, and earnings information specific to the underlying asset or cash generating unit.

The movement in the carrying value of the Consolidated Entity's intangible assets is as follows:

| | Goodwill $m | Intangible assets with indefinite lives $m | Customer and servicing contracts $m | Other identifiable intangible assets $m | Total $m |
|---|---|---|---|---|---|
| Balance as at 1 Apr 2018 | 469 | 269 | 40 | 215 | 993 |
| Acquisitions[1] | 536 | – | – | 572 | 1,108 |
| Disposals, reclassifications and other adjustments | (1) | – | (1) | (19) | (21) |
| Impairment | (1) | – | – | (11) | (12) |
| Amortisation[2] | – | – | (15) | (65) | (80) |
| Foreign exchange movements | 29 | 22 | 1 | (9) | 43 |
| **Balance as at 31 Mar 2019** | 1,032 | 291 | 25 | 683 | 2,031 |
| Acquisitions[1] | **722** | **–** | **366** | **479** | **1,567** |
| Disposals, reclassifications and other adjustments[3] | **(237)** | **–** | **–** | **(326)** | **(563)** |
| Impairment | **(1)** | **–** | **(2)** | **(19)** | **(22)** |
| Amortisation[2] | **–** | **–** | **(25)** | **(75)** | **(100)** |
| Foreign exchange movements | **201** | **46** | **36** | **72** | **355** |
| **Balance as at 31 Mar 2020** | **1,717** | **337** | **400** | **814** | **3,268** |

(1) Includes asset acquisitions. Refer to Note 40 *Acquisitions and disposals of subsidiaries and businesses* for intangible assets acquired as part of business combinations.
(2) Includes amortisation of $Nil (2019: $2 million) presented under Net trading income, $30 million (2019: $31 million) under Other income and balance under other operating expenses in the Income statement.
(3) Includes purchase price adjustments and reclassifications as held for sale.

| | COMPANY | |
|---|---|---|
| | 2020 $m | 2019 $m |

## Note 16
### Investments in subsidiaries

| | | |
|---|---|---|
| Investments at cost with no provisions for impairment[1] | **19,463** | 11,346 |
| Investment at cost with provisions for impairment[1] | **14,249** | 19,515 |
| Less: provisions for impairment[2] | **(1,896)** | (1,896) |
| Investment with provisions for impairment | **12,353** | 17,619 |
| **Total investments in subsidiaries** | **31,816** | 28,965 |

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

(1) During the year ending 31 March 2020, pursuant to an internal restructuring, Macquarie Financial Holdings Pty Limited (MFHPL) transferred the economic risks and rewards over a portion of Macquarie Asset Management (MAM) business to another subsidiary, Macquarie Asset Management Holdings Pty Limited (MAMHPL). Accordingly, MFHPL returned capital of $5,768 million to the Company, and the company subsequently invested $7,646 million in its subsidiary, MAMHPL.

(2) In accordance with the Company's 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 fair value less costs to sell (valuation). The review of the investments for indicators of impairment and the measurement of the recoverable value considered the impact of COVID-19. The valuations, which are classified as Level 3 in the fair value hierarchy (as defined in Note 36 *Fair value of financial assets and financial liabilities*), have been calculated using a valuation technique whose most significant inputs include the subsidiary's maintainable earnings, growth rates and relevant earnings multiples. A range of valuations of the investments in the subsidiaries, including associated stress tests, were used that demonstrated that no impairment loss was required to be recognised by the Company during the year.

## Note 16
### Investments in subsidiaries continued

The material subsidiaries of the Company, based on contribution to the Consolidated Entity's profit after income tax, the size of the investment made by the Company or the nature of activities conducted by the subsidiary, are:

- Macquarie Financial Holdings Pty Limited (Australia)
- Macquarie Bank Limited (Australia)
- Macquarie B.H. Pty Ltd (Australia)
- Macquarie Asset Management Holding Pty Limited (Australia)
- Macquarie Securities (Australia) Limited (Australia)
- Macquarie Energy Llc (United States)
- Macquarie Management Holdings, Inc. (United States)
- Delaware Investments Management Company, Llc (United States)
- Delaware Management Company (United States)
- Macquarie Investment Management Global Limited (Australia)
- Macquarie Capital (Ireland) Designated Activity Company (Ireland)
- Macquarie Corporate Holdings Pty Limited (Australia)
- Macquarie Capital Securities (India) Private Limited
- Macquarie Commodities Trading Sa (Switzerland)
- Macquarie Corporate and Asset Finance 2 Limited (United Kingdom)
- Macquarie Equipment Funding Limited (Ireland)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Group Treasury Funding Pty Limited (Australia)
- Macquarie Insurance Facility Luxembourg S.À R.L. (Luxembourg)
- Macquarie Investment Management Europe Limited (United Kingdom)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Principal Finance Pty Limited (Australia)
- Macquarie Capital (Singapore) Pte. Limited (Singapore)
- Macquarie Infrastructure Management (USA) Inc (United States)
- Macquarie Capital Limited (Hong Kong)
- Macquarie Capital Securities (Singapore) Pte. Limited (Singapore)
- Macquarie Emerging Markets Asian Trading Pte. Limited (Singapore)
- Macquarie Investment Holdings No.2 Pty Limited (Australia)
- Macquarie Inc. (United States)
- Macquarie Group Services Australia Pty Ltd (Australia)
- Macquarie Futures USA Llc (United States)
- Macquarie Securities (NZ) Limited (New Zealand)
- Macquarie Infrastructure Partners U.S. Gp Llc (United States)
- Macquarie Investment Management Australia Limited (Australia)
- Macquarie Equipment Finance Designated Activity Company (Ireland) Macquarie Life Limited (Australia)
- Macquarie Securities Korea Limited (Korea)
- Macquarie Securities (Thailand) Limited (Thailand)
- Macquarie International Finance Limited (Australia)
- Macquarie Energy Canada Ltd. (Canada)
- Macquarie Capital (Australia) Limited (Australia)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Euro Limited (United Kingdom)
- Macquarie Infrastructure and Real Assets Investments Limited (United Kingdom)
- Macquarie US Gas Supply Llc (United States)
- Macquarie Bank Europe Designated Activity Company (Ireland)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Financial Holdings (USA) Llc (United States)
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Physical Metals (USA) Inc. (United States)
- Macquarie Equities Limited (Australia)
- Macquarie Capital (USA) Inc. (United States)
- Macquarie Finance Limited (Australia)
- Macquarie Holdings (U.S.A.) Inc. (United States)
- Macquarie Internationale Investments Limited (United Kingdom)
- Macquarie Investment Management Ltd (Australia)
- Macquarie Infrastructure and Real Assets (Europe) Limited (United Kingdom)
- Macquarie Infrastructure and Real Assets Luxembourg S.À R.L. (Luxembourg)
- Macquarie Leasing Pty. Limited (Australia)
- Macquarie Specialised Asset Management Ltd (Australia)
- Macquarie (UK) Group Services Limited (United Kingdom)
- Macquarie Corporate and Asset Finance 1 Limited (United Kingdom)
- Macquarie Investment Management Advisers (United States)
- Macquarie Capital Securities (Philippines) Inc
- Macquarie Capital Markets Canada Ltd./Marchés Financiers Macquarie Canada Ltée. (Canada).

The country of incorporation has been stated in brackets.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all material subsidiaries is 100%.

All material subsidiaries have a 31 March reporting date.

## Note 16
### Investments in subsidiaries continued

In accordance with ASIC instruments 16-0119, 15-0518, 08-00792, 18-0441, 18-0476 and 09-00871 the Consolidated Entity has been granted relief under section 340 of the Act from synchronising the year-end of the following consolidated entities to 31 March:

- GLL Real Estate Partners GmbH Limited
- GLL Real Estate Partners GmbH SAC
- Macquarie Services (Mexico), S.A. de C.V.
- Macquarie Infrastructure and Real Assets México, S.A. de C.V.
- Macquarie Holdings (Mexico), S.A. de C.V.
- Macquarie Equity Investment Management (Beijing) Co., Ltd.
- Macquarie Investment Consulting (Shanghai) Co Ltd.
- Macquarie Investment Advisory (Beijing) Co Ltd
- Macquarie Leasing (China) Co Limited
- Macquarie Energy Mexico, S. de R.L. de C.V.
- Macquarie Mexico Real Estate Management, S.A. de C.V.

## Note 17
### Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| Other assets and liabilities[1] | **1,112** | 981 | **–** | 14 |
| Tax losses | **254** | 276 | **–** | – |
| Financial investments and interests in associates and joint ventures | **170** | 101 | **–** | – |
| Property, plant and equipment | **85** | 84 | **–** | – |
| Operating and finance leases | **73** | – | **–** | – |
| Loan assets and derivatives | **45** | 2 | **–** | – |
| Intangible assets | **103** | 65 | **–** | – |
| Set-off of deferred tax liabilities | **(502)** | (478) | **–** | (6) |
| **Net deferred tax assets** | **1,340** | 1,031 | **–** | 8 |
| Other assets and liabilities[1] | **(83)** | (310) | **–** | (6) |
| Financial investments and interests in associates and joint ventures | **(9)** | (34) | **–** | – |
| Property, plant and equipment | **(2)** | – | **–** | – |
| Operating and finance lease assets | **(420)** | (460) | **–** | – |
| Loan assets and derivatives | **(54)** | (12) | **–** | – |
| Intangible assets | **(168)** | (87) | **–** | – |
| Set-off of deferred tax assets | **502** | 478 | **–** | 6 |
| **Net deferred tax liabilities** | **(234)** | (425) | **–** | – |

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

Potential tax assets of approximately $436 million (2019: $348 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe that the realisation of the tax assets is probable. Included in this amount are gross losses of $71 million (2019: $37 million) that will expire within two years, $64 million (2019: $71 million) that will expire in 2–5 years, $96 million (2019: $46 million) that will expire in 5–10 years and $331 million (2019: $474 million) that will expire in 10–20 years. $1,555 million (2019: $1,169 million) do not expire and can be carried forward indefinitely.

(1) The movement in other assets and liabilities primarily relate to AASB Interpretation 23, refer to Note 1(i)(a)(ii).

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| **Note 18 Trading liabilities** | | | | |
| Equity securities | | | | |
| Listed | **5,534** | 6,887 | **–** | – |
| Debt securities | | | | |
| Foreign government securities | **–** | 20 | **–** | – |
| Corporate loans and securities | **2** | – | **–** | – |
| Commodities | **8** | – | **–** | – |
| **Total trading liabilities** | **5,544** | 6,907 | **–** | – |
| **Note 19 Margin money and settlement liabilities** | | | | |
| Margin money | **13,894** | 7,307 | **–** | – |
| Security settlements | **6,607** | 7,074 | **–** | – |
| Commodity settlements | **2,314** | 2,516 | **–** | – |
| **Total margin money and settlement liabilities**[1] | **22,815** | 16,897 | **–** | – |
| **Note 20 Deposits** | | | | |
| Interest bearing deposits | | | | |
| Call | **48,244** | 40,434 | **–** | – |
| Term | **12,385** | 11,843 | **48** | 49 |
| Non-interest bearing deposits | **6,713** | 3,914 | **3** | – |
| **Total deposits** | **67,342** | 56,191 | **51** | 49 |
| **Note 21 Held for sale and other liabilities** | | | | |
| **Held for sale liabilities** | | | | |
| Liabilities of disposal groups classified as held for sale[2],[3] | **260** | 6,809 | **–** | – |
| **Other liabilities** | | | | |
| Accrued charges, employment-related liabilities and provision[4] | **3,803** | 3,705 | **47** | 88 |
| Creditors | **1,402** | 1,745 | **53** | 7 |
| Lease liabilities[5] | **1,038** | 92 | **–** | – |
| Income tax payable | **984** | 413 | **357** | 286 |
| Life investment linked contracts and other unitholder liabilities | **307** | 377 | **–** | – |
| Commodity-related payables | **314** | 404 | **–** | – |
| Maintenance liabilities | **9** | 108 | **–** | – |
| Others | **170** | 146 | **3** | 5 |
| **Total other liabilities** | **8,027** | 6,990 | **460** | 386 |

(1) During the year, the Consolidated entity undertook a review of client monies and concluded that certain client-related margin money and settlement balances did not meet the definition of an asset under the conceptual framework and therefore should not be presented in the statements of financial position as at 31 March 2020. Previous year balances were represented to conform to the current year presentation. Refer to Note 1(i) *Changes to the Consolidated Entity's statements of financial position and statements of cash flows* for further detail.

(2) Previous period includes liabilities of $6,643 million relating to the Consolidated Entity's interest in MAF classified as held for sale during March 2019, and subsequently disposed of to a joint venture during the current year. Refer to Note 40 *Acquisitions and disposals of subsidiaries and businesses.*

(3) Subsequent to 31 March 2020, material conditions precedent were met for the sale of $1,187 million of assets (Refer to Note 10 *Held for sale and other assets*) and $114 million of liabilities relating to disposal groups and interests in associates and joint ventures that were classified as held for sale at 31 March 2020. A total pre-tax gain of approximately $326 million is expected to be recognised by the Consolidated Entity in the half-year ending 30 September 2020 in relation to these sales.

(4) 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.

(5) 31 March 2020 lease liabilities include the impact of the adoption of AASB 16 on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated the comparative financial reporting period. Refer to Note 1 for the impact on initial adoption of AASB 16.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |

## Note 22
### Debt issued

| | | | | |
|---|---|---|---|---|
| Bonds, negotiable certificates of deposit and commercial paper[1] | **61,611** | 47,924 | **13,145** | 13,006 |
| Structured notes[2] | **2,945** | 3,465 | **108** | 30 |
| **Total debt issued[3],[4]** | **64,556** | 51,389 | **13,253** | 13,036 |

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

**Reconciliation of debt issued by major currency**
(In Australian dollar equivalent)

| | | | | |
|---|---|---|---|---|
| United States dollar | **33,102** | 31,920 | **9,835** | 10,666 |
| Australian dollar | **21,046** | 10,723 | **969** | 1,012 |
| Euro | **6,627** | 4,877 | **1,665** | 800 |
| Swiss franc | **1,260** | 1,058 | **–** | – |
| British pound | **1,028** | 783 | **–** | – |
| Japanese yen | **840** | 1,079 | **621** | 491 |
| Norwegian krone | **165** | 164 | **–** | – |
| Korean won | **123** | 114 | **–** | – |
| Chinese renminbi | **120** | 168 | **–** | – |
| Hong Kong dollar | **103** | 184 | **42** | 36 |
| South African rand | **7** | 288 | **–** | – |
| Others | **135** | 31 | **121** | 31 |
| **Total debt issued** | **64,556** | 51,389 | **13,253** | 13,036 |

(1) The Consolidated Entity includes $13,665 million (2019: $7,855 million) payable to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security.
(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates, other assets or credit risk of a counterparty.
(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued measured at DFVTPL (Refer to Note 35 *Measurement categories of financial instruments)* for the Consolidated Entity is $3,615 million (2019: $4,478 million) and $129 million (2019: $28 million) for the Company. This amount is based on the final notional amount rather than the fair value.
(4) The Consolidated Entity includes cumulative fair value gain of $119 million (2019: $31 million gain) due to changes in own credit risk on DFVTPL debt securities recognised directly in retained earnings through OCI.

## Note 23
### Capital management strategy

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

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A wholly owned subsidiary of the Company, MBL, is accredited by APRA to apply the Basel III Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management and non-financial operations. Level 3 consists of the Level 2 group, other bank entities excluded from Level 2 plus the non-bank group.

As an APRA authorised and regulated Non-Operating Holding Company (NOHC), the Company is required to maintain minimum regulatory capital calculated as the sum of:
- MBL's minimum Tier 1 capital requirement, based on a percentage of RWA plus Tier 1 deductions using prevailing APRA ADI Prudential Standards
- the Non-Bank Group capital requirement, using the Consolidated Entity's ECAM.

Transactions internal to the Consolidated Entity are eliminated.

The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity has satisfied all internally and externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the financial year.

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## Note 24
## Loan capital

### Subordinated debt

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

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

| Contract feature | Macquarie Group Capital Notes 2 | Macquarie Group Capital Notes 3 |
|---|---|---|
| Code | MCN2 | MCN3 |
| Issuer | Macquarie Group Limited | Macquarie Group Limited |
| Par value | $100 | $100 |
| Currency | AUD | AUD |
| Carrying value at the reporting date | $531 million | $1,000 million |
| Accounting measurement basis | Financial liability at amortised cost | Financial liability at amortised cost |
| Issue date | 18 December 2015 | 7 June 2018 |
| Interest rate | 180-day BBSW plus a fixed margin of 5.15% per annum, adjusted for franking credits | 90-day BBSW plus a fixed margin of 4.00% per annum, adjusted for franking credits |
| Interest payment frequency | Semi-annually in arrears | Quarterly in arrears |
| Interest payment | Discretionary, non-cumulative | Discretionary, non-cumulative |
| Dividend stopper | Yes | Yes |
| Outstanding notes at reporting date | 5.3 million | 10 million |
| Maturity | Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument | Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument |
| Convertible into ordinary shares | Yes | Yes |
| Convertible in issuer shares | MGL | MGL |
| Mandatory conversion date | 18 March 2024 | 15 December 2027 |
| Maximum number of shares on conversion | 32,644,295 | 43,798,178 |
| Optional exchange dates | – 17 March 2021<br>– 17 September 2021<br>– 17 March 2022 | – 16 December 2024<br>– 16 June 2025<br>– 15 December 2025 |
| Other exchange events | – Acquisition date (where a party acquires control of MGL)<br>– Where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support. | – Acquisition date (where a party acquires control of MGL)<br>– Where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). |
| Capital treatment | Eligible hybrid capital | Eligible hybrid capital |

(1) On 24 March 2020, MBL redeemed the BCN. Nil BCN were exchanged during the period before their redemption.
(2) As at 31 March 2020, the USD 750 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security.

| Macquarie Group Capital Notes 4 | Macquarie Bank Capital Notes | Macquarie Additional Capital Securities |
|---|---|---|
| MCN4 | BCN | MACS |
| Macquarie Group Limited | Macquarie Bank Limited | Macquarie Bank Limited |
| $100 | $100 | n/a |
| AUD | AUD | USD |
| $905 million | $Nil | USD750 million/($1,370 million) |
| Financial liability at amortised cost | Financial liability at amortised cost | Financial liability at amortised cost |
| 27 March 2019 | 8 October 2014 | 8 March 2017 |
| 90-day BBSW plus a fixed margin of 4.15% per annum, adjusted for franking credits | 180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits | 6.125% per annum |
| Quarterly in arrears | Semi-annually in arrears | Semi-annually in arrears |
| Discretionary, non-cumulative | Discretionary, non-cumulative | Discretionary, non-cumulative |
| Yes | MBL only | MBL only |
| 9.05 million | Nil[1] | n/a[2] |
| Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument | Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument | Perpetual, redeemable subject to APRA's written approval, and at the discretion of MBL in limited circumstances |
| Yes | Yes | Yes |
| MGL | MGL | MGL |
| 10 September 2029 | 24 March 2023 | n/a |
| 35,439,961 | n/a[1] | 56,947,286 |
| – 10 September 2026<br>– 10 March 2027<br>– 10 September 2027<br>– Earlier in specified circumstances at the discretion of MGL, subject to APRA approval. | – 24 March 2020<br>– 24 September 2020<br>– 24 March 2021<br>– Earlier in specified circumstances at the discretion of MBL subject to APRA approval. | n/a |
| – Acquisition date (where a party acquires control of MGL)<br>– Where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). | – Acquisition date (where a party acquires control of MBL or MGL)<br>– Where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)<br>– Where MBL's common equity Tier 1 Capital ratio falls below 5.125%. | – Acquisition date (where a party acquires control of MBL or MGL)<br>– Where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)<br>– Where MBL's common equity Tier 1 capital ratio falls below 5.125%. |
| Eligible hybrid capital | Additional Tier 1 capital | Additional Tier 1 capital |

## Note 24
### Loan capital continued

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

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2020 $m** | 2019 $m | **2020 $m** | 2019 $m |
| Original contractual maturity of Loan capital: | | | | |
| Accrued Interest payable as per terms of instruments: | | | | |
| Less than 12 months | **97** | 84 | **5** | 3 |
| Subordinated debt instruments with fixed repayment obligations: | | | | |
| 21 September 2020 | **826** | 746 | **–** | – |
| 7 April 2021 | **1,386** | 1,191 | **–** | – |
| 10 June 2025 | **1,333** | 1,056 | **–** | – |
| Instruments with conditional repayment obligations: | | | | |
| MCN2 | **531** | 531 | **531** | 531 |
| MCN3 | **1,000** | 1,000 | **1,000** | 1,000 |
| MCN4 | **905** | 905 | **905** | 905 |
| BCN | **–** | 429 | **–** | – |
| MACS | **1,370** | 1,062 | **–** | – |
| | **7,448** | 7,004 | **2,441** | 2,439 |
| Less: directly attributable issue costs | **(34)** | (41) | **(25)** | (30) |
| **Total loan capital[1]** | **7,414** | 6,963 | **2,416** | 2,409 |

| **Reconciliation of loan capital by major currency:**<br>(In Australian dollar equivalent) | | | | |
|---|---|---|---|---|
| United States dollar | **4,158** | 3,366 | **–** | – |
| Australian dollar | **2,438** | 2,869 | **2,441** | 2,439 |
| Euro | **852** | 769 | **–** | – |
| | **7,448** | 7,004 | **2,441** | 2,439 |
| Less: directly attributable issue costs | **(34)** | (41) | **(25)** | (30) |
| **Total loan capital[1]** | **7,414** | 6,963 | **2,416** | 2,409 |

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

(1) Includes fair value hedge accounting adjustments as disclosed in Note 33 *Hedge accounting*.

## Note 25
## Contributed equity

| | Notes | 2020 Number of shares | 2019 Number of shares | 2020 Total $m | 2019 Total $m |
|---|---|---|---|---|---|
| | | | | CONSOLIDATED | |
| Ordinary share capital | | | | **9,290** | 7,546 |
| Treasury shares | | | | **(1,446)** | (1,372) |
| Exchangeable shares | | | | **7** | 7 |
| **Total contributed equity** | | | | **7,851** | 6,181 |
| **(i) Ordinary share capital[1]** | | | | | |
| Opening balance of fully paid ordinary shares | | **340,382,738** | 340,364,820 | **7,546** | 7,498 |
| Issue of shares on retraction of exchangeable shares | | **5,175** | 17,918 | **–** | 2 |
| Issue of shares pursuant to the Institutional Private Placement, net of transaction costs[2] | | **8,333,333** | – | **991** | – |
| Issue of shares pursuant to the Share Purchase Plan (SPP)[3] | | **5,660,150** | – | **679** | – |
| For employee MEREP awards: | | | | | |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 26 | **–** | – | **557** | 370 |
| Transfer of additional deferred tax benefit on MEREP expense from share based payments reserve on vesting of MEREP awards | 26 | **–** | – | **52** | 23 |
| Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity | | **–** | – | **–** | 2 |
| Transfer from treasury shares for awards withdrawn/exercised on vesting for cash settled MEREP awards settled through equity | | **–** | – | **–** | (2) |
| Transfer from treasury shares for awards withdrawn/exercised | | **–** | – | **(533)** | (344) |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 26 | **–** | – | **(2)** | (3) |
| **Closing balance of fully paid ordinary shares** | | **354,381,396** | 340,382,738 | **9,290** | 7,546 |
| **(ii) Treasury shares[4]** | | | | | |
| Opening balance | | **(16,433,421)** | (17,840,115) | **(1,372)** | (1,264) |
| Purchase of shares for employee MEREP awards | | **(4,960,137)** | (3,990,786) | **(607)** | (454) |
| Transfer to ordinary share capital for awards withdrawn/exercised | | **7,002,499** | 5,386,083 | **533** | 344 |
| Transfer to ordinary share capital for cash settled awards settled through equity | | **–** | 11,397 | **–** | 2 |
| Purchase of shares for allocation under DRP scheme | | **(1,123,770)** | (955,464) | **(142)** | (110) |
| Allocation of shares under DRP scheme | | **1,123,770** | 955,464 | **142** | 110 |
| Purchase of shares for allocation under ESP scheme | | **(10,717)** | (13,040) | **(1)** | (1) |
| Allocation of shares under ESP scheme | | **10,717** | 13,040 | **1** | 1 |
| **Closing balance of treasury shares** | | **(14,391,059)** | (16,433,421) | **(1,446)** | (1,372) |
| **(iii) Exchangeable shares[5]** | | | | | |
| Opening balance | | **105,984** | 124,968 | **7** | 9 |
| Retraction of exchangeable shares | | **(5,483)** | (18,984) | **–** | (2) |
| **Closing balance of exchangeable shares** | | **100,501** | 105,984 | **7** | 7 |

(1) Ordinary shares have no par value.
(2) On 3 September 2019, MGL issued 8,333,333 fully paid ordinary shares at a price of $120 per share.
(3) On 30 September 2019, MGL issued 5,660,150 fully paid ordinary shares at a price of $120 per share under the Share Purchase Plan offered to eligible existing shareholders with a registered address in Australia or New Zealand.
(4) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares. The Consolidated Entity has resolved to issue ordinary MGL shares to satisfy MEREP requirements of approximately $600 million on or around 9 June 2020. The issue price will be the average of the daily VWAP during the period from 25 May 2020 to 5 June 2020 (these dates are subject to change). Further information regarding terms and conditions of MEREP refer to Note 30 *Employee equity participation*.
(5) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity.

| | Notes | 2020 Number of shares | 2019 Number of shares | 2020 Total $m | 2019 Total $m |
|---|---|---|---|---|---|
| **Note 25** | | | | | |
| **Contributed equity** continued | | | | | COMPANY |
| Ordinary share capital | | | | **11,826** | 10,139 |
| Treasury shares | | | | **(1,446)** | (1,372) |
| **Total contributed equity** | | | | **10,380** | 8,767 |
| **(i) Ordinary share capital[1]** | | | | | |
| Opening balance of fully paid ordinary shares | | **340,382,738** | 340,364,820 | **10,139** | 10,113 |
| Issue of shares pursuant to the Institutional Private Placement, net of transaction costs[2] | | **8,333,333** | – | **981** | – |
| Issue of shares pursuant to the Share Purchase Plan (SPP)[3] | | **5,660,150** | – | **679** | – |
| Issue of shares on retraction of exchangeable shares | | **5,175** | 17,918 | **1** | 2 |
| For employee MEREP awards: | | | | | |
| Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards | 26 | **–** | – | **557** | 370 |
| Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve on vesting of MEREP awards | 26 | **–** | – | **4** | 1 |
| Transfer from other liabilities on vesting of cash settled MEREP awards settled through equity | | **–** | – | **–** | 2 |
| Transfer from treasury shares for awards withdrawn/ exercised on vesting for cash settled MEREP awards settled through equity | | **–** | – | **–** | (2) |
| Transfer from treasury shares for awards withdrawn/exercised | | **–** | – | **(533)** | (344) |
| Transfer from share-based payments capital reduction reserve on vested and forfeited awards | 26 | **–** | – | **(2)** | (3) |
| **Closing balance of fully paid ordinary shares** | | **354,381,396** | 340,382,738 | **11,826** | 10,139 |
| **(ii) Treasury shares[4]** | | | | | |
| Opening balance | | **(16,433,421)** | (17,840,115) | **(1,372)** | (1,264) |
| Purchase of shares for employee MEREP awards | | **(4,960,137)** | (3,990,786) | **(607)** | (454) |
| Transfer to ordinary share capital for awards withdrawn/exercised | | **7,002,499** | 5,386,083 | **533** | 344 |
| Transfer to ordinary share capital for cash settled awards settled through equity | | **–** | 11,397 | **–** | 2 |
| **Closing balance of treasury shares** | | **(14,391,059)** | (16,433,421) | **(1,446)** | (1,372) |

(1) Ordinary shares have no par value.
(2) On 3 September 2019, MGL issued 8,333,333 fully paid ordinary shares at a price of $120 per share.
(3) On 30 September 2019, MGL issued 5,660,150 fully paid ordinary shares under the Share Purchase Plan offered to eligible existing shareholders with a registered address in Australia or New Zealand.
(4) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and presented as Treasury shares. The Consolidated Entity has resolved to issue ordinary MGL shares to satisfy MEREP requirements of approximately $600 million on or around 9 June 2020. The issue price will be the average of the daily VWAP during the period from 25 May 2020 to 5 June 2020 (these dates are subject to change). Further information regarding terms and conditions of MEREP refer to Note 30 *Employee equity participation*.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |

# Note 26
## Reserves, retained earnings and non-controlling interests

### (i) Reserves

| | | | | |
|---|---|---|---|---|
| **Foreign currency translation and net investment hedge reserve** | | | | |
| Balance at the beginning of the financial year | **824** | 375 | **–** | – |
| Exchange differences on translation of foreign operations, net of hedge accounting and tax | **1,192** | 449 | **–** | – |
| **Balance at the end of the financial year** | **2,016** | 824 | **–** | – |
| **FVOCI reserve** | | | | |
| Balance at the beginning of the financial year | **9** | 71 | **–** | – |
| Revaluation movement for the year, net of tax | **(108)** | (114) | **–** | – |
| Changes in allowance for ECL, net of tax | **27** | 52 | **–** | – |
| **Balance at the end of the financial year** | **(72)** | 9 | **–** | – |
| **Share-based payments reserve** | | | | |
| Balance at the beginning of the financial year | **1,086** | 964 | **1,035** | 914 |
| MEREP expense for the financial year | **586** | 491 | **–** | – |
| Additional deferred tax benefit on MEREP expense | **4** | 24 | **3** | 1 |
| MEREP issued to employees of subsidiaries (Note 30) | **–** | – | **586** | 491 |
| Transfer to ordinary share capital on vesting of MEREP awards | **(557)** | (370) | **(557)** | (370) |
| Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards | **(52)** | (23) | **(4)** | (1) |
| **Balance at the end of the financial year** | **1,067** | 1,086 | **1,063** | 1,035 |
| **Share-based payments capital reduction reserve[1]** | | | | |
| Balance at the beginning of the financial year | **(9)** | (12) | **(9)** | (12) |
| Transfer to ordinary share capital on vested and forfeited awards | **2** | 3 | **2** | 3 |
| **Balance at the end of the financial year** | **(7)** | (9) | **(7)** | (9) |
| **Cash flow hedge reserve** | | | | |
| Balance at the beginning of the financial year | **(102)** | (44) | **–** | – |
| Revaluation movement for the financial year, net of tax | **(24)** | (83) | **–** | – |
| Transferred to income statement on realisation, net of tax[2] | **42** | 25 | **–** | – |
| Transferred to share of reserves in associates and joint ventures | **(6)** | – | **–** | – |
| **Balance at the end of the financial year** | **(90)** | (102) | **–** | – |
| **Cost of hedging reserve[3]** | | | | |
| Balance at the beginning of the financial year | **(5)** | (5) | **–** | – |
| Revaluation movement for the financial year, net of tax | **(5)** | – | **–** | – |
| **Balance at the end of the financial year** | **(10)** | (5) | **–** | – |
| **Share of reserves in associates and joint ventures** | | | | |
| Balance at the beginning of the financial year | **(30)** | 2 | **–** | – |
| Share of other comprehensive losses of associates and joint ventures during the year, net of tax | **(107)** | (32) | **–** | – |
| Transferred from cash flow hedge reserve[4] | **6** | – | **–** | – |
| **Balance at the end of the financial year** | **(131)** | (30) | **–** | – |
| **Total reserves at the end of the financial year** | **2,773** | 1,773 | **1,056** | 1,026 |

(1) Share based payment capital reduction reserve represents the capital distribution attributable to all the unvested MEREP awards on the disposal of the Sydney Airport. At the time of distribution, the reserve was created which will be transferred to ordinary share capital on vesting of the MEREP awards.
(2) Includes a $12 million loss (2019: $Nil) related to a previously designated hedge relationship for which the hedged future cash flows are no longer expected to occur.
(3) Relates to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.
(4) Balance relates to disposal of MAF business where a portion of the cash flow hedge reserve was reclassified to share of reserves in associates and joint ventures.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |

## Note 26
### Reserves, retained earnings and non-controlling interests continued

#### (ii) Retained earnings

| | | | | |
|---|---|---|---|---|
| Balance at the beginning of the financial year | **9,807** | 8,651 | **18,629** | 15,309 |
| Change on initial application of AASB 16, net of tax (Note 1) | **(49)** | – | **–** | – |
| **Restated balance** | **9,758** | 8,651 | **18,629** | 15,309 |
| Profit attributable to ordinary equity holders of MGL | **2,731** | 2,982 | **988** | 5,125 |
| Dividends paid on ordinary share capital and exchangeable shares (Note 5) | **(2,108)** | (1,819) | **(2,093)** | (1,805) |
| Loss on change in ownership interest | **(3)** | (13) | **–** | – |
| Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax | **61** | 6 | **11** | – |
| **Balance at the end of the financial year** | **10,439** | 9,807 | **17,535** | 18,629 |

#### (iii) Non-controlling interests

| | | | | |
|---|---|---|---|---|
| **Macquarie Income Securities** | | | | |
| 4,000,000 MIS of $100 each | **400** | 400 | **–** | – |
| Less: transaction costs for original placement | **(9)** | (9) | **–** | – |
| Total Macquarie Income Securities | **391** | 391 | **–** | – |
| **Other non-controlling interests**[1] | | | | |
| Share capital and partnership interests | **437** | 205 | **–** | – |
| Reserves | **(14)** | 56 | **–** | – |
| Accumulated losses | **(93)** | (49) | **–** | – |
| Total other non-controlling interests | **330** | 212 | **–** | – |
| **Total non-controlling interests** | **721** | 603 | **–** | – |

#### Distributions to Macquarie Income Securities[2]

| | | | | |
|---|---|---|---|---|
| **Macquarie Income Securities** | | | | |
| Distributions paid (net of distributions previously provided for) | **9** | 12 | **–** | – |
| Distributions provided for | **3** | 3 | **–** | – |
| **Total distributions paid or provided for** | **12** | 15 | **–** | – |

The MIS were redeemable (in whole or in part) at the discretion of MBL, a subsidiary of MGL. At 31 March 2020, and were presented as equity in accordance with AASB 132 *Financial Instruments: Presentation*. Interest was paid quarterly at a floating rate of BBSW plus 1.7% per annum (31 March 2019: 1.7% per annum). Payment of interest to holders was subject to certain conditions, including the profitability of MBL.

The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020. Following the redemption, the Consolidated Entity recognised a $391 million reduction in non-controlling interests, reflecting the $400 million MIS redemption paid in cash and $9 million reattribution of transaction costs incurred on the original placement within equity, from non-controlling interests to a share capital redemption reserve.

(1) Other non-controlling interests represents equity in subsidiaries that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.
(2) The distributions are reflected as 'Profit attributable to non-controlling interests' in the consolidated income statement and as part of the 'Dividends and distributions paid or provided for' in the consolidated statement of changes in equity.

# Note 27

## Notes to the statements of cash flows

As explained in Note 1(i) *Basis of preparation*, the Consolidated Entity has revised the balances included in the determination of cash and cash equivalents. Whilst the review had no impact on the Company's cash and cash equivalents, the following was concluded for the Consolidated Entity for the year ended 31 March 2019:

- certain reverse repurchase agreements held for liquidity management purposes of $11,731 million (31 March 2018: $11,703 million) have now been included as part of cash and cash equivalents
- certain trading assets of $784 million (31 March 2018: $612 million), margin money balances of $2,816 million (31 March 2018: $1,815 million) and funds received from clients which are segregated from the Consolidated Entity's own funds of $3,392 million (31 March 2018: $3,479 million)[1] have been excluded from the determination of cash and cash equivalents as these balances are not available to meet the Consolidated Entity's short term cash commitments. (Refer to Note 1(xxviii) *Cash and cash equivalents*)
- certain liquid financial investments with a residual maturity of three months or less at the balance sheet date but whose maturity exceeded three months at the date of acquisition of $1,026 million (31 March 2018: $1,073 million) were excluded from cash and cash equivalents
- the effect of exchange rate movements reducing cash and cash equivalents has been disclosed separately in the statement of cash flows.

As a result of these changes, cash flows from operating activities decreased by $728 million and cash flows from investing activities increased by $46 million for the year ended 31 March 2019. This revision had no impact on the Consolidated Entity's statements of financial position, income statements or reserves.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2020[2] $m** | 2019 $m | **2020 $m** | 2019 $m |
| **(i) Reconciliation of cash and cash equivalents** | | | | |
| Cash and cash equivalents at the end of the financial year are reflected in the related items in the statements of financial position as follows: | | | | |
| Cash and bank balances[1],[3] | **6,838** | 6,096 | **–** | – |
| Financial investments[4] | **616** | 792 | **–** | – |
| Cash collateral on securities borrowed and reverse repurchase agreements | **21,469** | 11,731 | **–** | – |
| Held for sale assets | **37** | 248 | **–** | – |
| **Cash and cash equivalents at the end of the financial year** | **28,960** | 18,867 | **–** | – |

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

(2) Amounts excluded from cash and cash equivalents but presented in the statement of financial position as cash and bank balances primarily relates to $2,360 million (2019: $2,248 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and thus not available to meet the Consolidated Entity's short-term cash commitments.

(3) Cash and bank balances includes $536 million (2019: $531 million) of restricted balances, including balances held by consolidated special purpose vehicles that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is restricted.

(4) Certain balances included in the Consolidated Entity's Funded Balance Sheet as cash and liquid assets are not presented as cash and cash equivalents of the Consolidated Entity in accordance with AASB 107 *Statement of Cash Flows*. The most significant of these differences include $7,387 million (2019: $4,308 million) of balances which have a contractual maturity of more than three months from the date of acquisition and $4,579 million (2019: $4,235 million) of Commonwealth and foreign government securities.

## Note 27
### Notes to the statements of cash flows continued

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020[1] $m | 2019 $m | 2020 $m | 2019 $m |
| **(ii) Reconciliation of profit after income tax to net cash flows generated from operating activities** | | | | |
| Profit after income tax | **2,726** | 2,988 | **987** | 5,125 |
| Adjustments to profit after income tax: | | | | |
| Depreciation and amortisation | **1,453** | 1,520 | **–** | (2) |
| Unrealised foreign exchange and fair value movement on assets and liabilities | **578** | 1,404 | **(296)** | (158) |
| Expected credit losses and impairment charges | **1,040** | 559 | **2** | 10 |
| Reversal of impairment on investment in subsidiary | **–** | – | **–** | (3,350) |
| Investment income and gain on sale of operating lease assets and other non-financial assets | **(1,673)** | (2,089) | **–** | (30) |
| Share-based payments expense | **586** | 491 | **–** | – |
| Share of net (profit)/losses of associates and joint ventures | **(95)** | 56 | **–** | – |
| Changes in assets and liabilities: | | | | |
| Change in carrying values of associates due to dividends received | **356** | 219 | | – |
| Change in interest, fee and commission receivable and payable | **513** | (451) | **(8)** | 6 |
| Change in tax balances | **(317)** | (282) | **(286)** | (435) |
| Change in debtors, prepayments, accrued charges and creditors | **(837)** | 1,531 | **(6)** | 26 |
| Change in net trading assets and liabilities and net derivative financial instruments[2] | **(269)** | (4,000) | **–** | (5) |
| Change in other assets and liabilities | **(597)** | (39) | **48** | – |
| Change in loan assets and related entities | **(15,487)** | (4,205) | **3,024** | (5,880) |
| Change in operating lease assets | **(487)** | (1,673) | **–** | – |
| Change in deposits | **10,920** | 7,717 | **–** | 23 |
| Change in borrowings | **5,973** | 4,675 | **1,653** | 4,279 |
| Change in debt issued | **7,736** | (8,385) | **(1,230)** | 1,634 |
| **Net cash flows generated from operating activities** | **12,119** | 36 | **3,888** | 1,243 |

(1) Amounts excluded from cash and cash equivalents but presented in the statement of financial position as cash and bank balances primarily relates to $2,360 million (2019: $2,248 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and thus not available to meet the Consolidated Entity's short-term cash commitments.

(2) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.

## Note 27
### Notes to the statements of cash flows continued

| | CONSOLIDATED | |
|---|---|---|
| | 2020 $m | 2019 $m |
| **(iii) Reconciliation of Loan Capital** | | |
| Balance at the beginning of the financial year | **6,963** | 5,392 |
| Cash flows: | | |
| Issuance | **–** | 1,905 |
| Redemption | **(429)** | (600) |
| Non-cash changes: | | |
| Fair value hedge adjustment | **270** | 51 |
| Foreign currency translation | **604** | 240 |
| Other | **6** | (25) |
| **Balance at the end of the financial year** | **7,414** | 6,963 |

## Note 28
### Related party information

During the year, a new Master Loan Agreement (the MLA) replaced the Omnibus Loan and Deposit Agreement (the Omnibus), which contains the key terms for funding and related arrangements between various related body corporate entities which are under the common control of MGL. The MLA clarifies terms including tenor, pricing, settlement and offsetting terms for entities within the group. Substantially all entities which were a party to the Omnibus have acceded to the MLA.

The MLA excludes derivatives, repurchase agreements, broker settlements and stock lending-related balances. These, together with certain bespoke lending arrangements, have been presented on a gross basis as at 31 March 2020 and is not comparable with the previous year wherein they have been offset with other balances under the Omnibus.

#### Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of funding, deposit of funds, derivative transactions, the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms.

Balances may arise from lending and borrowing activities between the Company and its subsidiaries, which are either repayable on demand or may be extended on a term basis and where appropriate may be either subordinated or collateralised.

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

The Company, as the ultimate parent entity of the Consolidated Entity, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in Note 1(vii) *Taxation.* Due from subsidiaries in the Company's separate statement of financial position includes the amount of current tax asset assumed by the company as the head entity and amount receivable by the Company under the tax funding agreement of the tax consolidated group.

| | COMPANY | |
|---|---|---|
| | **2020 $'000** | 2019 $'000 |
| The following income/(expense) resulted from transactions with subsidiaries during the financial year: | | |
| Interest income | **826,715** | 766,266 |
| Interest expense | **(12,838)** | (45,103) |
| Fee and commission income | **13,580** | 9,790 |
| Other operating expense | **(54,391)** | (65,556) |
| Dividends and distributions (Note 2) | **847,628** | 1,758,000 |
| Share based payments (Note 26) | **586,482** | 491,398 |
| The following balances with subsidiaries were outstanding as at financial year end[1]: | | |
| Amounts receivable | **32,334,286** | 23,378,627 |
| Amounts payable | **(8,901,171)** | (958,513) |
| Guarantees[2] | **(5,877,316)** | (4,505,269) |

Performance related guarantee of $763,382 thousand (2019: $820,921 thousand) was provided to the Company in favour of a related party for which collateral of a similar amount has been received from that related party.

(1) The Company has a liability as at 31 March 2020 of $426,660 thousand (2019: $408,815 thousand) for amounts received in advance as at 31 March 2020 from subsidiaries for MEREP offered to their employees' net of share-based payment expense recognised by the subsidiary. The liability is recorded on the basis of the grant date fair value and number of instruments expected to vest. To the extent that the awards vest in shares, this amount will be retained by the Company as compensation for issuing and releasing the shares to the employees of the subsidiaries.

(2) Includes transactions where the Company has contractually guaranteed the performance and other obligations of its subsidiaries.

# Note 28
## 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, derivative transactions 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) resulted from transactions with associates and joint ventures:

| | CONSOLIDATED | |
|---|---|---|
| | **2020 $'000** | 2019 $'000 |
| Interest income | **122,436** | 75,692 |
| Fee and commission income[1] | **1,524,311** | 1,189,304 |
| Brokerage, commission and trading-related expenses | **(15,575)** | (15,274) |
| Other expense | **(2,075)** | (1,353) |

Dividends and distributions of $356,000 thousand (2019: $209,000 thousand) received from associates were recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 14 *Interests in associates and joint ventures*):

| | | |
|---|---|---|
| Amounts receivable[2] | **360,258** | 1,321,668 |
| Amounts payable | **(91,817)** | (55,767) |
| Undrawn commitments[3] | **(1,699,116)** | (1,230,219) |

(1) Includes $598,707 thousand (2019: $460,781 thousand) of performance fees earned.
(2) Includes $230,252 thousand (2019: $1,079,818 thousand) of fee related contract assets.
(3) Represents $1,645,122 thousand (2019: $1,172,133 thousand) of equity commitment and $53,994 thousand ($58,086 thousand) of debt commitment to associates and joint ventures of the Consolidated Entity.

## Note 29
### Key Management Personnel disclosure

#### Key Management Personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2020 and 31 March 2019, unless indicated otherwise.

#### Executive Voting Directors

| | |
|---|---|
| S.R. Wikramanayake | CEO (appointed as CEO effective 1 December 2018) |

#### Non-Executive Directors

| | |
|---|---|
| P.H. Warne | Chairman |
| G.R. Banks AO | |
| J. R. Broadbent AC | (appointed effective 5 November 2018) |
| G.M. Cairns | |
| P.M. Coffey | (appointed effective 28 August 2018) |
| M.J. Coleman | |
| D.J. Grady AM | |
| M.J. Hawker AM | |
| G.R. Stevens AC[1] | |
| N.M. Wakefield Evans | |

#### Former Non-Executive Directors

| | |
|---|---|
| P.A Cross | (retired effective 26 July 2018) |

In addition to the Executive Voting Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL during the financial years ended 31 March 2020 and 31 March 2019, unless indicated otherwise.

#### Current Executives[2]

| | |
|---|---|
| A.H. Harvey | CFO, Head of FMG |
| F. Herold[3] | Head of Macquarie Capital Principal Finance |
| N. O'Kane | Head of CGM |
| M.J. Reemst | Macquarie Bank CEO |
| M. Silverton | Co-Head of Macquarie Capital (appointed to the Executive Committee effective from 1 June 2019) |
| N. Sorbara | COO, Head of COG |
| M.S.W. Stanley | Head of MAM (appointed effective 1 December 2018) |
| P.C. Upfold | CRO, Head of RMG |
| G.C. Ward | Deputy Managing Director and Head of BFS |
| D. Wong | Co-Head of Macquarie Capital (appointed to the Executive Committee effective from 1 June 2019) |

#### Former Executives

| | |
|---|---|
| N.W. Moore | Former CEO (ceased to be a member of the Executive Committee on 30 November 2018) |
| B.A. Brazil | Former Co-Head of CAF (ceased to be a member of the Executive Committee on 30 November 2018) |
| A.J. Downe | Former Head of CGM (ceased to be a member of the Executive Committee on 31 March 2019) |
| T.C. Bishop | Former Head of Macquarie Capital (ceased to be a member of the Executive Committee on 31 May 2019) |
| G.A. Farrell | Former Co-Head of CAF (ceased to be a member of the Executive Committee on 1 September 2019) |

The remuneration arrangements for all of the persons listed above are described on pages 89 to 127 of the Remuneration Report, contained in the Directors' Report.

(1) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.
(2) Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 8 May 2020.
(3) Mr Herold was Co-Head of CAF until 31 August 2019. Effective 1 September 2019, Mr Herold became Head of Macquarie Capital Principal Finance following the transfer of CAF Principal Finance to Macquarie Capital.

# Note 29
## Key Management Personnel disclosure continued

### Key Management Personnel remuneration

The following tables detail the aggregate remuneration for KMP:

| | SHORT-TERM EMPLOYEE BENEFITS | | | | LONG-TERM EMPLOYEE BENEFITS | SHARE-BASED PAYMENTS | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees (including superannuation) $ | Performance-related remuneration[1] $ | Other benefits $ | Total short-term employee benefits $ | Restricted profit share including earnings on restricted profit share[2] $ | Equity awards including shares[3] $ | PSUs[4] $ | Total remuneration $ |
| **Executive Remuneration** | | | | | | | | |
| **2020** | **12,097,922** | **–** | **–** | **12,097,922** | **28,498,167** | **49,940,006** | **15,214,083** | **105,750,178** |
| 2019 | 9,357,610 | 47,538,973 | – | 56,896,583 | 17,847,619 | 64,968,981 | 23,108,534 | 162,821,717 |
| **Non-Executive Remuneration** | | | | | | | | |
| **2020** | **4,227,750** | **–** | **12,000** | **4,239,750** | **–** | **–** | **–** | **4,239,750** |
| 2019 | 3,955,224 | – | 18,000 | 3,973,224 | – | – | – | 3,973,224 |

### Equity holdings of KMP and their related parties

The following tables set out details of MGL ordinary shares held during the financial year by KMP including their related parties, on a Consolidated Entity basis.

| | Number of shares held by current KMP at 1 Apr | Number of shares held by new KMP at appointment date (after 1 Apr) | Shares received on withdrawal from MEREP | Other changes[5] | Number of shares held by retired KMP at date of resignation/ retirement (prior to 31 Mar) | Number of shares held as at 31 Mar |
|---|---|---|---|---|---|---|
| **2020** | **1,128,331** | **19,970** | **713,583** | **(404,977)** | **(181,437)** | **1,275,470** |
| 2019 | 3,397,237 | 53,600 | 1,000,761 | (800,407) | (2,522,860) | 1,128,331 |

### MEREP RSU Awards of KMP and their related parties[6]

The following tables set out details of the MEREP RSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 120 to 125. Further details in relation to the MEREP RSU awards are disclosed in Note 30 *Employee equity participation.*

| | Number of RSU awards held by current KMP at 1 Apr | Number of RSU awards held by new KMP at appointment date (after 1 Apr) | RSU awards granted during the financial year[6] | Vested RSU awards transferred to the KMP's shareholding during the financial year | Number of RSU awards held by retired KMP at the date of resignation/ retirement (prior to 31 Mar) | Number of RSU awards held as at 31 Mar |
|---|---|---|---|---|---|---|
| **2020** | **1,991,081** | **96,681** | **362,754** | **(468,558)** | **(566,894)** | **1,415,064** |
| 2019 | 3,178,712 | – | 573,870 | (632,914) | (1,128,587) | 1,991,081 |

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.
(2) The amount of retained profit share held via the DPS plan including earnings on notional investments from retained profit share in prior financial years.
(3) The current year amortisation for all equity awards calculated as described in Note 1(xxiv) *Performance based remuneration.*
(4) The current year amortisation for PSUs calculated as described in Note 1(xxiv) *Performance based remuneration.* The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.
(5) Includes on-market acquisitions and disposals.
(6) RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above for 2020 relate to the Consolidated Entity's performance in 2019.

## Note 29
### Key Management Personnel disclosure continued

#### MEREP DSU Awards of KMP and their related parties[1]

The following tables set out details of the MEREP DSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 120 to 125. Further details in relation to the MEREP DSU awards are disclosed in Note 30 *Employee equity participation.*

| | Number of DSU awards held by current KMP at 1 Apr | Number of DSU awards held by new KMP at appointment date | DSU awards granted during the financial year[1] | Vested DSU awards transferred to the KMP's shareholding during the financial year | Number of DSU awards held by retired KMP at the date of resignation/ retirement | Number of DSU awards held as at 31 Mar |
|---|---|---|---|---|---|---|
| **2020** | **251,081** | **146,212** | **105,036** | **(54,850)** | **–** | **447,479** |
| 2019 | – | 251,081 | – | – | – | 251,081 |

#### MEREP PSU Awards of KMP and their related parties[2]

The following tables set out details of MEREP PSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report on page 120 to 125. Further details in relation to the MEREP PSU awards are disclosed in Note 30 *Employee equity participation.*

| | Number of PSU awards held by current KMPs at 1 Apr | Number of PSU awards held by new KMP at appointment date | PSU awards granted during the financial year[2] | Vested PSU awards transferred to KMP shareholding during the financial year | PSU awards for which performance hurdles were not met | PSU awards cancelled on termination | Number of PSU awards held by retired KMP at date of resignation/ retirement | Number of PSU awards held as at 31 Mar[3] |
|---|---|---|---|---|---|---|---|---|
| **2020** | **828,388** | **–** | **223,021** | **(189,875)** | **–** | **(14,081)** | **(298,167)** | **549,286** |
| 2019 | 1,208,351 | – | 263,243 | (367,357) | – | – | (275,849) | 828,388 |

(1) DSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates.
(2) PSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates. PSUs disclosed as granted above for 2020 relate to the Consolidated Entity's performance in 2019.
(3) PSU awards vested and not exercised as at 31 March 2020: Nil (2019: Nil).

## Note 29
### Key Management Personnel disclosure continued

Details of share-based payment grant dates whose vesting periods affected compensation for the financial years ended 31 March 2020 and 31 March 2019.

| | | GRANT DATE | |
|---|---|---|---|
| Financial year grant relates to | Type of grant | Managing Director | All other KMP |
| 2008 | Transition awards | 3 March 2010 | 3 March 2010 |
| | Retained DPS | 3 March 2010 | 3 March 2010 |
| 2009 | Retained DPS | 3 March 2010 | 3 March 2010 |
| | PSUs | 3 March 2010 | 3 March 2010 |
| 2010 | Retained DPS | 13 August 2010 | 30 June 2010 |
| | PSUs | 13 August 2010 | 13 August 2010 |
| 2011 | Retained DPS | 15 August 2011 | 15 February 2011 |
| | | | 15 April 2011 |
| | | | 20 June 2011 |
| | PSUs | 15 August 2011 | 15 August 2011 |
| 2012 | Retained DPS | 15 August 2012 | 7 June 2012 |
| | PSUs | 15 August 2012 | 15 August 2012 |
| 2013 | Retained DPS | 15 August 2013 | 25 June 2013 |
| | PSUs | 15 August 2013 | 15 August 2013 |
| 2014 | Retained DPS | 15 August 2014 | 25 June 2014 |
| | PSUs | 15 August 2014 | 15 August 2014 |
| 2015 | Retained DPS | 17 August 2015 | 6 July 2015 |
| | PSUs | 17 August 2015 | 17 August 2015 |
| 2016 | Retained DPS | 15 August 2016 | 17 June 2016 |
| | PSUs | 15 August 2016 | 15 August 2016 |
| 2017 | Retained DPS | 15 August 2017 | 22 June 2017 |
| | PSUs | 15 August 2017 | 15 August 2017 |
| 2018 | Retained DPS | 15 August 2018 | 21 June 2018 |
| | PSUs | 15 August 2018 | 15 August 2018 |
| 2019 | Retained DPS | 15 August 2019 | 24 June 2019 |
| | PSUs | 15 August 2019 | 15 August 2019 |

### Loans to Key Management Personnel and their related parties

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

| Total for Key Management Personnel and their related parties | Opening balance as at 1 Apr $'000[1] | Net additions during the year $'000 | Interest charged $'000 | Repayments during the year $'000 | Write-downs $'000 | Closing balance as at 31 Mar $'000[2] |
|---|---|---|---|---|---|---|
| **2020** | **1,516** | **10,365** | **120** | **(190)** | **–** | **11,811** |
| 2019 | 464 | 1,031 | 35 | (47) | – | 1,483 |

(1) Offset accounts against loan balances have now been excluded resulting in a difference of $33 thousand with the opening balance.
(2) Number of persons included in the aggregate as at 31 March 2020: 7 (2019: 4).

## Note 30
### Employee equity participation

#### MEREP

The Consolidated Entity continues to operate the MEREP in conjunction with other remuneration arrangements.

#### Award Types under the MEREP

##### Restricted Share Units (RSUs)

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

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

| | NUMBER OF RSU AWARDS | |
|---|---|---|
| | 2020 | 2019 |
| RSUs on issue at the beginning of the financial year | **13,478,950** | 14,831,335 |
| Granted during the financial year | **4,125,167** | 3,489,378 |
| Vested RSUs withdrawn or sold from the MEREP during the financial year | **(5,938,611)** | (4,477,846) |
| Forfeited during the financial year | **(291,441)** | (363,917) |
| RSUs on issue at the end of the financial year | **11,374,065** | 13,478,950 |
| RSUs vested and not withdrawn from the MEREP at the end of the financial year | **3,225** | 33,065 |

The weighted average fair value of the RSU awards granted during the financial year was $126.73 (2019: $119.81).

##### Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by the Company 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. The Company 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 the Company in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of the Company's shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights with respect to any underlying MGL ordinary shares.

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

| | NUMBER OF DSU AWARDS | |
|---|---|---|
| | 2020 | 2019 |
| DSUs on issue at the beginning of the financial year | **3,075,825** | 2,994,969 |
| Granted during the financial year | **1,011,298** | 760,874 |
| Exercised during the financial year | **(817,692)** | (612,817) |
| Forfeited during the financial year | **(91,751)** | (67,201) |
| DSUs on issue at the end of the financial year | **3,177,680** | 3,075,825 |
| DSUs exercisable at the end of the financial year | **913,107** | 822,111 |

The weighted average fair value of the DSU awards granted during the financial year was $118.44 (2019: $112.99).

## Note 30
## Employee equity participation continued

### Performance Share Units (PSUs)

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

| | NUMBER OF PSU AWARDS | |
|---|---|---|
| | 2020 | 2019 |
| PSUs on issue at the beginning of the financial year | **1,229,353** | 1,408,846 |
| Granted during the financial year | **223,021** | 263,243 |
| Exercised during the financial year | **(412,516)** | (442,736) |
| Forfeited during the financial year | **(22,425)** | – |
| PSUs on issue at the end of the financial year | **1,017,433** | 1,229,353 |
| PSUs exercisable at the end of the financial year | **–** | – |

The weighted average fair value of the PSU awards granted during the financial year was $98.99 (2019: $102.06).

### Restricted Shares

A Restricted Share is an MGL ordinary share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on, and to exercise the voting rights of, the Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

| | NUMBER OF RESTRICTED SHARE AWARDS | |
|---|---|---|
| | 2020 | 2019 |
| Restricted shares on issue at the beginning of the financial year | **13,782** | 26,171 |
| Transfer from MEREP Trust during the financial year | **551,687** | – |
| Forfeited during the financial year | **(1,766)** | – |
| Released during the financial year | **(15,829)** | (12,389) |
| Restricted shares on issue at the end of the financial year | **547,874** | 13,782 |

The weighted average fair value of the Restricted Shares granted during the financial year was $Nil (2019: $Nil).

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie staff with retained commission (Commission Awards)
- new Macquarie staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
- members of the MGL and MBL Executive Committees who are eligible for PSUs (PSU 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).

## Note 30
### Employee equity participation continued

Vesting periods are as follows:

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

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

For Retained Profit Share awards representing 2019 retention, the allocation price was the weighted average price of the shares acquired for the 2019 purchase period, which was 13 May 2019 to 24 June 2019. That price was calculated to be $122.37 (2018 retention: $113.76).

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

# Note 30
## Employee equity participation continued

### Performance Share Units (PSUs)

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically reviewed by the Board Remuneration Committee (BRC) to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for this financial year.

The hurdles are outlined below.

### Performance hurdle 1

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

### Performance hurdle 2

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

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

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

RSUs, DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of the 2019 performance. The accounting fair value of each of these grants is estimated using the Company's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 0.78% per annum
- expected vesting dates of PSUs: 1 July 2022 and 1 July 2023
- dividend yield: 4.96% per annum.

While RSUs, DSUs, and PSUs (for Executive Committee members) for FY2020 performance will be granted during FY2021, the Consolidated Entity began recognising an expense for these awards (based on an initial estimate) from 1 April 2019. The expense is estimated using the price of MGL ordinary shares as at 31 March 2020 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 0.52% per annum, expected vesting dates of PSUs of 1 July 2024, and a dividend yield of 4.77% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this valuation for recognising the expense over the remaining vesting period.

The Consolidated Entity annually reviews 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, with a corresponding adjustment to equity (for equity settled awards), or a corresponding adjustment to liabilities (for cash settled awards).

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

## Note 30
### Employee equity participation continued

For the financial year ended 31 March 2020, compensation expense relating to the MEREP totalled $583,161 thousand (2019: $520,506 thousand).

For the equity settled awards, the estimated future withholding tax outflow is $197,947 thousand (2019: $315,399 thousand).

#### Other arrangements

There are certain arrangements with employees which take the form of a share-based payment, but which are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however, the arrangements have the same economic benefits as those held in MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2020 was $Nil (2019: $19 thousand).

#### Employee Share Plan

The Consolidated Entity continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to $1,000 worth of fully paid MGL ordinary shares for no cash consideration.

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

The latest offer under the ESP was made during November 2019. A total of 1,531 (2019: 1,630) staff participated in this offer.

On 4 December 2019, the participants were each allocated 7 (2019: 8) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $136.37 (2019: $114.36); resulting in a total of 10,717 (2019: 13,040) shares being allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2020, compensation expense relating to the ESP totalled $1,446 thousand (2019: $1,493 thousand).

#### Historical Share and Option Plans

Shares are no longer being issued under the Staff Share Acquisition Plan or the Non-Executive Director Share Acquisition plan. However, employees and Non-Executive Directors still hold shares issued in previous years.

Options over fully paid unissued ordinary shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

#### Other plans

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

#### Shares purchased on-market for the purpose of an employee incentive scheme

During the financial year ended 31 March 2020, the Consolidated Entity purchased 2,246,584 shares on-market (2019: 789,310 shares) and 2,713,553 shares via off-market transfer from its employees during the Staff Trading window (2019: 3,201,476 shares) for MEREP. A further 10,717 shares were purchased on-market for the ESP (2019: 13,040 shares). The average price of all share purchases during the financial year was $122.40 (2019: $113.76) and the average price of the purchases made on-market was $125.02 (2019: $118.15).

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2020 $m | 2019 $m | 2020 $m | 2019 $m |

## Note 31
## Contingent liabilities and commitments

| | | | | |
|---|---|---|---|---|
| **Contingent liabilities exist in respect of:** | | | | |
| Letters of credit | **1,030** | 1,085 | **–** | – |
| Guarantees | **623** | 213 | **5,877** | 4,505 |
| Indemnities | **417** | 469 | **–** | – |
| Performance-related contingent liabilities | **313** | 291 | **–** | – |
| Total contingent liabilities[1] | **2,383** | 2,058 | **5,877** | 4,505 |
| **Commitments exist in respect of:** | | | | |
| Undrawn credit facilities and securities commitments[2],[3],[4],[5] | **11,948** | 10,518 | **–** | – |
| Property, plant and equipment and right-of-use assets and other asset[6],[7] | **4,155** | 3,472 | **1,833** | 1,954 |
| Total commitments | **16,103** | 13,990 | **1,833** | 1,954 |
| Total contingent liabilities and commitments | **18,486** | 16,048 | **7,710** | 6,459 |

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. As at the reporting date there are no matters of this nature for which the Consolidated Entity expects to result in a material economic outflow of resources.

Actual and potential claims and proceedings may arise in the conduct of the Consolidated Entity's business with clients and customers, revenue authorities, employees, and other stakeholders with whom the Consolidated Entity interacts. The Consolidated Entity recognises provisions for matters where an economic outflow of resources as a result of events occurring prior to the reporting date is probable and can be reliably measured. Provisions are calculated on a probability weighted basis utilising information that is known as at the reporting date for a range of possible scenarios. Provisions for these matters are included within provision for current income tax (income tax matters) and other liabilities (other matters). In some circumstances the Consolidated Entity may be reimbursed for the loss. A receivable is only recognised if its recovery is virtually certain. As at the reporting date the Consolidated Entity and the Company consider the probability of there being a material adverse effect in respect of litigation or claims that have not been provided for to be remote.

(1) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(2) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting represents firm commitments to underwrite debt and equity securities issuances and private equity commitments.
(3) Includes $648 million (2019: $815 million) in undrawn facilities where the loan and further commitment will be assigned to a third party post drawdown.
(4) Includes $1,645 million (2019: $1,172 million) of equity commitment and $54 million (2019: $58 million) of debt commitment to associates and joint ventures of the Consolidated Entity.
(5) Includes $944 million (2019: $1,038 million) for certain contractually irrevocable mortgage related facilities which have been reassessed during the prior period.
(6) Previous year commitments of the Consolidated Entity includes $1,475 million for the purchase of assets relating to the MAF business which was deconsolidated during the current year. Refer to Note 40 *Acquisitions and disposals of subsidiaries and businesses* for details.
(7) The Consolidated Entity includes asset development commitments to third parties of $2,161 million (2019: $Nil) which certain subsidiaries of the Consolidated Entity fund with borrowings of $1,874 million (2019: $Nil). The Consolidated Entity and Company includes asset development commitments to third parties of $1,833 million (2019: $1,954 million) that will be fulfilled by certain subsidiaries of the Company.

## Note 32
### Structured entities

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

#### Securitisations

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

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

#### Asset-backed financing

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

#### Other

Others includes structured entities established to raise financing and fulfil obligations for prepaid commodity delivery contracts. The Consolidated Entity has contractually guaranteed the performance obligation under these arrangements.

#### Consolidated Structured Entities

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

SEs are consolidated when they meet the criteria described in Note 1(ii) *Principles of consolidation.*

#### Interests held in unconsolidated structured entities

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

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

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

## Note 32
### Structured entities continued

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

| | CONSOLIDATED 2020 | | | CONSOLIDATED 2019 | | |
|---|---|---|---|---|---|---|
| | Securitisations $m | Asset-backed financing $m | Other[3] $m | Securitisations $m | Asset-backed financing $m | Other[3] |
| **Carrying value of assets** | | | | | | |
| Trading assets | **547** | **–** | **–** | 368 | 72 | – |
| Derivative assets | **551** | **–** | **–** | 163 | – | – |
| Financial investments | **2,056** | **61** | **–** | 1,735 | 153 | – |
| Loan assets | **513** | **2,796** | **–** | 549 | 756 | – |
| Total carrying value of assets[1] | **3,667** | **2,857** | **–** | 2,815 | 981 | – |
| **Maximum exposure to loss[2]** | | | | | | |
| Debt, equity and derivatives held | **3,667** | **2,857** | **–** | 2,815 | 981 | – |
| Undrawn commitments[3] | **–** | **–** | **71** | – | – | 62 |
| Total maximum exposure to loss | **3,667** | **2,857** | **71** | 2,815 | 981 | 62 |

The Consolidated Entity's exposure in subordinated securitisation entities includes trading positions that are typically managed under market risk described in *Note 34.3 Market risk.* For these reasons, information on the size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented. The Consolidated Entity's exposure in subordinated asset backed financing entities is included in loan assets and the total size of the unconsolidated SEs is $6,853 million (2019: $4,182 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

(1) Includes $1,703 million (2019: $1,045 million) in subordinated interests, of which $182 million (2019: $182 million) is included in securitisation activities and $1,521 million (2019: $863 million) included in asset backed financing activities. Of the subordinated interests, the maximum loss borne by others whose interests rank lower is $164 million (2019: $48 million).
(2) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.
(3) Excludes $3,640 million (2019: $3,223 million) of guarantees provided by the Company in respect of a subsidiary to fulfil its obligations for certain prepaid commodity contracts towards unconsolidated structured entities. On consolidation these guarantees are accounted for as part of borrowings that represent the subsidiary's obligations in terms of these commodity contracts.

## Note 33
### Hedge accounting

#### Hedging strategy

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

#### Hedging instruments

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

#### Hedging ineffectiveness

In the case of a fair value hedge, hedge ineffectiveness is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item. In the case of a cash flow hedge, hedge ineffectiveness is the extent to which the change in the fair value of the hedging instrument exceeds, in absolute terms, that of the hedged item or, in the case of net investment hedge relationships, the change in the carrying amount of foreign denominated debt issued attributable to the change in exchange rates exceeds, in absolute terms, that of the hedge 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 trading income in the income statement.

#### IBOR reform

The Consolidated Entity designates hedging relationships where the hedged item and/or hedging instrument reference IBOR. These rates are in the process of being transitioned to alternative reference rates (ARRs) as described in Note 1 *Summary of significant accounting policies*. The Consolidated Entity mainly holds derivatives referencing USD and GBP LIBOR in hedging relationships that are impacted by the reform. The notional amounts of interest rate hedges designated in hedge accounting relationships represent the extent of the risk exposure managed by the Consolidated Entity that are impacted by IBOR reform per the table below:

| | CONSOLIDATED 2020 | | | | | |
|---|---|---|---|---|---|---|
| | NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM[1] | | | | | |
| | USD $m | GBP $m | Other $m | Total $m | Other not affected by reform[2] $m | Total notional[3] $m |
| Cash flow hedges | 4,001[4] | 3,056 | 1,225 | 8,282 | 6,799 | 15,081 |
| Fair value hedges | 20,240 | – | 1,883 | 22,123 | 13,625 | 35,748 |

(1) The hedge relationships disclosed as impacted by IBOR reform includes all those referencing transitioning LIBOR rates at the reporting date and includes relationships that are expected to expire before mandatory transition to ARRs.
(2) The Consolidated Entity has exposure to rates such as BBSW and EURIBOR that are not subject to mandatory replacement and therefore do not make use of the relief (as described in Note 1).
(3) Where a cross currency swap references more than one rate, the risk exposure has been shown twice to reflect the absolute risk exposure to different reference rates. For all other hedge accounting disclosures, the notional has been shown once. To reconcile this notional to other hedge accounting disclosures an amount of $5,049 million would need to be deducted in this regard. The notional disclosures shown elsewhere in this note include hedges of commodity price, which are not shown in the total notional disclosed above.
(4) The risk exposure differs by AUD equivalent of 2.8 billion from the notional disclosed above, as the hedged item references another correlated US market rate.

# Note 33
## 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 26(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's statements of comprehensive income. The cumulative amount of the fair value adjustments remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur are $3 million (2019: $7 million). This amount will be transferred to the income statement as a loss as and when the hedged item affects the income statement.

### Hedging instruments

| | | MATURITY ANALYSIS PER NOTIONAL | | | | |
|---|---|---|---|---|---|---|
| Instrument type | Risk category | Less than 3 months $m | 3 to 12 months $m | 1 to 5 years $m | Over 5 years $m | Total $m |
| | | | | | | CONSOLIDATED 2020 |
| Derivative assets | | | | | | |
| Cross currency swaps | Foreign exchange | 18 | 955 | 2,216 | 1,353 | 4,542 |
| Interest rate swaps | Interest rate | 105 | 455 | 2,215 | 98 | 2,873 |
| Crude oil futures | Commodity price | 12 | 22 | – | – | 34 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Foreign exchange | – | – | 537 | – | 537 |
| Interest rate swaps | Interest rate | (44) | 75 | 741 | 1,308 | 2,080 |
| | | | | | | CONSOLIDATED 2019 |
| Derivative assets | | | | | | |
| Cross currency swaps | Foreign exchange | 1 | 818 | 1,637 | 1,417 | 3,873 |
| Interest rate swaps | Interest rate | 138 | 180 | 1,319 | 110 | 1,747 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Foreign exchange | – | – | 318 | 163 | 481 |
| Cross currency swaps | Interest rate and foreign exchange | – | 126 | – | – | 126 |
| Interest rate swaps | Interest rate | (19) | 183 | 537 | 1,380 | 2,081 |
| Crude oil futures | Commodity price | 14 | 29 | – | – | 43 |

| | | CONSOLIDATED CARRYING AMOUNT | | | |
|---|---|---|---|---|---|
| | | 2020 | | 2019 | |
| Instrument type | Risk category | Asset $m | Liability $m | Asset $m | Liability $m |
| Cross currency swaps | Foreign exchange | 697 | 38 | 285 | 41 |
| Cross currency swaps | Interest rate and foreign exchange | – | – | – | 8 |
| Interest rate swaps | Interest rate | 126 | 175 | 11 | 98 |
| Crude oil futures | Commodity price | 19 | – | – | 15 |

## Note 33
### Hedge accounting continued

#### Hedge ineffectiveness

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

| | | CONSOLIDATED | | | | | |
|---|---|---|---|---|---|---|---|
| | | GAIN/(LOSS) ON HEDGING INSTRUMENT | | GAIN/(LOSS) ON HEDGED ITEM | | HEDGE INEFFECTIVENESS (LOSS)/GAIN | |
| Hedging instrument | Risk category | **2020 $m** | 2019 $m | **2020 $m** | 2019 $m | **2020 $m** | 2019 $m |
| Cross currency swaps | Foreign exchange | **18** | (3) | **(19)** | 8 | **(1)** | 5 |
| Cross currency swaps | Interest rate and foreign exchange | **–** | 1 | **–** | (1) | **–** | – |
| Interest rate swaps | Interest rate | **(81)** | (73) | **78** | 84 | **(3)** | 11 |
| Crude oil futures | Commodity price | **33** | 11 | **(33)** | (11) | **–** | – |
| **Total** | | **(30)** | (64) | **26** | 80 | **(4)** | 16 |

#### Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments that have been designated in cash flow hedges that are in place at the balance date:

| | | CONSOLIDATED | |
|---|---|---|---|
| Hedging instruments | Currency/currency pair | **2020** | 2019 |
| Interest rate swaps | AUD | **n/a** | 2.03 to 2.42% |
| | GBP | **0.40 to 2.49%** | 0.40 to 2.49% |
| | USD | **1.00 to 3.01%** | 2.02% |
| Cross currency swaps | USD/CHF | **0.93** | 0.92 to 0.93 |
| | AUD/EUR | **0.62 to 0.68** | 0.64 to 0.69 |
| | AUD/USD | **0.76** | 0.76 to 0.78 |
| Crude oil futures | USD per barrel | **66.25** | 49.7 |

# Note 33
## 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 denominated borrowings. Refer to Note 34.3 *Financial Risk Management Non-traded market risk* for further information on the Consolidated Entity's risk management strategy.

In order to reflect the Consolidated Entity's risk management strategy, hedge accounting is applied resulting in changes in the derivatives and foreign denominated borrowings being 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 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, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

| | | CONSOLIDATED CARRYING AMOUNT | | | |
|---|---|---|---|---|---|
| | | ASSET | | LIABILITY | |
| Hedging instrument | Risk category | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| Foreign exchange contracts | Foreign exchange | **266** | 110 | **13** | 36 |
| Foreign denominated issued debt | Foreign exchange | **–** | – | **17,845** | 16,523 |

| | | CONSOLIDATED NOTIONAL | | | |
|---|---|---|---|---|---|
| | | ASSET | | LIABILITY | |
| Hedging instrument | Risk category | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| Foreign exchange contracts[1] | Foreign exchange | **4,131** | 5,399 | **1,083** | 2,479 |
| Foreign denominated issued debt | Foreign exchange | **–** | – | **17,732** | 16,450 |

In order to hedge the currency exposure of certain net investments in foreign operations, the Consolidated Entity jointly designates both foreign 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 in the table above of $22,946 million (2019: $24,328 million) represents the notional of both the derivative hedging instrument and the foreign denominated debt issued and hence exceeds the $17,631 million (2019: $16,525 million) notional of the underlying hedged component of the Consolidated Entity's net investment in foreign operations.

Hedge ineffectiveness is the extent to which the change in either the fair value of the derivative or the carrying amount of foreign denominated debt issued 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 (2019: $2 million)

### Fair value hedges

The fair value attributable to the hedged risk is recognised as a fair value adjustment to the hedged item on the balance sheet. In an effective fair value hedge relationship, movements in this fair value adjustment are largely offset by movements in the fair value of the hedging instrument. Any residual net fair value is recognised as ineffectiveness in trading income in the income statement. Executed rates for fair value hedges of interest rate risk and commodity price risk have not been shown as these would represent the market reference rates at the time of designation which are primarily 1-month, 3-month or 6-month USD LIBOR, GBP LIBOR, AUD BBSW, EUR EURIBOR and JPY LIBOR.

(1) Where the fair value of the derivative is positive (negative), the notional of the derivative has been similarly included in the table as an asset (liability).

## Note 33
### Hedge accounting continued

#### Hedging instruments

| Instrument type | Risk category | MATURITY ANALYSIS PER NOTIONAL | | | | |
|---|---|---|---|---|---|---|
| | | Less than 3 months $m | 3 to 12 months $m | 1 to 5 years $m | Over 5 years $m | Total $m |
| | | | | | | CONSOLIDATED 2020 |
| Derivative assets | | | | | | |
| Cross currency swaps | Interest rate | **34** | **997** | **1,382** | **605** | **3,018** |
| Interest rate swaps | Interest rate | **–** | **4,561** | **11,298** | **9,215** | **25,074** |
| Physical forward with basis swap | Commodity price | **4** | **15** | **4** | **–** | **23** |
| Derivative liabilities | | | | | | |
| Interest rate swaps | Interest rate | **525** | **2,724** | **4,408** | **–** | **7,657** |
| | | | | | | CONSOLIDATED 2019 |
| Derivative assets | | | | | | |
| Cross currency swaps | Interest rate | – | 867 | 1,815 | 696 | 3,378 |
| Interest rate swaps | Interest rate | 1,409 | 3,011 | 8,003 | 6,215 | 18,638 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Interest rate | 45 | 83 | 111 | – | 239 |
| Interest rate swaps | Interest rate | 52 | 2,163 | 8,632 | 1,086 | 11,933 |
| Physical forward with basis swap | Commodity price | 28 | 45 | 29 | – | 102 |

| Instrument type | Risk category | CONSOLIDATED CARRYING AMOUNT | | | |
|---|---|---|---|---|---|
| | | 2020 | | 2019 | |
| | | Asset $m | Liability $m | Asset $m | Liability $m |
| Cross currency swaps | Interest rate | **106** | **–** | 65 | 1 |
| Interest rate swaps | Interest rate | **1,806** | **212** | 429 | 216 |
| Physical forward with basis swap | Commodity price | **7** | **–** | – | 57 |

# Note 33
## Hedge accounting continued

### Hedged item

The fair value hedge adjustment shown below is amortised to the income statement on an effective yield basis. As the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of the fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is $19 million loss (2019: $20 million gain) for the Consolidated Entity. This amount will be amortised to the income statement on an effective interest rate basis.

| | CONSOLIDATED 2020 | | CONSOLIDATED 2019 | |
|---|---|---|---|---|
| | Carrying amount[1] $m | Fair value hedge adjustment $m | Carrying amount[1] $m | Fair value hedge adjustment $m |
| **Assets** | | | | |
| Financial investments | **104** | **4** | 104 | 4 |
| Loan assets | **7,200** | **128** | 9,449 | 80 |
| Non-financial contracts | **2** | **2** | 55 | 55 |
| **Liabilities** | | | | |
| Debt issued | **24,870** | **(1,380)** | 22,713 | (230) |
| Loan capital | **4,920** | **(318)** | 4,041 | (48) |

### Hedge ineffectiveness

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

| | | CONSOLIDATED | | | | | |
|---|---|---|---|---|---|---|---|
| | | GAIN/(LOSS) ON HEDGING INSTRUMENT | | (LOSS)/GAIN ON HEDGED ITEM | | HEDGE INEFFECTIVENESS (LOSS)/GAIN | |
| Hedging instrument | Risk Category | 2020 $m | 2019 $m | 2020 $m | 2019 $m | 2020 $m | 2019 $m |
| Cross currency swaps | Interest rate | **43** | 55 | **(45)** | (58) | **(2)** | (3) |
| Interest rate swaps | Interest rate | **1,329** | 365 | **(1,317)** | (378) | **12** | (13) |
| Physical forward with basis swap | Commodity price | **64** | (57) | **(53)** | 55 | **11** | (2) |
| **Total** | | **1,436** | 363 | **(1,415)** | (381) | **21** | (18) |

(1) The carrying amounts in the table above exclude accrued interest and include fair value hedge adjustments.

## Note 34
## Financial risk management

### 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 Macquarie 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 Macquarie'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.

During the current reporting period the Consolidated Entity's credit risk management framework remained consistent with that of the prior period.

### Note 34.1 Credit risk

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

### Credit risk assessment and approval

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

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

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

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

### Ratings and reviews

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

#### Wholesale rating:

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

| Credit Grading | Internal Rating | External 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 distribution of risk in the portfolio. Management reviews a range of information, including past due status for the portfolio, to assess the credit quality of these assets.

#### Due from subsidiaries

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

#### Portfolio and country risk

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

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

# Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

### Credit quality of financial assets

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

| | Stage I[2] $m | Stage II[2] $m | Stage III[2] $m | Total $m |
|---|---|---|---|---|
| **Investment grade** | | | | CONSOLIDATED 2020 |
| Cash and bank balances | 9,603 | – | – | 9,603 |
| Cash collateral on securities borrowed and reverse repurchase agreements[3] | 28,498 | – | – | 28,498 |
| Margin money and settlement assets | 12,571 | – | – | 12,571 |
| Financial investments | 7,196 | – | – | 7,196 |
| Held for sale and other assets | 1,599 | – | – | 1,599 |
| Loan assets | 47,468 | 418 | – | 47,886 |
| Loans to associates and joint ventures | 52 | – | – | 52 |
| Undrawn credit commitments and financial guarantees | 2,236 | – | – | 2,236 |
| **Total investment grade** | 109,223 | 418 | – | 109,641 |
| **Non-investment grade** | | | | |
| Cash and bank balances | 114 | – | – | 114 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 1,255 | – | – | 1,255 |
| Margin money and settlement assets | 3,147 | 104 | – | 3,251 |
| Financial investments | 147 | – | – | 147 |
| Held for sale and other assets | 2,210 | 40 | – | 2,250 |
| Loan assets | 29,737 | 14,320 | – | 44,057 |
| Loans to associates and joint ventures | 666 | – | – | 666 |
| Undrawn credit commitments and financial guarantees | 4,305 | 198 | – | 4,503 |
| **Total non-investment grade** | 41,581 | 14,662 | – | 56,243 |
| **Default** | | | | |
| Margin money and settlement assets | – | – | 87 | 87 |
| Financial investments | – | – | 2 | 2 |
| Held for sale and other assets | – | – | 300 | 300 |
| Loan assets | – | – | 1,991 | 1,991 |
| Loans to associates and joint ventures | – | – | 198 | 198 |
| Undrawn credit commitments and financial guarantees | – | – | 53 | 53 |
| **Total default** | – | – | 2,631 | 2,631 |
| **Total** | 150,804 | 15,080 | 2,631 | 168,515 |
| **Financial assets by ECL stage** | | | | |
| Cash and bank balances | 9,717 | – | – | 9,717 |
| Cash collateral on securities borrowed and reverse repurchase agreements[3] | 29,753 | – | – | 29,753 |
| Margin money and settlement assets | 15,718 | 104 | 87 | 15,909 |
| Financial investments | 7,343 | – | 2 | 7,345 |
| Other assets | 3,809 | 40 | 300 | 4,149 |
| Loan assets | 77,205 | 14,738 | 1,991 | 93,934 |
| Loans to associates and joint ventures | 718 | – | 198 | 916 |
| Undrawn credit commitments and financial guarantees | 6,541 | 198 | 53 | 6,792 |
| **Total financial assets by ECL stage** | 150,804 | 15,080 | 2,631 | 168,515 |

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

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

(3) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

## Note 34
### Financial risk management continued

#### Note 34.1 Credit risk continued

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

| | Investment grade $m | Non-investment grade $m | Total other than default $m | OF WHICH PAST DUE Up to 30 days $m | 31 to <90 days $m | Total past due but not default[1] $m | Default $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | CONSOLIDATED 2020 |
| Home loans[2] | 40,010 | 15,966 | 55,976 | 337 | 274 | 611 | 677 | 56,653 |
| Asset financing | 1,927 | 14,379 | 16,306 | 807 | 124 | 931 | 560 | 16,866 |
| Corporate, commercial and other lending | 3,526 | 13,573 | 17,099 | 60 | 75 | 135 | 754 | 17,853 |
| Investment lending | 2,423 | 139 | 2,562 | – | – | – | – | 2,562 |
| **Total[3]** | 47,886 | 44,057 | 91,943 | 1,204 | 473 | 1,677 | 1,991 | 93,934 |

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

# Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

### Credit quality of financial assets

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

| | Stage I[2] $m | Stage II[2] $m | Stage III[2] $m | Total $m |
|---|---|---|---|---|
| **Investment grade** | | | | CONSOLIDATED 2019 |
| Cash and bank balances | 8,423 | – | – | 8,423 |
| Cash collateral on securities borrowed and reverse repurchase agreements[3] | 8,628 | – | – | 8,628 |
| Margin money and settlement assets | 9,338 | – | – | 9,338 |
| Financial investments | 4,868 | – | – | 4,868 |
| Held for sale and other assets | 1,490 | – | – | 1,490 |
| Loan assets | 35,758 | 411 | – | 36,169 |
| Loans to associates and joint ventures | 4 | – | – | 4 |
| Undrawn credit commitments and financial guarantees | 2,598 | – | – | 2,598 |
| **Total investment grade** | 71,107 | 411 | – | 71,518 |
| **Non-investment grade** | | | | |
| Cash and bank balances | 220 | – | – | 220 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 2,096 | – | – | 2,096 |
| Margin money and settlement assets | 3,622 | 160 | – | 3,782 |
| Financial investments | 208 | – | – | 208 |
| Held for sale and other assets | 2,950 | 25 | – | 2,975 |
| Loan assets | 29,053 | 10,864 | – | 39,917 |
| Loans to associates and joint ventures | 442 | – | – | 442 |
| Undrawn credit commitments and financial guarantees | 3,990 | 239 | – | 4,229 |
| **Total non-investment grade** | 42,581 | 11,288 | – | 53,869 |
| **Default** | | | | |
| Margin money and settlement assets | – | – | 15 | 15 |
| Financial investments | – | – | 234 | 234 |
| Held for sale and other assets | – | – | 94 | 94 |
| Loan assets | – | – | 1,935 | 1,935 |
| Loans to associates and joint ventures | – | – | 163 | 163 |
| Undrawn credit commitments and financial guarantees | – | – | 7 | 7 |
| **Total default** | – | – | 2,448 | 2,448 |
| **Total** | 113,688 | 11,699 | 2,448 | 127,835 |
| **Financial assets by ECL stage** | | | | |
| Cash and bank balances | 8,643 | – | – | 8,643 |
| Cash collateral on securities borrowed and reverse repurchase agreements[3] | 10,724 | – | – | 10,724 |
| Margin money and settlement assets | 12,960 | 160 | 15 | 13,135 |
| Financial investments | 5,076 | – | 234 | 5,310 |
| Held for sale and other assets | 4,440 | 25 | 94 | 4,559 |
| Loan assets | 64,811 | 11,275 | 1,935 | 78,021 |
| Loans to associates and joint ventures | 446 | – | 163 | 609 |
| Undrawn credit commitments and financial guarantees | 6,588 | 239 | 7 | 6,834 |
| **Total financial assets by ECL stage** | 113,688 | 11,699 | 2,448 | 127,835 |

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses.* Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
(3) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

## Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

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

| | Investment grade $m | Non-investment grade $m | Total other than default $m | OF WHICH PAST DUE Up to 30 days $m | 31 to <90 days $m | Total past due but not default $m | Default $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | CONSOLIDATED 2019 |
| Home loans[1] | 27,010 | 15,325 | 42,335 | 534 | 342 | 876 | 721 | 43,056 |
| Asset financing | 3,347 | 14,764 | 18,111 | 746 | 102 | 848 | 556 | 18,667 |
| Corporate, commercial and other lending | 4,330 | 9,485 | 13,815 | 114 | 42 | 156 | 658 | 14,473 |
| Investment lending | 1,482 | 343 | 1,825 | – | – | – | – | 1,825 |
| **Total[2]** | 36,169 | 39,917 | 76,086 | 1,394 | 486 | 1,880 | 1,935 | 78,021 |

The following table below discloses, by credit rating grades, the gross carrying amount of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Company subject to the impairment requirements of AASB 9.

| | **COMPANY 2020** | | COMPANY 2019 | |
|---|---|---|---|---|
| | **Stage I $m** | **Total $m** | Stage I $m | Total $m |
| **Investment grade** | | | | |
| Held for sale and other assets | **–** | **–** | 7 | 7 |
| Due from subsidiaries | **29,438** | **29,438** | 22,308 | 22,308 |
| Undrawn commitments and financial guarantees | **5,877** | **5,877** | 4,505 | 4,505 |
| **Total investment grade** | **35,315** | **35,315** | 26,820 | 26,820 |
| **Non-investment grade** | | | | |
| Due from subsidiaries | **28** | **28** | – | – |
| **Total Non-investment grade** | **28** | **28** | – | – |
| **Total** | **35,343** | **35,343** | 26,820 | 26,820 |
| **Financial assets by ECL stage** | | | | |
| Held for sale and other assets | **–** | **–** | 7 | 7 |
| Due from subsidiaries | **29,466** | **29,466** | 22,308 | 22,308 |
| Undrawn commitments and financial guarantees | **5,877** | **5,877** | 4,505 | 4,505 |
| **Financial assets by ECL stage** | **35,343** | **35,343** | 26,820 | 26,820 |

(1) Includes $16,457 million home loans for which insurance has been obtained from investment grade Lenders mortgage Insurance (LMI) counterparties and another $18,802 million home loans where the Consolidated Entity has bought risk protection from a panel of investment grade companies via an excess of loss structure.

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

# Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

### Credit risk concentration

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

| | Cash and bank balances | Cash collateral on securities borrowed and reverse repurchase agreements[1] | Margin money and settlement assets | Financial investments | Held for sale and other assets | Loan assets[2] | Loans to associates and joint ventures | Undrawn credit commitments and financial guarantees | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| | | | | | | | | | CONSOLIDATED 2020 |
| **Australia** | | | | | | | | | |
| Governments | – | – | – | 188 | 17 | 112 | – | – | 317 |
| Financial institutions | 2,121 | 2,148 | 1,978 | 4,006 | 142 | 2,646 | 47 | 269 | 13,357 |
| Other | – | – | 1,119 | 990 | 353 | 76,449 | – | 3,378 | 82,289 |
| Total Australia | 2,121 | 2,148 | 3,097 | 5,184 | 512 | 79,207 | 47 | 3,647 | 95,963 |
| **Asia Pacific** | | | | | | | | | |
| Governments | – | – | 344 | – | – | – | – | 6 | 350 |
| Financial institutions | 1,637 | 3,231 | 1,003 | 558 | 32 | – | – | – | 6,461 |
| Other | – | – | 1,103 | – | 505 | 523 | 37 | 152 | 2,320 |
| Total Asia Pacific | 1,637 | 3,231 | 2,450 | 558 | 537 | 523 | 37 | 158 | 9,131 |
| **Europe, Middle East and Africa** | | | | | | | | | |
| Governments | 668 | – | – | – | 152 | 10 | – | 58 | 888 |
| Financial institutions | 1,314 | 13,855 | 2,363 | 1,266 | 357 | 494 | 373 | 30 | 20,052 |
| Other | – | – | 2,937 | – | 1,486 | 4,014 | 188 | 463 | 9,088 |
| Total Europe, Middle East and Africa | 1,982 | 13,855 | 5,300 | 1,266 | 1,995 | 4,518 | 561 | 551 | 30,028 |
| **Americas** | | | | | | | | | |
| Governments | – | – | 23 | – | 92 | 125 | – | 4 | 244 |
| Financial institutions | 3,977 | 10,519 | 3,148 | 337 | 537 | 4,510 | – | 197 | 23,225 |
| Other | – | – | 1,891 | – | 476 | 5,051 | 271 | 2,235 | 9,924 |
| Total Americas | 3,977 | 10,519 | 5,062 | 337 | 1,105 | 9,686 | 271 | 2,436 | 33,393 |
| **Total gross credit risk[3]** | 9,717 | 29,753 | 15,909 | 7,345 | 4,149 | 93,934 | 916 | 6,792 | 168,515 |

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.
(2) Loan assets in the Australia region includes home loans of $56,270 million, Asset financing of $14,745 million, Corporate, commercial and other lending of $8,020 million and Investment lending of $172 million.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

## Note 34
### Financial risk management continued

#### Note 34.1 Credit risk continued

| | Cash and bank balances $m | Cash collateral on securities borrowed and reverse repurchase agreements[1] $m | Margin money and settlement assets $m | Financial investments $m | Held for sale and other assets $m | Loan assets[2] $m | Loans to associates and joint ventures $m | Undrawn credit commitments and financial guarantees $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | CONSOLIDATED 2019 |
| **Australia** | | | | | | | | | |
| Governments | – | – | – | – | 20 | 69 | – | – | 89 |
| Financial institutions | 1,960 | 2,527 | 1,401 | 3,398 | 261 | 2,359 | 39 | 372 | 12,317 |
| Other | – | – | 742 | 818 | 1,173 | 62,942 | 1 | 2,464 | 68,140 |
| Total Australia | 1,960 | 2,527 | 2,143 | 4,216 | 1,454 | 65,370 | 40 | 2,836 | 80,546 |
| **Asia Pacific** | | | | | | | | | |
| Governments | – | – | 258 | – | – | – | – | 6 | 264 |
| Financial institutions | 1,930 | 2,438 | 1,056 | 500 | 83 | 2 | 1 | – | 6,010 |
| Other | – | – | 1,258 | – | 702 | 802 | 100 | 197 | 3,059 |
| Total Asia Pacific | 1,930 | 2,438 | 2,572 | 500 | 785 | 804 | 101 | 203 | 9,333 |
| **Europe, Middle East and Africa** | | | | | | | | | |
| Governments | 550 | – | 148 | – | 152 | 2 | – | 34 | 886 |
| Financial institutions | 603 | 2,467 | 2,481 | 162 | 1,132 | 713 | – | 312 | 7,870 |
| Other | – | – | 1,631 | – | 300 | 3,921 | 203 | 1,041 | 7,096 |
| Total Europe, Middle East and Africa | 1,153 | 2,467 | 4,260 | 162 | 1,584 | 4,636 | 203 | 1,387 | 15,852 |
| **Americas** | | | | | | | | | |
| Governments | – | – | 28 | – | 1 | 93 | – | 6 | 128 |
| Financial institutions | 3,600 | 2,821 | 2,228 | 320 | 168 | 2,828 | – | 215 | 12,180 |
| Other | – | 471 | 1,904 | 112 | 567 | 4,290 | 265 | 2,187 | 9,796 |
| Total Americas | 3,600 | 3,292 | 4,160 | 432 | 736 | 7,211 | 265 | 2,408 | 22,104 |
| **Total gross credit risk[3]** | 8,643 | 10,724 | 13,135 | 5,310 | 4,559 | 78,021 | 609 | 6,834 | 127,835 |

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.
(2) Loan assets in the Australia region includes home loans of $41,965 million, Asset financing of $16,228 million, Corporate, commercial and other lending of $6,967 million and Investment lending of $210 million.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

# Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

| | Due from subsidiaries[1] $m | Held for sale and other assets $m | Undrawn commitments and financial guarantees $m | Total $m |
|---|---|---|---|---|
| | | | | COMPANY 2020 |
| **Australia** | | | | |
| Financial institutions | 29,407 | – | – | 29,407 |
| Other | 9 | – | 292 | 301 |
| Total Australia | 29,416 | – | 292 | 29,708 |
| **Asia Pacific** | | | | |
| Financial institutions | 2 | – | – | 2 |
| Other | 3 | – | 543 | 546 |
| Total Asia Pacific | 5 | – | 543 | 548 |
| **Europe, Middle East and Africa** | | | | |
| Financial institutions | 11 | – | – | 11 |
| Other | – | – | 448 | 448 |
| Total Europe, Middle East and Africa | 11 | – | 448 | 459 |
| **Americas** | | – | | |
| Financial institutions | 33 | – | 619 | 652 |
| Other | 1 | – | 3,975 | 3,976 |
| Total Americas | 34 | – | 4,594 | 4,628 |
| **Total gross credit risk** | 29,466 | – | 5,877 | 35,343 |
| | | | | COMPANY 2019 |
| **Australia** | | | | |
| Financial institutions | 22,286 | – | – | 22,286 |
| Other | 4 | 7 | 307 | 318 |
| Total Australia | 22,290 | 7 | 307 | 22,604 |
| **Asia Pacific** | | | | |
| Financial institutions | 2 | – | – | 2 |
| Other | 3 | – | 420 | 423 |
| Total Asia Pacific | 5 | – | 420 | 425 |
| **Europe, Middle East and Africa** | | | | |
| Financial institutions | – | – | – | – |
| Other | – | – | 364 | 364 |
| Total Europe, Middle East and Africa | – | – | 364 | 364 |
| **Americas** | | | | |
| Financial institutions | – | – | 144 | 144 |
| Other | 13 | – | 3,270 | 3,283 |
| Total Americas | 13 | – | 3,414 | 3,427 |
| **Total gross credit risk** | 22,308 | 7 | 4,505 | 26,820 |

(1) Due from subsidiaries have been presented as Financial Institution and Others based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification. Previous year has been reclassified to conform to the current year presentation.

## Note 34
### Financial risk management continued

#### Note 34.1 Credit risk continued

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 since they are measured at fair value through 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.

| | Cash collateral on securities borrowed and reverse repurchase agreements[1] $m | Trading assets $m | Margin money and settlement assets $m | Derivative assets $m | Financial investments $m | Held for sale and other assets $m | Loan assets $m | Loans to associates and joint ventures $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | CONSOLIDATED 2020 |
| **Australia** | | | | | | | | | |
| Governments | – | 4,613 | – | 165 | – | – | – | – | 4,778 |
| Financial institutions | – | 60 | – | 6,894 | – | – | 52 | 8 | 7,014 |
| Other | – | – | 3 | 1,989 | – | 25 | – | 1 | 2,018 |
| Total Australia | – | 4,673 | 3 | 9,048 | – | 25 | 52 | 9 | 13,810 |
| **Asia Pacific** | | | | | | | | | |
| Governments | – | 441 | – | 28 | – | – | – | – | 469 |
| Financial institutions | 822 | 106 | – | 587 | 55 | – | – | – | 1,570 |
| Other | – | 91 | 224 | 1,647 | 7 | 278 | – | – | 2,247 |
| Total Asia Pacific | 822 | 638 | 224 | 2,262 | 62 | 278 | – | – | 4,286 |
| **Europe, Middle East and Africa** | | | | | | | | | |
| Governments | – | – | – | 13 | – | – | 16 | – | 29 |
| Financial institutions | 1,782 | 48 | – | 13,149 | 136 | – | – | – | 15,115 |
| Other | – | 527 | – | 11,618 | 8 | 528 | 192 | 77 | 12,950 |
| Total Europe, Middle East and Africa | 1,782 | 575 | – | 24,780 | 144 | 528 | 208 | 77 | 28,094 |
| **Americas** | | | | | | | | | |
| Governments | – | 2,015 | 3 | 57 | – | – | – | – | 2,075 |
| Financial institutions | 5,353 | 35 | 12 | 6,683 | 102 | – | 76 | – | 12,261 |
| Other | – | 695 | 314 | 2,777 | 15 | 176 | 1,004 | 99 | 5,080 |
| Total Americas | 5,353 | 2,745 | 329 | 9,517 | 117 | 176 | 1,080 | 99 | 19,416 |
| **Total gross credit risk** | 7,957 | 8,631 | 556 | 45,607 | 323 | 1,007 | 1,340 | 185 | 65,606 |

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

# Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 since they are measured at fair value through 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.

| | Cash collateral on securities borrowed and reverse repurchase agreements[1] $m | Trading assets $m | Margin money and settlement assets $m | Derivative assets $m | Financial investments $m | Held for sale and other assets $m | Loan assets $m | Loans to associates and joint ventures $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | CONSOLIDATED 2019 |
| **Australia** | | | | | | | | | |
| Governments | – | 3,541 | – | 18 | – | – | – | – | 3,559 |
| Financial institutions | 702 | 125 | 5 | 1,467 | – | – | – | 11 | 2,310 |
| Other | – | – | – | 1,243 | – | – | 140 | 24 | 1,407 |
| Total Australia | 702 | 3,666 | 5 | 2,728 | – | – | 140 | 35 | 7,276 |
| **Asia Pacific** | | | | | | | | | |
| Governments | – | 237 | – | 4 | – | – | – | – | 241 |
| Financial institutions | 514 | 633 | – | 184 | 79 | – | 2 | – | 1,412 |
| Other | – | 106 | 85 | 610 | 6 | 580 | 41 | – | 1,428 |
| Total Asia Pacific | 514 | 976 | 85 | 798 | 85 | 580 | 43 | – | 3,081 |
| **Europe, Middle East and Africa** | | | | | | | | | |
| Governments | – | 80 | – | 7 | – | – | 7 | – | 94 |
| Financial institutions | 5,464 | 255 | – | 3,303 | 320 | – | 22 | – | 9,364 |
| Other | – | 521 | 11 | 3,132 | – | 1,750 | 28 | – | 5,442 |
| Total Europe, Middle East and Africa | 5,464 | 856 | 11 | 6,442 | 320 | 1,750 | 57 | – | 14,900 |
| **Americas** | | | | | | | | | |
| Governments | 8 | 1,001 | – | 36 | – | – | – | – | 1,045 |
| Financial institutions | 12,459 | 43 | 166 | 2,341 | 183 | – | 51 | – | 15,243 |
| Other | – | 424 | 292 | 2,045 | 45 | 61 | 94 | – | 2,961 |
| Total Americas | 12,467 | 1,468 | 458 | 4,422 | 228 | 61 | 145 | – | 19,249 |
| **Total gross credit risk** | 19,147 | 6,966 | 559 | 14,390 | 633 | 2,391 | 385 | 35 | 44,506 |

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

## Note 34
### Financial risk management continued

#### Note 34.1 Credit risk continued

| | COMPANY 2020 | COMPANY 2019 |
|---|---|---|
| | Due from subsidiaries[1] $m | Due from subsidiaries $m |
| **Australia** | | |
| Financial institutions | **2,580** | 1,102 |
| Other | **300** | – |
| Total Australia | **2,880** | 1,102 |
| **Total gross credit risk** | **2,880** | 1,102 |

### Maximum exposure to credit risk

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 35 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount and is disclosed in Note 12 *Expected credit losses*.

### Collateral and credit enhancements held

#### Cash collateral on securities borrowed and reverse repurchase agreements

The Consolidated Entity enters stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

The fair value of collateral held not recognised in the statement of financial positions as at 31 March 2020 is $38,072 million (2019: $29,502 million). The Consolidated Entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is $5,312 million (2019: $7,448 million). The value attributed to collateral held is judgemental and is general subject to valuation movements. Macquarie may also incur additional selling costs when a defaulted position is closed out.

(1) Due from subsidiaries have been presented as Financial Institution and Others based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification. Previous year has been reclassified to conform to the current year presentation.

# Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

#### Loan assets

*Home loans*

Home loans are secured by fixed charges over a borrower's property. Prior to April 2017 the Consolidated Entity obtained LMI from a single well rated counterparty, to cover a substantial portion of the home loan portfolio against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Since April 2017, the Consolidated Entity has purchased risk protection from a diversified panel of rated counterparties via an excess of loss structure. The Consolidated Entity is exposed to the first 100bps of loss on a pooled basis for each year of mortgage origination volumes. Loss protection is in place for the next 200bps (i.e. from 100bps to 300bps), and any excess loss over 300bps is retained by the Consolidated Entity. Potential exposure to this structure is provisioned through the ECL allowance. During the previous year loss protection was in place for the next 300bps (i.e. from 100bps to 400bps).

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the most recent valuation of home loan assets in response to variation in the loan request. Expected credit loss provisions disclosed in Note 12 include forward-looking assumptions for the value of the collateral in determining the ECL at the reporting date.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Australia $m | EMEA $m | Total $m | Australia $m | EMEA $m | Total $m |
| | | | | | | CONSOLIDATED |
| Fully collateralised | | | | | | |
| Loan to value ratio | | | | | | |
| <=25% | 1,699 | 5 | 1,704 | 1,440 | 12 | 1,452 |
| >25% to 50% | 10,104 | 67 | 10,171 | 7,683 | 119 | 7,802 |
| >50% to 70% | 22,415 | 205 | 22,620 | 15,655 | 420 | 16,075 |
| >70% to 80% | 17,992 | 72 | 18,064 | 13,194 | 297 | 13,491 |
| >80% to 90% | 3,436 | 27 | 3,463 | 3,457 | 54 | 3,511 |
| >90% to 100% | 525 | 5 | 530 | 574 | 11 | 585 |
| Partly collateralised | 36 | 3 | 39 | 73 | 7 | 80 |
| Total home loans | 56,207 | 384 | 56,591 | 42,076 | 920 | 42,996 |

#### Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $16,564 million (2019: $18,423 million), the credit exposure after considering the depreciated value of collateral is $7,514 million (2019: $8,195 million).

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

#### Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. Of the term lending of $18,403 million (2019: $14,434 million), the credit exposure after considering the estimated value of collateral and credit enhancements is $2,853 million (2019: $2,768 million).

#### Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral or holds security by way of a registered pledge over the underlying investment. Investment lending portfolio of $2,559 million (2019: $1,958 million) is fully collateralised. In the event of default realised collateral values may be lower than the value of collateral as at the reporting date.

## Note 34
## Financial risk management continued

### Note 34.1 Credit risk continued

#### Additional collateral

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.

The home loan and asset finance balance includes $16,402 million (2019: $10,753 million) which has been securitised by consolidated SEs.

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

Exchange traded and OTC cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house except for the cases where it is trading through another clearing house member. The clearing house is responsible for managing the risk associated with the process on behalf of their members and providing a high level of confidence that adequate resources exist to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities and provide daily variation margins in cash to cover changes in market values of the underlying derivatives. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values as at 31 March 2020 of $5,662 million (2019: $822 million).

For OTC derivative contracts, the Consolidated Entity often has master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements.

In the event of default, they require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity also often executes a Credit Support Annex in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2020, the Consolidated Entity held OTC contracts with a positive replacement value of $39,945 million (2019: $13,569 million). The credit risk of these contracts has been reduced due to master netting agreements covering negative OTC contracts of $24,154 million (2019: $7,496 million) and margins held (excluding the impact of over-collateralisation) of $5,882 million (2019: $2,121 million).

#### Financial investments

This classification mainly includes debt securities held by the Consolidated Entity primarily in the nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities for liquidity management purposes and other securities for short term gains.

The Consolidated Entity utilises Credit Default Swaps (CDS), guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to this credit risk.

#### Margin money and settlement assets

Security settlements of $6,698 million (2019: $7,330 million) included in margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities and other securities sold. These assets are collateralised with the underlying securities or cash held by the Consolidated Entity until the date of settlement. The period between trade and settlement risk is generally a small (2 to 3 day) period.

#### Credit commitments

Undrawn facilities and lending commitments of $4,844 million (2019: $4,700 million) are secured through collateral and credit enhancement out of the total undrawn facilities and lending commitments of $11,948 million (2019: $10,518 million).

### Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

# Note 34
## Financial risk management continued

### Note 34.2 Liquidity risk

#### Liquidity policy and risk appetite

The MGL and MBL liquidity policies are designed so that each of Macquarie, the Bank Group and the Non-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 is consistent with the MGL policy. MGL provides funding predominantly to the Non-Bank Group. Macquarie's liquidity risk appetite is intended to ensure that Macquarie 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 for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie's franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MBL is an authorised deposit taking institution and is funded mainly with capital, long-term liabilities and deposits.

#### Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan,* which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details:

- factors that may constitute a crisis
- the officer responsible for enacting the contingency management
- 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 monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding the invoking of the plan.

The *Liquidity Contingency Plan* is subject to regular review by both Group Treasury and RMG. It is submitted to the ALCO and MGL and MBL Boards for approval.

Macquarie 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 a reference to a separate document providing the specific information required for those branches or subsidiaries.

#### Funding strategy

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

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

The *Funding Strategy* is reviewed by the ALCO and approved by the respective Boards.

#### Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to the regulatory defined scenarios, Group Treasury models additional liquidity scenarios covering both market-wide and Macquarie name-specific crises.

A range of assumptions Macquarie intends to be conservative are used 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 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's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

#### Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets which are intended to ensure adequate liquidity is available under a range of market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA) or be an asset type that is eligible as collateral in the Reserve Bank of Australia's (RBA) Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

## Note 34
### Financial risk management continued

#### Note 34.2 Liquidity risk continued

Undrawn credit lines and facilities:

The Consolidated Entity has $2,775 million (March 2019: $3,345 million) of available undrawn credit lines and facilities at 31 March 2020. Further, on 19 March 2020, the RBA announced that it was establishing a Term Funding Facility (TFF) that would offer authorised deposit taking institutions (ADI) three-year funding at a rate of 0.25% per annum in response to COVID-19. MBL, being an ADI has been granted an allowance of $1,900 million. MBL has not included the TFF in the available undrawn credit lines and facilities balance.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. 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 for Macquarie as a whole. 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 on the statement of financial position at the balance date. Repayments subject to notice are treated as if notice were given immediately. This does not reflect the behaviour expected cash flows indicated by the Consolidated Entity's deposit retention history since the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay.

# Note 34
## Financial risk management continued

### Note 34.2 Liquidity risk continued

| | Statement of financial position carrying value $m | On demand $m | 0 to 3 months $m | 3 to 12 months $m | 1 to 5 years $m | More than 5 years $m | Total $m |
|---|---|---|---|---|---|---|---|
| | | | | | | | CONSOLIDATED 2020 |
| Cash collateral on securities lent and repurchase agreements | 2,334 | 1,033 | 1,082 | 221 | – | – | 2,336 |
| Trading liabilities[1] | 5,544 | – | 5,544 | – | – | – | 5,544 |
| Margin money and settlement liabilities | 22,815 | 13,895 | 8,920 | – | – | – | 22,815 |
| Derivative liabilities (trading)[1] | 37,961 | – | 37,961 | – | – | – | 37,961 |
| Derivative liabilities (hedge accounting relationships)[2] | 438 | | | | | | |
| Contractual amounts payable | | – | 542 | 708 | 789 | 56 | 2,095 |
| Contractual amounts receivable | | – | (1) | (9) | (559) | – | (569) |
| Deposits | 67,342 | 54,862 | 8,867 | 3,442 | 216 | 11 | 67,398 |
| Held for sale and other liabilities[3] | 2,919 | 466 | 586 | 929 | 755 | 271 | 3,007 |
| Borrowings | 17,093 | 196 | 1,451 | 900 | 11,031 | 4,847 | 18,425 |
| Debt issued[4] | 64,556 | – | 5,515 | 11,737 | 29,078 | 28,920 | 75,250 |
| Loan capital[5] | 7,414 | – | 68 | 1,627 | 3,175 | 3,566 | 8,436 |
| **Total** | 228,416 | 70,452 | 70,535 | 19,555 | 44,485 | 37,671 | 242,698 |
| Contingent liabilities | | – | 2,383 | – | – | – | 2,383 |
| Commitments | | 4,908 | 3,761 | 958 | 4,715 | 1,761 | 16,103 |
| **Total undiscounted contingent liabilities and commitments[6]** | | 4,908 | 6,144 | 958 | 4,715 | 1,761 | 18,486 |

(1) Derivative liabilities (other than those designated in a hedge accounting relationship) and trading liabilities are included in the 0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently settled in the short-term at fair value.
(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure's requirement.
(3) Excludes non-contractual accruals and provisions.
(4) Includes $18,237 million payables to SE note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets.
(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 24 *Loan capital.*
(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

## Note 34
### Financial risk management continued

#### Note 34.2 Liquidity risk continued

| | Statement of financial position carrying value $m | On demand $m | 0 to 3 months $m | 3 to 12 months $m | 1 to 5 years $m | More than 5 years $m | Total $m |
|---|---|---|---|---|---|---|---|
| | | | | | | | CONSOLIDATED 2019 |
| Cash collateral on securities lent and repurchase agreements | 4,838 | 1,840 | 2,552 | 37 | – | 411 | 4,840 |
| Trading liabilities[1] | 6,907 | – | 6,907 | – | – | – | 6,907 |
| Margin money and settlement liabilities | 16,897 | 7,307 | 9,590 | – | – | – | 16,897 |
| Derivative liabilities (trading)[1] | 12,167 | – | 12,167 | – | – | – | 12,167 |
| Derivative liabilities (hedge accounting relationships)[2] | 499 | | | | | | |
| Contractual amounts payable | | – | 896 | 768 | 1,162 | 265 | 3,091 |
| Contractual amounts receivable | | – | (785) | (646) | (832) | (210) | (2,473) |
| Deposits | 56,191 | 44,299 | 7,500 | 4,231 | 248 | 3 | 56,281 |
| Held for sale and other liabilities[3] [4] | 7,693 | 377 | 2,109 | 317 | 2,802 | 2,159 | 7,764 |
| Borrowings | 9,318 | 889 | 326 | 400 | 5,859 | 2,956 | 10,430 |
| Debt issued[5] | 51,389 | – | 9,765 | 11,536 | 19,358 | 18,810 | 59,469 |
| Loan capital[6] | 6,963 | – | 151 | 802 | 3,406 | 4,423 | 8,782 |
| **Total** | 172,862 | 54,712 | 51,178 | 17,445 | 32,003 | 28,817 | 184,155 |
| Contingent liabilities | | – | 2,058 | – | – | – | 2,058 |
| Commitments | | 4,925 | 2,805 | 567 | 4,520 | 1,173 | 13,990 |
| **Total undiscounted contingent liabilities and commitments[7]** | | 4,925 | 4,863 | 567 | 4,520 | 1,173 | 16,048 |

(1) Derivative Liabilities (other than those designated in a hedge accounting relationship) and trading liabilities are included in the 0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosures requirement.
(3) Excludes non-contractual accruals and provisions.
(4) Includes liabilities of $5,042 million which relate to the Consolidated Entity's interest in MAF that was classified as held for sale and disclosed based on contractual maturity.
(5) Includes $9,617 million payables to SE note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets.
(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 24 *Loan capital.*
(7) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

# Note 34
## Financial risk management continued

### Note 34.2 Liquidity risk continued

| | Statement of financial position carrying value $m | On demand $m | 0 to 3 months $m | 3 to 12 months $m | 1 to 5 years $m | More than 5 years $m | Total $m |
|---|---|---|---|---|---|---|---|
| | | | | | | | **COMPANY 2020** |
| Derivative liabilities (trading)[1] | 2 | – | 2 | – | – | – | 2 |
| Deposits | 51 | – | – | 3 | 54 | – | 57 |
| Other liabilities[2] | 15 | 14 | 1 | – | – | – | 15 |
| Borrowings | 10,114 | – | 46 | 126 | 7,365 | 3,205 | 10,742 |
| Due to subsidiaries[3] | 8,474 | 530 | 936 | 19 | 7,088 | – | 8,573 |
| Debt issued | 13,253 | – | 114 | 1,636 | 8,041 | 5,836 | 15,627 |
| Loan capital[4] | 2,416 | – | 19 | 614 | 1,293 | 960 | 2,886 |
| **Total** | 34,325 | 544 | 1,118 | 2,398 | 23,841 | 10,001 | 37,902 |
| Contingent liabilities | – | – | 5,877 | – | – | – | 5,877 |
| Commitments | – | 284 | 25 | 102 | 1,420 | 2 | 1,833 |
| **Total undiscounted contingent liabilities and commitments[5]** | – | 284 | 5,902 | 102 | 1,420 | 2 | 7,710 |
| | | | | | | | COMPANY 2019 |
| Derivative liabilities (trading)[1] | 1 | – | 1 | – | – | – | 1 |
| Deposits | 49 | – | – | – | 54 | – | 54 |
| Other liabilities[2] | 10 | – | 10 | – | – | – | 10 |
| Borrowings | 7,131 | – | 13 | 154 | 5,090 | 2,912 | 8,169 |
| Due to subsidiaries[3] | 959 | – | 547 | – | – | – | 547 |
| Debt issued | 13,036 | – | 186 | 2,538 | 7,926 | 5,103 | 15,753 |
| Loan capital[4] | 2,409 | – | 22 | 102 | 939 | 2,056 | 3,119 |
| **Total** | 23,595 | – | 779 | 2,794 | 14,009 | 10,071 | 27,653 |
| Contingent liabilities | – | – | 4,505 | – | – | – | 4,505 |
| Commitments | – | – | 34 | 154 | 1,766 | – | 1,954 |
| **Total undiscounted contingent liabilities and commitments[5]** | – | – | 4,539 | 154 | 1,766 | – | 6,459 |

(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, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Excludes items that are non-contractual accruals and provisions.
(3) Application of the MLA in the current year resulted in a change in the tenors and offsetting requirements. The contractual cash outflows presented for the current year represent the revised gross payable amounts and maturities and are therefore not comparable with the previous year. Refer to Note 28 *Related party information.*
(4) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 24 *Loan capital.*
(5) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

## Note 34
### Financial risk management continued

#### Note 34.3 Market risk

#### Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading positions as a result of changes in market conditions. The Consolidated Entity is exposed to the following risks:

- **price:** The risk of loss due to changes in price of a risk factor (interest rates, foreign exchange, commodities etc.)
- **volatility:** The risk of loss due to changes in the volatility of a risk factor
- **basis:** Risk of imperfect correlation between offsetting investments in a hedging strategy
- **correlation:** Risk that the actual correlation between two assets or variables is different from the assumed correlation
- **illiquid market:** Risk of inability to sell assets or close out positions in thinly-traded markets at close to the last market prices
- **concentration:** Risk of over concentration of trading exposures in certain markets and products
- **valuation adjustments (XVA):** Risk of actual valuation adjustments to derivative positions; specifically Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA).

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets.

Limits are for both individual trading desks and divisions as well as in aggregate.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than that which has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

# Note 34
## Financial risk management continued

### Note 34.3 Market risk continued

#### Value-at-Risk figures (1-day, 99% confidence level)

The table below shows the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is based on a one-day holding period being the mark-to-market that could be incurred over that period. The aggregated VaR is on a correlated basis.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Average $m | Maximum $m | Minimum $m | Average $m | Maximum $m | Minimum $m |
| Equities | **7.57** | **10.93** | **3.38** | 5.28 | 8.16 | 2.74 |
| Interest rates | **2.52** | **3.24** | **1.76** | 2.82 | 3.45 | 2.25 |
| Foreign exchange and bullion | **1.59** | **3.92** | **0.79** | 2.06 | 5.17 | 1.06 |
| Commodities[1] | **23.36** | **42.59** | **13.34** | 25.13 | 54.32 | 14.33 |
| Aggregate | **24.53** | **44.16** | **13.14** | 24.89 | 52.56 | 14.34 |

#### Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. The following factors can limit the effectiveness of VaR in predicting future price moves:

- the use of historical data means that 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.

For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

#### Non-traded market risk

The Consolidated Entity 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.

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the Consolidated Entity's Non-traded market risk policy is to reduce the sensitivity of regulatory capital ratios to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital. This aligns the currency of capital supply with capital requirements.

As a result of this policy, the Consolidated Entity is therefore partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Apart from this there is no material non-trading foreign exchange risk.

#### Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 1(xi) *Derivative instruments and hedging activities* and Note 33 *Hedge accounting.*

(1) Includes commodity contracts.

## Note 34
## Financial risk management continued

### Note 34.3 Market risk continued

#### Foreign currency risk

The Consolidated Entity is active in various currencies globally. To manage the capital ratio volatility arising from these activities, Macquarie converts a portion of capital into foreign currencies. This net investment in foreign operations results in a sensitivity to movements in the Australian dollar rate against various foreign currencies. Those with the most impact on the sensitivity analysis are United States dollar, Great British pound, Euro and Canadian dollar, as shown below for 31 March.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Movement in exchange rates % | Sensitivity of other comprehensive income after tax $m | Movement in exchange rates % | Sensitivity of other comprehensive income after tax $m |
| | | | | CONSOLIDATED |
| United States dollar | +10 | (678) | +10 | (551) |
| Great British pound | +10 | (102) | +10 | (92) |
| Euro | +10 | (57) | +10 | (37) |
| Canadian dollar | +10 | (20) | +10 | (18) |
| **Total** | | (857) | | (698) |
| United States dollar | -10 | 828 | -10 | 674 |
| Great British pound | -10 | 125 | -10 | 112 |
| Euro | -10 | 70 | -10 | 46 |
| Canadian dollar | -10 | 24 | -10 | 22 |
| **Total** | | 1,047 | | 854 |

#### Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure as at 31 March on its non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Geographic region | Movement in equity price % | Sensitivity of profit after tax $m | Movement in equity price % | Sensitivity of profit after tax $m |
| **Listed** | | | | |
| Australia | +10 | 4 | +10 | 3 |
| Americas | +10 | 12 | +10 | 14 |
| Europe, Middle East and Africa | +10 | 3 | +10 | 3 |
| Asia Pacific | +10 | – | +10 | 1 |
| **Unlisted** | +10 | 71 | +10 | 60 |
| **Total** | | 90 | | 81 |
| **Listed** | | | | |
| Australia | -10 | (4) | -10 | (3) |
| Americas | -10 | (12) | -10 | (14) |
| Europe, Middle East and Africa | -10 | (3) | -10 | (3) |
| Asia Pacific | -10 | – | -10 | (1) |
| **Unlisted** | -10 | (71) | -10 | (60) |
| **Total** | | (90) | | (81) |

## Note 35
### Measurement categories of financial instruments

The following table contains information relating to the measurement categories of financial instruments, including commodities, of the Consolidated Entity. The descriptions of measurement categories are included in Note 1(viii) *Financial instruments.* The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 36 *Fair value of financial assets and financial liabilities.*

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | | | FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT | |
|---|---|---|---|---|---|---|---|---|---|
| | FAIR VALUE | | | | | | | | |
| | HFT $m | DFVTPL $m | FVTPL $m | FVOCI $m | Amortised cost $m | Non-financial instruments $m | Statement of financial position total $m | Fair value $m | Amortised cost $m |
| | | | | | | | | | CONSOLIDATED 2020 |
| **Assets** | | | | | | | | | |
| Cash and bank balances | – | – | – | – | 9,717 | – | 9,717 | – | 9,717 |
| Cash collateral on securities borrowed and reverse repurchase agreements[1] | – | – | 7,957 | 23,064 | 6,689 | – | 37,710 | 31,021 | 6,689 |
| Trading assets[2] | 16,855 | – | – | – | – | – | 16,855 | 16,855 | – |
| Margin money and settlement assets | – | – | 555 | – | 15,838 | – | 16,393 | 555 | 15,838 |
| Derivative assets[3] | 45,607 | – | – | – | – | – | 45,607 | 45,607 | – |
| Financial investments | | | | | | | | | |
| Equity | – | – | 1,301 | – | – | – | 1,301 | 1,301 | – |
| Debt | – | – | 323 | 7,306 | – | – | 7,629 | 7,629 | – |
| Held for sale assets[4] | – | – | 52 | – | 609 | 973 | 1,634 | 52 | 609 |
| Other assets[4] | – | 947 | 315 | – | 3,127 | 2,479 | 6,868 | 1,262 | 3,127 |
| Loan assets[5] | – | 83 | 1,257 | 1,359 | 91,418 | – | 94,117 | 2,699 | 91,445 |
| Property, plant and equipment and right-of-use assets | – | – | – | – | – | 5,044 | 5,044 | – | – |
| Interest in associates and joint ventures | – | – | – | – | – | – | – | – | – |
| Equity interests | – | – | – | – | – | 7,367 | 7,367 | – | – |
| Loans to associates and joint ventures[5] | – | – | 185 | 56 | 711 | – | 952 | 241 | 756 |
| Intangible assets | – | – | – | – | – | 3,268 | 3,268 | – | – |
| Deferred tax assets | – | – | – | – | – | 1,340 | 1,340 | – | – |
| **Total assets** | 62,462 | 1,030 | 11,945 | 31,785 | 128,109 | 20,471 | 255,802 | 107,222 | 128,181 |
| **Liabilities** | | | | | | | | | |
| Cash collateral on securities lent and repurchase agreements | – | 1,292 | – | – | 1,042 | – | 2,334 | 1,292 | 1,042 |
| Trading liabilities | 5,544 | – | – | – | – | – | 5,544 | 5,544 | – |
| Margin money and settlement liabilities | – | – | – | – | 22,815 | – | 22,815 | – | 22,815 |
| Derivative liabilities[3] | 38,399 | – | – | – | – | – | 38,399 | 38,399 | – |
| Deposits | – | – | – | – | 67,342 | – | 67,342 | – | 67,413 |
| Held for sale liabilities[6] | – | – | – | – | 123 | 137 | 260 | – | 123 |
| Other liabilities[6] | – | 622 | – | – | 2,174 | 5,231 | 8,027 | 622 | 1,130 |
| Borrowings | – | – | – | – | 17,093 | – | 17,093 | – | 17,031 |
| Debt issued[5] | – | 2,929 | – | – | 61,627 | – | 64,556 | 2,929 | 60,961 |
| Deferred tax liabilities | – | – | – | – | – | 234 | 234 | – | – |
| Loan capital[5] | – | – | – | – | 7,414 | – | 7,414 | – | 7,013 |
| **Total liabilities** | 43,943 | 4,843 | – | – | 179,630 | 5,602 | 234,018 | 48,786 | 177,528 |

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. These reverse repurchase agreements were previously held in a FVTPL business model.
(2) Includes commodities carried at fair value which are held for trading purposes.
(3) Derivatives designated in effective hedges are included as HFT. Further detail regarding the carrying amount of hedging instruments is included in Note 33 *Hedge accounting.*
(4) Non-financial assets primarily represents non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale, fee related contract assets, prepayments, tax receivables, inventory held for sale and investment property.
(5) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risks.
(6) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale, accrued charges, employee related provisions, retained director profit share, tax payables and income received in advance. The fair value of other liabilities excludes lease liabilities.

## Note 35

### Measurement categories of financial instruments continued

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | | | FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT | |
|---|---|---|---|---|---|---|---|---|---|
| | FAIR VALUE | | | | | | | | |
| | HFT $m | DFVTPL $m | FVTPL $m | FVOCI $m | Amortised cost $m | Non-financial instruments $m | Statement of financial position total $m | Fair value $m | Amortised cost $m |
| | | | | | | | | CONSOLIDATED 2019 | |
| **Assets** | | | | | | | | | |
| Cash and bank balances | – | – | – | – | 8,643 | – | 8,643 | – | 8,643 |
| Cash collateral on securities borrowed and reverse repurchase agreements | – | – | 19,147 | – | 10,724 | – | 29,871 | 19,147 | 10,724 |
| Trading assets[1] | 17,446 | – | – | – | – | – | 17,446 | 17,446 | – |
| Margin money and settlement assets | – | – | 559 | – | 13,135 | – | 13,694 | 559 | 13,135 |
| Derivative assets[2] | 14,390 | – | – | – | – | – | 14,390 | 14,390 | – |
| Financial investments | | | | | | | | | |
| Equity | – | – | 1,311 | – | – | – | 1,311 | 1,311 | – |
| Debt | – | – | 633 | 5,217 | – | – | 5,850 | 5,850 | – |
| Held for sale assets[3] | – | – | – | 68 | 696 | 8,259 | 9,023 | 68 | 696 |
| Other assets[3] | – | 2,332 | 439 | – | 2,492 | 2,473 | 7,736 | 2,771 | 2,492 |
| Loan assets[4] | – | 190 | 194 | 569 | 76,858 | – | 77,811 | 953 | 77,123 |
| Property, plant and equipment and right-of-use assets | – | – | – | – | – | 4,701 | 4,701 | – | – |
| Interest in associates and joint ventures | | | | | | | | | |
| Equity interests | – | – | – | – | – | 3,688 | 3,688 | – | – |
| Loans to associates and joint ventures[4] | – | – | 35 | 173 | 323 | – | 531 | 208 | 323 |
| Intangible assets | – | – | – | – | – | 2,031 | 2,031 | – | – |
| Deferred tax assets | – | – | – | – | – | 1,031 | 1,031 | – | – |
| **Total assets** | 31,836 | 2,522 | 22,318 | 6,027 | 112,871 | 22,183 | 197,757 | 62,703 | 113,136 |
| **Liabilities** | | | | | | | | | |
| Cash collateral on securities lent and repurchase agreements | – | 1,732 | – | – | 3,106 | – | 4,838 | 1,732 | 3,106 |
| Trading liabilities | 6,907 | – | – | – | – | – | 6,907 | 6,907 | – |
| Margin money and settlement liabilities | – | – | – | – | 16,897 | – | 16,897 | – | 16,897 |
| Derivative liabilities[2] | 12,666 | – | – | – | – | – | 12,666 | 12,666 | – |
| Deposits | – | – | – | – | 56,191 | – | 56,191 | – | 56,247 |
| Held for sale liabilities[5] | – | – | – | – | 5,379 | 1,430 | 6,809 | – | 5,379 |
| Other liabilities[5] | – | 819 | – | – | 1,495 | 4,676 | 6,990 | 819 | 1,495 |
| Borrowings | – | – | – | – | 9,318 | – | 9,318 | – | 9,353 |
| Debt issued[4] | – | 3,605 | – | – | 47,784 | – | 51,389 | 3,605 | 48,094 |
| Deferred tax liabilities | – | – | – | – | – | 425 | 425 | – | – |
| Loan capital[4] | – | – | – | – | 6,963 | – | 6,963 | – | 7,094 |
| **Total liabilities** | 19,573 | 6,156 | – | – | 147,133 | 6,531 | 179,393 | 25,729 | 147,665 |

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are included as HFT. Further detail regarding the carrying amount of hedging instruments is included in Note 33 *Hedge accounting*.
(3) Non-financial assets primarily represent non-financial assets of disposal groups and equity interests in associates that have been classified as held for sale, fee related contract assets, prepayments, tax receivables, inventory held for sale and investment property.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represents non-financial liabilities of disposal groups classified as held for sale, accrued charges, employee related provisions, retained director profit share, tax payables and income received in advance and maintenance liability. The fair value of other liabilities excludes lease liabilities.

## Note 35
### Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories of financial instruments of the Company. The descriptions of measurement categories are included in Note 1(viii) *Financial instruments.* The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 36 *Fair value of financial assets and financial liabilities.*

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | | | FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT | |
|---|---|---|---|---|---|---|---|---|---|
| | FAIR VALUE | | | | | | | | |
| | HFT $m | DFVTPL $m | FVTPL $m | FVOCI $m | Amortised cost $m | Non-financial instruments $m | Statement of financial position total $m | Fair value $m | Amortised cost $m |
| | | | | | | | | | COMPANY 2020 |
| **Assets** | | | | | | | | | |
| Other assets[1] | – | – | – | – | – | 18 | 18 | – | – |
| Due from subsidiaries[2] | 480 | – | 2,400 | – | 29,436 | 18 | 32,334 | 2,880 | 29,436 |
| Investments in subsidiaries | – | – | – | – | – | 31,816 | 31,816 | – | – |
| **Total assets** | 480 | – | 2,400 | – | 29,436 | 31,852 | 64,168 | 2,880 | 29,436 |
| **Liabilities** | | | | | | | | | |
| Derivative liabilities | 2 | – | – | – | – | – | 2 | 2 | – |
| Deposits | – | – | – | – | 51 | – | 51 | – | 51 |
| Other liabilities[3] | – | – | – | – | 15 | 445 | 460 | – | 15 |
| Borrowings | – | – | – | – | 10,114 | – | 10,114 | – | 10,114 |
| Due to subsidiaries[4] | 378 | – | – | – | 8,096 | 427 | 8,901 | 378 | 8,096 |
| Debt issued | – | 108 | – | – | 13,145 | – | 13,253 | 108 | 13,145 |
| Loan capital | – | – | – | – | 2,416 | – | 2,416 | – | 2,416 |
| **Total liabilities** | 380 | 108 | – | – | 33,837 | 872 | 35,197 | 488 | 33,837 |

(1) Non-financial assets primarily represents tax receivables.
(2) Due from subsidiaries includes derivatives and trading positions classified as HFT and subordinated loan to subsidiaries classified as FVTPL. All other intercompany receivables are carried at amortised cost.
(3) Non-financial liabilities primarily represents provisions for tax payable and employee stock option related obligations.
(4) Due to subsidiaries includes derivatives and trading positions classified as HFT, employee stock option related obligations and tax payables that are non-financial liabilities. All other intercompany payables are carried at amortised cost.

## Note 35

### Measurement categories of financial instruments continued

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | | | FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT | |
|---|---|---|---|---|---|---|---|---|---|
| | FAIR VALUE | | | | | | | | |
| | HFT $m | DFVTPL $m | FVTPL $m | FVOCI $m | Amortised cost $m | Non-financial instruments $m | Statement of financial position total $m | Fair value $m | Amortised cost $m |
| | | | | | | | | | COMPANY 2019 |
| **Assets** | | | | | | | | | |
| Other assets[1] | – | – | – | – | 7 | 34 | 41 | – | 7 |
| Due from subsidiaries[2] | – | – | 1,102 | – | 22,277 | – | 23,379 | 1,102 | 22,277 |
| Investments in subsidiaries | – | – | – | – | – | 28,965 | 28,965 | – | – |
| Deferred tax assets | – | – | – | – | – | 8 | 8 | – | – |
| **Total assets** | – | – | 1,102 | – | 22,284 | 29,007 | 52,393 | 1,102 | 22,284 |
| **Liabilities** | | | | | | | | | |
| Derivative liabilities | 1 | – | – | – | – | – | 1 | 1 | – |
| Deposits | – | – | – | – | 49 | – | 49 | – | 49 |
| Other liabilities[3] | – | – | – | – | 10 | 376 | 386 | – | 9 |
| Borrowings | – | – | – | – | 7,131 | – | 7,131 | – | 7,150 |
| Due to subsidiaries | – | – | – | – | 959 | – | 959 | – | 959 |
| Debt issued | – | 30 | – | – | 13,006 | – | 13,036 | 30 | 13,187 |
| Loan capital | – | – | – | – | 2,409 | – | 2,409 | – | 2,510 |
| **Total liabilities** | 1 | 30 | – | – | 23,564 | 376 | 23,971 | 31 | 23,864 |

(1) Non-financial assets primarily represents prepayments and tax receivables.
(2) Subordinated loan to subsidiary presented as FVTPL. All other intercompany receivables are carried at amortised cost.
(3) Non-financial liabilities primarily represents provisions for tax payable and employee stock option related obligations.

## Note 36
### Fair value of financial assets and financial liabilities

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

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing 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 such as the timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

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

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

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

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

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

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

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on securities borrowed, cash collateral on securities lent and repurchase agreements approximates their carrying amounts
- the fair values of all loan assets, term deposits and debt liabilities carried at amortised cost, is determined with reference to changes in credit spreads as well as interest rates
- the fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of debt issued and loan capital issued, where carried at amortised cost, is based on quoted prices in active markets where available. Where quoted prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are measured at fair value:

- trading assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified as FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of quoted prices and observable market inputs. Unrealised gains and losses on FVOCI assets, excluding impairment write-downs on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations

## Note 36
### Fair value of financial assets and financial liabilities continued

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

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

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

## Note 36
### Fair value of financial assets and financial liabilities continued

The following table summarises the fair value of financial assets and financial liabilities measured at amortised cost, including the level within the fair value hierarchy:

| | Level 1 $m | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| | | | | CONSOLIDATED 2020 |
| **Assets** | | | | |
| Cash and bank balances | 9,717 | – | – | 9,717 |
| Cash collateral on securities borrowed and reverse repurchase agreements | – | 6,689 | – | 6,689 |
| Margin money and settlement assets | 7,307 | 8,516 | 15 | 15,838 |
| Held for sale and other assets | – | 3,687 | 50 | 3,737 |
| Loan assets | – | 6,094 | 85,351 | 91,445 |
| Loans to associates and joint ventures | – | 52 | 704 | 756 |
| **Total assets** | 17,024 | 25,038 | 86,120 | 128,182 |
| **Liabilities** | | | | |
| Cash collateral on securities lent and repurchase agreements | – | 1,042 | – | 1,042 |
| Margin money and settlement liabilities | 14,095 | 8,720 | – | 22,815 |
| Deposits | 51,536 | 15,877 | – | 67,413 |
| Held for sale and other liabilities[1] | – | 1,212 | 41 | 1,253 |
| Borrowings | 119 | 13,614 | 3,298 | 17,031 |
| Debt issued | – | 48,805 | 12,156 | 60,961 |
| Loan capital | 2,288 | 4,725 | – | 7,013 |
| **Total liabilities** | 68,038 | 93,995 | 15,495 | 177,528 |
| | | | | CONSOLIDATED 2019 |
| **Assets** | | | | |
| Cash and bank balances | 8,643 | – | – | 8,643 |
| Cash collateral on securities borrowed and reverse repurchase agreements | – | 10,724 | – | 10,724 |
| Margin money and settlement assets | 3,418 | 9,717 | – | 13,135 |
| Held for sale and other assets | – | 3,188 | – | 3,188 |
| Loan assets | – | 5,509 | 71,614 | 77,123 |
| Loans to associates and joint ventures | – | – | 323 | 323 |
| **Total assets** | 12,061 | 29,138 | 71,937 | 113,136 |
| **Liabilities** | | | | |
| Cash collateral on securities lent and repurchase agreements | – | 3,106 | – | 3,106 |
| Margin money and settlement liabilities | 8,985 | 7,912 | – | 16,897 |
| Deposits | 42,910 | 13,337 | – | 56,247 |
| Held for sale and other liabilities[1] | – | 1,365 | 5,509 | 6,874 |
| Borrowings | 625 | 8,322 | 406 | 9,353 |
| Debt issued | – | 43,098 | 4,996 | 48,094 |
| Loan capital | 2,944 | 4,150 | – | 7,094 |
| **Total liabilities** | 55,464 | 81,290 | 10,911 | 147,665 |

The financial assets and liabilities measured at amortised cost in the Company as at 31 March 2020 and 31 March 2019 are predominantly categorised as Level 2 in the fair value hierarchy except for 'Loan Capital' which is classified as Level 1.

(1) The fair value of other liabilities excludes the fair value of lease liabilities.

## Note 36
### Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value[1]:

| | Level 1 $m | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| | | | | CONSOLIDATED 2020 |
| **Assets** | | | | |
| Cash collateral on securities borrowed and reverse repurchase agreements | – | 31,021 | – | 31,021 |
| Trading assets[2] | 10,362 | 5,837 | 656 | 16,855 |
| Margin money and settlement assets | – | 555 | – | 555 |
| Derivative assets | 1,009 | 43,718 | 880 | 45,607 |
| Financial investments | 723 | 6,819 | 1,388 | 8,930 |
| Held for sale and other assets | 3 | 1,301 | 10 | 1,314 |
| Loan assets | – | 184 | 2,515 | 2,699 |
| Loans to associates and joint ventures | – | – | 241 | 241 |
| **Total assets** | 12,097 | 89,435 | 5,690 | 107,222 |
| **Liabilities** | | | | |
| Cash collateral on securities lent and securities agreements | – | 1,292 | – | 1,292 |
| Trading liabilities | 5,164 | 380 | – | 5,544 |
| Derivative liabilities | 1,059 | 36,957 | 383 | 38,399 |
| Held for sale and other liabilities | 3 | 619 | – | 622 |
| Debt issued | – | 2,929 | – | 2,929 |
| **Total liabilities** | 6,226 | 42,177 | 383 | 48,786 |
| | | | | CONSOLIDATED 2019 |
| **Assets** | | | | |
| Cash collateral on securities borrowed and reverse repurchase agreements | – | 19,147 | – | 19,147 |
| Trading assets[2] | 12,343 | 4,878 | 225 | 17,446 |
| Margin money and settlement assets | 159 | 400 | – | 559 |
| Derivative assets | 248 | 13,571 | 571 | 14,390 |
| Financial investments | 486 | 5,173 | 1,502 | 7,161 |
| Held for sale and other assets | 9 | 2,733 | 97 | 2,839 |
| Loan assets | – | 332 | 621 | 953 |
| Loans to associates and joint ventures | – | – | 208 | 208 |
| **Total assets** | 13,245 | 46,234 | 3,224 | 62,703 |
| **Liabilities** | | | | |
| Cash collateral on securities lent and securities agreements | – | 1,732 | – | 1,732 |
| Trading liabilities | 6,790 | 117 | – | 6,907 |
| Derivative liabilities | 329 | 12,004 | 333 | 12,666 |
| Held for sale and other liabilities | 41 | 778 | – | 819 |
| Debt issued | – | 3,605 | – | 3,605 |
| **Total liabilities** | 7,160 | 18,236 | 333 | 25,729 |

(1) The fair value of non-financial assets and liabilities, where applicable is disclosed under the respective notes.
(2) Includes commodities carried at fair value which are held for trading purposes.

## Note 36
### Fair value of financial assets and financial liabilities continued

The Company does not hold financial instruments measured at fair value except for:

- $2,400 million (2019: $1,102 million) loan capital securities held in subsidiaries which are Level 3 financial instruments. The increase during the current year is due to additional loans being provided to subsidiaries
- $480 million derivative assets and $378 million derivative liabilities due with subsidiaries and $108 million (2019: $30 million) structured notes issued which are Level 2 financial instruments.

Fair value sensitivity of these intercompany balances to alternate assumptions and valuation inputs is not significant and hence not covered under sensitivity analysis disclosures in the note.

During the current year, the Consolidated Entity reclassified $2,601 million (2019: $3,029 million) representing certain bonds and bank bills (financial investments) from Level 1 to Level 2 following a reassessment of valuation inputs. Comparative information has been updated to conform to the current period presentation.

## Note 36
### Fair value of financial assets and financial liabilities continued

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

The following table summarises the movements in Level 3 of the fair value hierarchy for the financial instruments measured at fair value by the Consolidated Entity:

| | Trading assets $m | Financial investments $m | Held for sale and other assets $m | Loan assets $m |
|---|---|---|---|---|
| Balance as at 1 Apr 2018 | 213 | 1,039 | 173 | 714 |
| Purchase, originations, issuances and other additions | 84 | 661 | 83 | 422 |
| Sales, settlements and repayments | (63) | (358) | (237) | (486) |
| Transfers into Level 3[2] | 13 | 121 | – | – |
| Transfers out of Level 3[2] | (14) | (51) | – | – |
| Fair value movements recognised in the income statement[3] | (8) | 162 | 78 | (18) |
| Fair value movements recognised in OCI[3] | – | (72) | – | (11) |
| **Balance as at 31 Mar 2019** | 225 | 1,502 | 97 | 621 |
| Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year[3] | 6 | 47 | 1 | 6 |
| Balance as at 1 Apr 2019 | 225 | 1,502 | 97 | 621 |
| Purchase, originations, issuances and other additions | 363 | 366 | 15 | 2,213 |
| Sales, settlements and repayments | (45) | (502) | (70) | (208) |
| Transfers into Level 3[2] | 107 | 42 | – | – |
| Transfers out of Level 3[2] | (17) | (195) | (33) | – |
| Fair value movements recognised in the income statement [3] | 23 | 162 | 1 | 68 |
| Fair value movements recognised in OCI[3] | – | 13 | – | (179) |
| **Balance as at 31 Mar 2020** | 656 | 1,388 | 10 | 2,515 |
| Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year[3] | 23 | 146 | – | 53 |

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $880 million (2019: $571 million) and derivative liabilities are $383 million (2019: $333 million).
(2) Assets and liabilities transferred in or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the financial year.
(3) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are categorised as Levels 1 or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 or 2.

| Loans to associates and joint ventures $m | Held for sale and other liabilities $m | Debt issued $m | Derivative financial instruments (net replacement values)[1] $m | Total $m |
|---|---|---|---|---|
| 204 | (1) | (6) | 301 | 2,637 |
| 105 | – | – | 32 | 1,387 |
| (50) | 1 | 6 | (75) | (1,262) |
| – | – | – | 10 | 144 |
| (36) | – | – | 12 | (89) |
| 20 | – | – | (42) | 192 |
| (35) | – | – | – | (118) |
| 208 | – | – | 238 | 2,891 |
| | | | | |
| 10 | – | – | (42) | 28 |
| 208 | – | – | 238 | 2,891 |
| 256 | – | – | 249 | 3,462 |
| (167) | – | – | (113) | (1,105) |
| – | – | – | 18 | 167 |
| (7) | – | – | (6) | (258) |
| (30) | – | – | 111 | 335 |
| (19) | – | – | – | (185) |
| 241 | – | – | 497 | 5,307 |
| | | | | |
| (30) | – | – | 111 | 303 |

## Note 36
### Fair value of financial assets and financial liabilities continued

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

During the financial year, the Consolidated Entity and the Company did not have significant transfers between Level 1 and 2. Certain comparatives have been updated to conform to current year presentation.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year. Financial assets reclassified out of the fair value hierarchy disclosure due to changes in the classification and measurement category, or due to changes in significant influence or control are also presented as transfer out of Level 3.

#### Unrecognised gains

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

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

| | CONSOLIDATED | |
|---|---|---|
| | **2020 $m** | 2019 $m |
| Balance at the beginning of the financial year | **185** | 178 |
| Deferral on new transactions | **115** | 71 |
| Amounts recognised in the income statement during the financial year | **(121)** | (64) |
| **Balance at the end of the financial year** | **179** | 185 |

#### Sensitivity analysis of valuations using unobservable inputs

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

| | FAVOURABLE CHANGES | | UNFAVOURABLE CHANGES | |
|---|---|---|---|---|
| | Profit or loss $m | OCI $m | Profit or loss $m | OCI $m |
| | | | | **CONSOLIDATED 2020** |
| **Product type** | | | | |
| Equity and equity-linked products | **112** | **–** | **(122)** | **–** |
| Commodities | **167** | **–** | **(133)** | **–** |
| Interest rate and other products | **69** | **32** | **(213)** | **(49)** |
| **Total** | **348** | **32** | **(468)** | **(49)** |
| | | | | CONSOLIDATED 2019 |
| **Product type** | | | | |
| Equity and equity-linked products | 68 | – | (71) | – |
| Commodities | 107 | – | (114) | – |
| Interest rate and other products | 24 | 54 | (24) | (54) |
| **Total** | 199 | 54 | (209) | (54) |

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

# Note 36
## Fair value of financial assets and financial liabilities continued

### Significant unobservable inputs

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

| | Assets $m | Liabilities $m | Valuation technique(s) | Significant unobservable inputs | RANGE OF INPUTS Minimum value | Maximum value |
|---|---|---|---|---|---|---|
| | | | | | CONSOLIDATED 2020 | |
| Equity and equity-linked products | **976** | **10** | Discounted cash flows | Discount rate | **5.0%** | **10.2%** |
| | | | Pricing model | Earnings multiple | **2x** | **15x** |
| Commodities | **1,170** | **364** | Pricing model | Commodity margin curves | **(130.0)** | **325.0** |
| | | | Pricing model | Correlation | **(55.0%)** | **100.0%** |
| | | | Pricing model | Volatility and related variables | **0%** | **293.4%** |
| Interest rate and other products | **3,544** | **9** | Discounted cash flows | Discount rate | **2.0%** | **12.0%** |
| | | | Pricing model | Correlation | **0.0%** | **100.0%** |
| **Total** | **5,690** | **383** | | | | |
| | | | | | CONSOLIDATED 2019 | |
| Equity and equity-linked products | 728 | 2 | Discounted cash flows | Discount rate | 5.0% | 11.0% |
| | | | Pricing model | Earnings multiple | 1x | 16x |
| Commodities | 629 | 328 | Pricing model | Volatility | 0.0% | 133.0% |
| | | | Pricing model | Commodity margin curve | (75) | 300 |
| | | | Pricing model | Correlation | (45.0%) | 300% |
| Interest rate and other products | 1,867 | 3 | Discounted cash flows | Discount rate | 7.0% | 10.0% |
| | | | Pricing model | Correlation | 0% | 100.0% |
| Total | 3,224 | 333 | | | | |

### 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 of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

### Volatility

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

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

### Inputs for equity and equity-linked products

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

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

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

## Note 37
### Offsetting financial assets and financial liabilities

The Consolidated Entity and the company present financial assets and financial liabilities on a net basis on the statement of financial position when they meet the criteria described in Note 1(viii) *Financial instruments.* The following tables provide information on the impact of offsetting that has occurred in the statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore presented gross in the statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity and Company's financial position in that circumstance is to settle these contracts as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity. Refer to Note 34.1 *Credit risk* for information on credit risk management.

| | AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNT NOT OFFSET[1] | | | | |
| | Gross amounts $m | Amounts offset $m | Net amount presented $m | Other recognised financial instruments[2] $m | Cash and other financial collateral[3] $m | Net amount $m | Amount not subject to enforceable netting arrangements $m | Statement of financial position total $m |
| | | | | | | | | CONSOLIDATED 2020 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 37,311 | (944) | 36,367 | (353) | (35,269) | 745 | 1,343 | 37,710 |
| Margin money and settlement assets | 7,139 | (5,796) | 1,343 | – | – | 1,343 | 15,050 | 16,393 |
| Derivative assets | 61,467 | (18,245) | 43,222 | (24,154) | (11,228) | 7,840 | 2,385 | 45,607 |
| **Total assets** | 105,917 | (24,985) | 80,932 | (24,507) | (46,497) | 9,928 | 18,778 | 99,710 |
| Cash collateral on securities lent and repurchase agreements | (2,862) | 944 | (1,918) | 353 | 1,442 | (123) | (416) | (2,334) |
| Margin money and settlement liabilities | (7,355) | 5,796 | (1,559) | – | – | (1,559) | (21,256) | (22,815) |
| Derivative liabilities | (54,950) | 18,245 | (36,705) | 24,154 | 8,270 | (4,281) | (1,694) | (38,399) |
| **Total liabilities** | (65,167) | 24,985 | (40,182) | 24,507 | 9,712 | (5,963) | (23,366) | (63,548) |

(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) Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.
(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

## Note 37
### Offsetting financial assets and financial liabilities continued

| | AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNT NOT OFFSET[1] | | | | |
| | Gross amounts $m | Amounts offset $m | Net amount presented $m | Other recognised financial instruments[2] $m | Cash and other financial collateral[3] $m | Net amount $m | Amount not subject to enforceable netting arrangements $m | Statement of financial position total $m |
| | | | | | | | | CONSOLIDATED 2019 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 30,031 | (682) | 29,349 | (585) | (28,652) | 202 | 522 | 29,871 |
| Margin money and settlement assets | 6,206 | (4,332) | 1,874 | (15) | – | 1,859 | 11,820 | 13,694 |
| Derivative assets | 21,031 | (7,365) | 13,666 | (7,496) | (2,943) | 3,227 | 724 | 14,390 |
| **Total assets** | 57,268 | (12,379) | 44,889 | (8,096) | (31,505) | 5,288 | 13,066 | 57,955 |
| Cash collateral on securities lent and repurchase agreements | (5,079) | 682 | (4,397) | 585 | 3,665 | (147) | (441) | (4,838) |
| Margin money and settlement liabilities | (6,008) | 4,332 | (1,676) | 15 | – | (1,661) | (15,221) | (16,897) |
| Derivative liabilities | (20,008) | 7,365 | (12,643) | 7,496 | 1,636 | (3,511) | (23) | (12,666) |
| **Total liabilities** | (31,095) | 12,379 | (18,716) | 8,096 | 5,301 | (5,319) | (15,685) | (34,401) |

(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) Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.
(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

## Note 37
### Offsetting financial assets and financial liabilities continued

| | AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNT NOT OFFSET | | | | |
| | Gross amounts $m | Amounts offset $m | Net amount presented $m | Other recognised financial instruments $m | Cash and other financial collateral $m | Net amount $m | Amount not subject to enforceable netting arrangement $m | Statement of financial position total $m |
| | | | | | | | | **COMPANY 2020** |
| Due from subsidiaries | **29,806** | **(369)** | **29,437** | **(7,054)** | **–** | **22,383** | **2,897** | **32,334** |
| Due to subsidiaries | **(8,331)** | **369** | **(7,962)** | **7,054** | **–** | **(908)** | **(939)** | **(8,901)** |
| | | | | | | | | COMPANY 2019 |
| Due from subsidiaries | 32,013 | (8,685) | 23,328 | – | – | 23,328 | 51 | 23,379 |
| Due to subsidiaries | (9,575) | 8,685 | (890) | – | – | (890) | (69) | (959) |

In the company's statement of financial position netting of due from/to subsidiaries is governed by the MLA as at 31 March 2020 which establishes the standard terms and incorporates rights of set-off. The omnibus applied to such amounts as at 31 March 2019. Refer to Note 28 *Related party information* for further details.

# Note 38
## Pledged assets and transfers of financial assets

### Pledged assets

Assets pledged as security for liabilities include the following:

- securities included under trading assets and off balance sheet balances provided as collateral for repurchase transactions, stock lending and trading liabilities. These transactions are governed by standard industry agreements
- loan assets held by the Consolidated SEs provided as collateral against debt issued
- associate investments, financial investments, property, plant and equipment and right-of-use assets, other assets and cash and bank balances provided as collateral for borrowings.

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

| | CONSOLIDATED | |
|---|---|---|
| | 2020 $m | 2019 $m |
| **On Balance Sheet balances:** | | |
| Cash and bank balances | **146** | 43 |
| Trading assets[1] | **1,199** | 1,537 |
| Financial investments | **267** | 188 |
| Held for sale and other assets[2] | **332** | 6,359 |
| Loan assets | **16,804** | 11,200 |
| Property, plant and equipment and right-of-use assets | **303** | 155 |
| Interests in associates and joint ventures | **2,853** | – |
| Intangible assets | **451** | 156 |
| **Off Balance Sheet balances:** | | |
| Reverse repurchase and cash collateral transactions[3] | **5,312** | 7,448 |
| Total pledged assets | **27,667** | 27,086 |

### Transfer of financial assets

The Consolidated Entity or Company may enter into transactions in the normal course of business that transfer risks and rewards of financial assets recognised in the Consolidated Entity or Company's statement of financial position to other entities. Depending on the criteria discussed in Note 1(viii) *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 in their entirety, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. For the years ending 31 March 2020 and 31 March 2019, there were no material transfers of financial assets where the Consolidated Entity or the Company has continuing involvement.

### Transferred financial assets that are not derecognised

The Consolidated Entity did not derecognise any financial assets only to the extent of continuing involvement in the years ended 31 March 2020 and 31 March 2019. The following transactions typically result in the transferred assets continuing to be recognised in full.

#### Repurchase and securities lending agreements

Securities sold under an agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold by the transferee, however the assets may be substituted if the required collateral is maintained.

#### Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold by the transferee.

#### 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 an obligation to receive cash from the lessee and pay them to the external funder.

(1) For trading securities, the transferee has the right to sell or re-pledge the entire value of securities received.
(2) Prior year includes $6,061 million relating to MAF classified as held for sale as at March 2019, and subsequently disposed of to a joint venture during the current year. Refer to Note 40 *Acquisitions and disposals of subsidiaries and businesses*.
(3) Represents the fair value of collateral sold or re-pledged out of total securities amounting to $38,072 million (2019: $29,502 million) received as collateral against reverse repurchase and cash collateral agreements (refer to Note 34.1).

## Note 38
### Pledged assets and transfers of financial assets continued

| | | | FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS | | |
|---|---|---|---|---|---|
| | Carrying amount of transferred assets $m | Carrying amount of associated liabilities $m | Fair value of transferred assets $m | Fair value of associated liabilities $m | Fair value $m |
| | | | | | CONSOLIDATED 2020 |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading assets | 745 | (775) | – | – | – |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Financial investments | 267 | (245) | – | – | – |
| Other financial assets not derecognised: | | | | | |
| Cash and bank balances[1] | 124 | – | – | – | – |
| Trading assets[1] | 454 | – | – | – | – |
| Loan assets | 423 | (412) | 423 | (412) | 11 |
| **Total financial assets not derecognised** | **2,013** | **(1,432)** | **423** | **(412)** | **11** |
| | | | | | CONSOLIDATED 2019 |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading assets | 1,407 | (1,385) | – | – | – |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Trading assets | 130 | (130) | – | – | – |
| Financial investments | 188 | (178) | – | – | – |
| Other financial assets not derecognised: | | | | | |
| Loan assets | 447 | (460) | 455 | (463) | (7) |
| **Total financial assets not derecognised** | 2,172 | (2,153) | 455 | (463) | (7) |

There were no material transfers of financial assets for the Company where the financial assets are not derecognised as at 31 March 2020 and 31 March 2019.

(1) Includes gold placed as initial margin for trading activities.

## Note 39
### Audit and other services provided by PricewaterhouseCoopers

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

| | CONSOLIDATED | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| **PwC – Australia** | | |
| Audit of the Group and controlled entities | **19,000** | 16,045 |
| Other assurance services[1] | **4,578** | 3,481 |
| Advisory services | **265** | 270 |
| Taxation | **588** | 411 |
| Total non-audit services | **5,431** | 4,162 |
| **Total remuneration paid to PwC Australia** | **24,431** | 20,207 |
| **Network firms of PwC Australia** | | |
| Audit of the Group and controlled entities | **12,019** | 12,855 |
| Other assurance services[1] | **1,621** | 1,281 |
| Advisory services | **287** | 220 |
| Taxation | **1,706** | 3,738 |
| Total non-audit services | **3,614** | 5,239 |
| **Total remuneration paid to network firms of PwC Australia** | **15,633** | 18,094 |
| Total audit services remuneration paid to PwC | **31,019** | 28,900 |
| Total non-audit services remuneration paid to PwC | **9,045** | 9,401 |
| **Total remuneration paid to PwC (Note 2)** | **40,064** | 38,301 |

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) 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 regulatory compliance, accounting advice, comfort letters on debt issuance programmes, certifications, due diligence and reviews of controls and other agreed upon procedures. These assurance services would typically be performed by the auditor of a Consolidated Entity.

## Note 40
### Acquisitions and disposals of subsidiaries and businesses

#### Significant acquisition of entities or businesses:

There were no individually significant entities or businesses where control was gained during the current financial year.

#### Other entities or businesses acquired:

During the year ended 31 March 2020, entities or businesses acquired or consolidated due to the acquisition of control were:

Premier Technical Services Group, The Dovel Group, LLC, Ace Info Solutions LLC, Eolica Kisielice spólka z ograniczona odpowiedzialnoscia, Management Kisielice spółka z ograniczonąodpowiedzialnością, Lake Wind AB, Biocow Ltd, Zajączkowo Windfarm Sp. z o.o, Business Keeper AG, Macquarie Fund Solutions – Macquarie Corporate Bond, PESY II Holdings S.a.r.l and Matrix Networks Group Limited.

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

The purchase price allocations for the business combinations are provisional as at 31 March 2020.

During the year ended 31 March 2019, entities or businesses acquired or consolidated due to the acquisition of control were:

Value Invest Asset Management S.A., KGG Partners GmbH, GLL Real Estate Partners GmbH, Nuix Pty Limited, Conergy Asia Pte Ltd and its subsidiaries, American Alpha Master Fund, Savion LLC and Macquarie Emerging Markets Small Cap Fund.

Aggregate provisional details of the above-mentioned entities and businesses acquired are as follows:

| | 2020 $m | 2019 $m |
|---|---|---|
| **Fair value of net assets acquired** | | |
| Cash and bank balances | **44** | 127 |
| Other financial assets | **74** | 52 |
| Other assets | **213** | 87 |
| Property, plant and equipment and right-of-use assets | **193** | 11 |
| Intangible assets | **244** | 503 |
| Payables, provisions, borrowings and other liabilities | **(527)** | (197) |
| Non-controlling interests | **(69)** | (103) |
| **Total fair value of net assets acquired** | **172** | 480 |
| **Consideration** | | |
| Cash consideration (net of transaction costs) | **888** | 639 |
| Deferred consideration | **6** | 74 |
| Fair value of equity interest held before the acquisition date | **–** | 303 |
| **Total consideration (net of transaction costs)** | **894** | 1,016 |
| **Goodwill recognised on acquisition** | **722** | 536 |
| **Net cash flow** | | |
| Cash consideration | **(888)** | (639) |
| Less: cash and cash equivalents acquired | **44** | 127 |
| **Net cash outflow** | **(844)** | (512) |

# Note 40
## Acquisitions and disposals of subsidiaries and businesses continued

### Significant entities or businesses disposal:

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

### Other disposal of entities:

In the six-month period to 30 September 2019, the Consolidated Entity disposed of Macquarie AirFinance Limited (MAF) which was classified as held for sale as at 31 March 2019. This was achieved by contributing the net assets of the business to a newly formed joint venture along with a third-party investor and in which the Consolidated Entity held a 75% interest. Rental income and other operating lease-related charges up to the date of the disposal have been included in the Consolidated Entity's net operating lease income. In the six-month period up to 31 March 2020, the Consolidated Entity disposed of a 25% interest in the joint venture and accounted for its remaining 50% retained interest as an equity-accounted associate due to retaining significant influence.

Other entities or businesses disposed of or deconsolidated due to the loss of control were:

Energy S. LSIS, Achim Solar Power Co. Ltd, Aran Solar Company Limited, Suri Solar Company Limited, Sosu Solar Company Limited, Mir Solar Company Limited, Maru Solar Company Limited, Laon Solar Company Limited, Nuix Pty Ltd, Nuix North America Inc., Nuix USG Inc., Nuix Ireland Ltd, Nuix Technology UK Ltd, Nuix Pte. Ltd, Nuix Holding Pty Ltd, Nuix Philippines ROHQ, Dalmatia WtE EUR Topco Limited, Dalmatia WtE EUR Holdings Limited, LPC Venture I, LLC, Godo Kaisha Alpha Mega Solar Project No. 1, Godo Kaisha Alpha Mega Solar Project No. 2, Alchemy Telco Solutions Limited, American Alpha Master Fund, Delaware Emerging Market Debt Fund, Delaware Small Cap Growth Fund, Global Multi Asset Income, Delaware Investments Corporate Bond Fund (UCITs), PPP Irish Accommodation Limited, Zajączkowo Windfarm Sp. z o.o, Poland Bidco 1 Ltd, Kisielice Wind Limited, Eolica Kisielice spółka z ograniczona odpowiedzialnoscia and Management Kisielice spółka z ograniczonąodpowiedzialnością.

During the year ended 31 March 2019, entities or businesses disposed of or deconsolidated due to the loss of control were:

Energetics, Fuujin Power Ltd, Electrodes Holdings and its subsidiaries, Canadian Breaks Sponsor Co. LLC, UCITS Global Value Equity Fund, Macquarie Absolute Return Real Estate Fund, ADL Software Pty Limited, Cadent Gas Plc., Lal Wind Farms Fin Co Pty Limited, M Acquisition Sponsor II LLC, M Acquisition Company II Corp and Parachute Investments Limited.

Aggregate details of the entities or businesses disposed of are as follows:

| | 2020 $m | 2019 $m |
|---|---|---|
| **Carrying value of assets and liabilities** | | |
| Cash and bank balances | **114** | 68 |
| Other financial assets | **296** | 13 |
| Held for sale and other assets[1] | **9,776** | 1,977 |
| Property, plant and equipment and right-of-use assets | **94** | 690 |
| Interests in associates and joint ventures | **44** | 151 |
| Intangible assets | **453** | 3 |
| Held for sale, borrowings and other liabilities[1] | **(7,288)** | (878) |
| Non-controlling interests | **(349)** | (1,175) |
| **Total carrying value of net assets** | **3,140** | 849 |
| **Consideration** | | |
| Cash consideration (net of cost of disposal) | **1,223** | 1,309 |
| Consideration receivable | **17** | 6 |
| Fair value remeasurement of investment retained | **724** | 92 |
| Interest acquired through contribution to the joint venture[2] | **1,558** | – |
| **Total consideration** | **3,522** | 1,407 |
| **Direct costs relating to disposal** | **(8)** | (13) |
| **Net cash flow** | | |
| Cash consideration | **1,223** | 1,309 |
| Less: cash and cash equivalents disposed of or deconsolidated[3] | **(1,197)** | (68) |
| **Net cash inflow[4]** | **26** | 1,241 |

(1) The March 2020 held for sale assets primarily includes cash and bank balances and aviation assets under operating lease and the held for sale liabilities includes borrowings and maintenance liabilities. Previous year held for sale asset primarily includes investment in associates and the held for sale liabilities includes borrowings.
(2) Interest acquired as a result of the contribution of MAF net assets to a newly formed joint venture. Refer to Note 14 *Interests in associates and joint ventures* for details of the interest in Macquarie AirFinance Limited.
(3) The current period cash and cash equivalents disposed of includes $1,087 million of cash and bank balances included under held for sale and other assets above.
(4) Net cash inflow for the year ended 31 March 2020 includes $565 million of cash inflow, net of cash deconsolidated from the disposal of certain businesses and $539 million of cash outflow for cash deconsolidated, net of cash consideration for the disposal of certain businesses.

## Note 41
### Events after the reporting date

There were no material events subsequent to 31 March 2020 and up until the authorisation of the financial statements for issue, that have not been disclosed elsewhere in the financial statements.

# Directors' declaration

Macquarie Group Limited

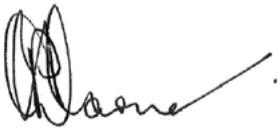
In the Directors' opinion:

(a) the financial statements and notes set out on pages 131 to 268 are in accordance with the *Corporations Act 2001* (Cth) including:
   (i) complying with the Australian accounting standards, and
   (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2020 and their performance for the financial year ended on that date, and

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

Note 1(i) includes a statement that the Financial Report complies with International Financial Reporting Standards.

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



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

**Shemara Wikramanayake**
*Managing Director and Chief Executive Officer*

Sydney
8 May 2020

# Independent auditor's report

To the members of Macquarie Group Limited

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## Report on the audit of the financial report

### Our opinion

In our opinion:

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

a) giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2020 and of their financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

### What we have audited

The Consolidated Entity and Company's financial report comprises:

- the Consolidated and Company statements of financial position as at 31 March 2020
- the Consolidated and Company income statements for the year then ended
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial report section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company and the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### Our audit approach for the Consolidated Entity

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls and the industry in which it operates.

The Consolidated Entity is structured into four operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram, Jacksonville and Manila, which undertake operational activities that are important to the financial reporting processes. The Consolidated Entity's financial report includes the four operating groups and the corporate segment.

### Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of $173 million, which represents approximately 5% of the Consolidated Entity's profit before tax.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Consolidated Entity profit before tax because, in our view, it is the benchmark against which the performance of the Consolidated Entity is most commonly measured.

We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

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## Consolidated Entity audit scope

Our audit focused on where the Consolidated Entity made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the four operating groups and the corporate segment. These component audit teams established an audit strategy tailored for each operating group and the corporate segment, in consultation with the group audit team.

Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other member firms of the PwC global network to perform audit procedures ranging from an audit of financial information to specified procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn, instructed. As part of the overall supervision of our audit and to develop our understanding of the Consolidated Entity's global operations, the group audit team or the component audit teams also visited overseas locations including Gurugram, Houston, Jacksonville, London, Munich, Manila, Philadelphia and New York.

The work performed by the component audit teams and the overseas audit teams, together with additional audit procedures performed by the group audit team such as procedures over the Consolidated Entity's consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity's financial report as a whole.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee. The key audit matters identified below relate to the audit of the Consolidated Entity, unless otherwise noted.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Provision for expected credit losses on loan assets (Refer to Note 12)** | |
| Under the credit impairment model required by AASB 9: Financial Instruments (AASB 9), losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic scenarios.<br><br>Given the rapidly developing COVID-19 pandemic and uncertainty as to the economic and financial market impact, significant judgement was required to be exercised by the Consolidated Entity in calculating the ECL. Specifically this includes judgements around the impact of COVID-19 on forward-looking information, including developing macroeconomic scenarios and their associated weightings given the wide range of potential economic outcomes and impacts from COVID-19 that may impact future expected credit losses.<br><br>In order to meet the ECL requirements of AASB 9, the Consolidated Entity has developed models that involve judgement including determining assumptions such as defining a significant increase in credit risk (SICR). The ECL models of the Consolidated Entity rely on numerous data elements and certain post model adjustments are applied based on the Consolidated Entity's judgement.<br><br>Given the extent of judgement involved, we considered this to be a key audit matter. | Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the ECL including controls relating to:<br>– review, challenge and approval of certain forward-looking macroeconomic assumptions and scenario weightings, including specifically the consideration of impacts from COVID-19<br>– the accuracy of certain critical data elements used in key ECL models, and<br>– the review and challenge forums to assess the ECL output and post model adjustments.<br><br>In addition to controls testing, we also performed substantive procedures including:<br>– using PwC credit modelling experts to assess the reasonableness of conclusions reached by the Consolidated Entity from model monitoring performed on key models. This included reviewing key model components such as SICR and also involved independent reperformance of certain tests within the model monitoring performed<br>– using PwC credit modelling experts to assess whether the list of critical data elements identified by the Consolidated Entity is reasonable for key models<br>– engaging PwC economics experts to assess and challenge the reasonableness of macroeconomic scenarios developed and certain forward-looking economic data developed by the Consolidated Entity, with a particular focus on the impact of COVID-19 in light of certain available information and consensus views<br>– assessing the reasonableness of individual credit ratings used in ECL models to determine whether these have incorporated the impact of COVID-19 at balance date<br>– testing the completeness and accuracy of certain critical data elements used in key ECL models<br>– assessing certain post model adjustments identified by the Consolidated Entity<br>– considering the impacts on the ECL of events occurring subsequent to balance date.<br><br>For credit impaired loan (stage III) provisions, we examined a sample of individual loan exposures to consider the reasonableness of provisions adopted.<br><br>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report. |

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of interests in associates and joint ventures, intangible assets including goodwill, held for sale assets, property, plant and equipment (PPE) and right-of-use assets due to the impact of COVID-19 (Refer to Note 2, Note 13, Note 14, Note 15)** | |
| In accordance with AASB 136: Impairment of Assets (AASB 136), interests in associates and joint ventures, identifiable intangible assets, PPE and right-of-use assets need to be assessed by the Consolidated Entity for indicators of impairment at the reporting date. If indicators of impairment exist, the recoverable amount for each asset needs to be estimated. These assessments involve significant judgements in estimating future cash flows and the rate at which they are discounted and in evaluating fair value less costs to sell. Further, irrespective of whether there is any indication of impairment, goodwill is required to be tested annually for impairment by comparing its carrying amount with its recoverable amount.<br><br>The COVID-19 pandemic results in a number of these assets showing indicators of impairment at 31 March 2020.<br><br>Given the extent of judgement involved in light of the impact of the COVID-19 pandemic and the financial significance of the impairment recognised, we considered this to be a key audit matter. | We evaluated the Consolidated Entity's valuation methodologies used to estimate the recoverable amounts of material interests in associates and joint ventures, intangible assets including goodwill, held for sale assets, PPE and right-of-use assets and the process by which they were developed. For samples selected, our procedures included:<br>– evaluating the Consolidated Entity's assessments of whether there were any indicators of impairment<br>– evaluating the appropriateness of the impairment assessment methodology and certain assumptions applied in calculating the recoverable amount<br>– comparing previous cashflow forecasts to actual results to assess the ability of the Consolidated Entity to forecast accurately<br>– assessing the competence, capability and objectivity of the external appraisers, where relevant<br>– engaging PwC valuation experts where relevant<br>– applying sensitivity analysis to key assumptions<br>– assessing certain underlying data used in determining the carrying value and recoverable amount of the relevant samples, and<br>– testing the mathematical accuracy of the Consolidated Entity's discounted cashflow models which were used to determine the recoverable amount of the asset.<br><br>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report. |
| **Valuation of financial assets and liabilities held at fair value with significant unobservable inputs (Level 3 financial instruments) (Refer to Note 36)** | |
| The Consolidated Entity exercises judgement in valuing certain financial assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments.<br><br>For the Consolidated Entity, these Level 3 financial instruments predominantly consist of trading assets, financial investments, loan assets, derivative financial instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs.<br><br>Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter. | Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over:<br>– approval and validation of the models adopted<br>– accuracy of data and inputs to models<br>– the Consolidated Entity's process for testing valuations, and<br>– governance and review.<br><br>For derivatives and trading assets, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations.<br><br>For a sample of financial investments and loan assets, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of the inputs used. For a sample of financial investments we assessed the sensitivity of the valuations to alternative assumptions where appropriate.<br><br>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **IT systems and controls over financial reporting** | |
| The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include:<br>– the framework of governance over IT systems<br>– controls over program development and changes<br>– controls over access to programs, data and IT operations, and<br>– governance over generic and privileged user accounts.<br><br>Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter. | Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.<br><br>We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.<br><br>Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also considered mitigating controls in order to respond to the impact on our overall audit approach. |
| **Provisions for tax payable (Refer to Note 21)** | |
| The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid.<br><br>Given the extent of judgement involved, we considered this to be a key audit matter. | Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities.<br><br>Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provisions for tax and tax receivables. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.<br><br>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report. |
| **Revenue recognition (Refer to Note 2)** | |
| In some cases, judgement is required in relation to the recognition, measurement and timing considerations of revenue streams, including fee income and the disposal of certain assets. The determination of fee income recognition involves judgements relating to the timing and amount of variable consideration to be recognised in relation to certain performance fees.<br><br>Given the extent of judgement involved, we considered this to be a key audit matter. | Our audit procedures included evaluating the design and testing the operating effectiveness of relevant controls relating to the recognition and measurement of fee income, revenue from disposal of relevant assets and performance fees.<br><br>In assessing the appropriateness of the recognition of revenue from fee income, we recalculated revenue for a sample of fees based on relevant information in supporting documents including contracts, trust constitutions and management agreements. We also considered the nature of the underlying fund assets, the proportion of assets already realised, the returns on the assets realised to date and the potential for volatility in the valuation of the remaining unrealised assets.<br><br>We performed testing to confirm the timing of revenue recognition in respect of certain transactions where sale agreements were in place at year end but the transaction had not yet been fully completed to assess the appropriateness of the recognition of revenue from the disposal of assets.<br><br>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report. |

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of investment in subsidiary (Company only) (Refer to Note 16)** | |
| At year end, the Company considered whether there were any indicators of impairment or whether impairment losses recognised in prior periods should be reversed on an investment in subsidiaries.<br><br>Given the market volatility caused by the COVID-19 pandemic, an indicator of impairment was determined to exist. Accordingly, an estimate of the investment's recoverable amount was calculated by determining the higher of the value-in-use and fair value less cost of disposal for the relevant investment.<br><br>Management's calculation of the value of the subsidiaries supported the current carrying value. Given the quantum of the investment and the judgement involved in determining the recoverable amount, we considered this to be a key audit matter. | Our procedures included:<br>– evaluating the methodology applied in the impairment assessment conducted<br>– assessing certain underlying data used in determining the carrying value and recoverable amount for the investment in subsidiary, and<br>– engaging PwC valuation experts where relevant.<br><br>We assessed the appropriateness of the Company's disclosures in the financial report. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Company and the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: **www.auasb.gov.au/auditors_responsibilities/ar1.pdf**. This description forms part of our auditor's report.

# Independent auditor's report

To the members of Macquarie Group Limited continued

## Report on the remuneration report

### Our opinion on the remuneration report

We have audited the remuneration report included in pages 89 to 126 of the Directors' Report for the year ended 31 March 2020.

In our opinion, the remuneration report of Macquarie Group Limited for the year ended 31 March 2020 complies with section 300A of the *Corporations Act 2001* (Cth).

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
8 May 2020

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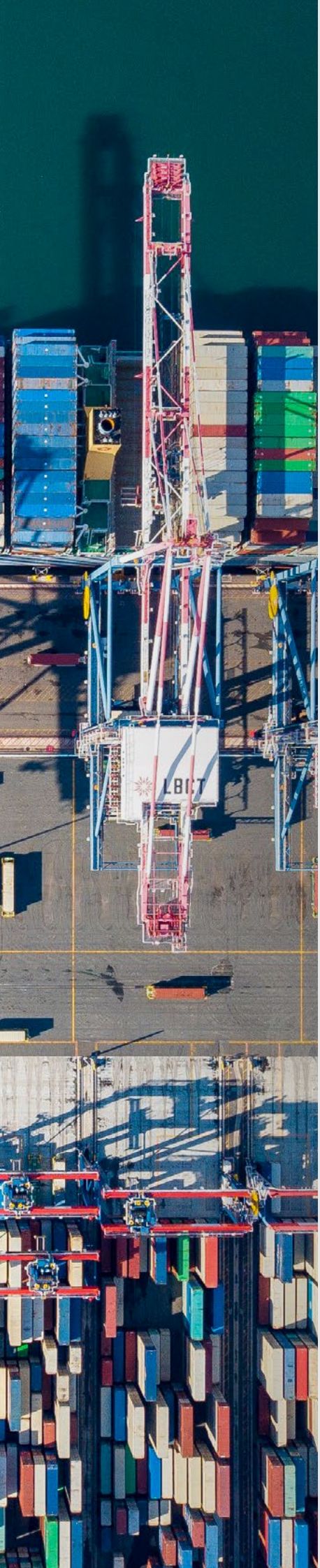


# Further Information

**Long Beach Container Terminal, United States of America**

Long Beach Container Terminal is the largest cargo gateway in North America, handling one third of the region's total container volumes. A Macquarie-led consortium acquired the highly automated and energy efficient terminal operator in October 2019.

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# Additional investor information

## Shareholder calendar

### 2020

| Date | Event |
|---|---|
| 8 May | Full-year result announcement |
| 18 May | Ex-dividend date for final ordinary dividend |
| 19 May | Record date for final ordinary dividend |
| 10 June | Payment date for MCN4 distribution |
| 15 June | Payment date for MCN3 distribution |
| 3 July | Payment date for final ordinary dividend |
| 30 July | AGM |
| 10 September | Payment date for MCN4 distribution |
| 15 September | Payment date for MCN3 distribution |
| 17 September | Payment date for MCN2 distribution |
| 30 September | Financial half-year end |
| 6 November[1] | Half-year result announcement |
| 16 November[1] | Ex-dividend date for interim ordinary dividend |
| 17 November[1] | Record date for interim ordinary dividend |
| 10 December | Payment date for MCN4 distribution |
| 15 December | Payment date for MCN3 distribution |
| 22 December[1] | Payment date for interim ordinary dividend |

### 2021

| Date | Event |
|---|---|
| 10 March | Payment date for MCN4 distribution |
| 15 March | Payment date for MCN3 distribution |
| 17 March | Payment date for MCN2 distribution |
| 31 March | Financial year end |

## 2020 Annual General Meeting

Macquarie Group Limited's 2020 AGM will be held at 10:30 am on Thursday, 30 July 2020 at the Sofitel Sydney Wentworth, Wentworth Ballroom, 61–101 Phillip St, Sydney NSW 2000 and may be held as a hybrid or virtual meeting with online facilities to comply with any COVID-19 restrictions. Details of the business of the meeting will be forwarded to shareholders separately.

We are closely monitoring the COVID-19 pandemic and, depending on government restrictions in place at the time the meeting is held, the meeting venue may be changed. Shareholders should refer to the Macquarie website and any ASX announcement concerning the venue of the meeting.

The closing date for the receipt of nominations from persons wishing to be considered for election as a director is Wednesday, 27 May 2020.

(1) These dates are subject to change.

## Dividend details

Macquarie generally pays a dividend on its fully paid ordinary shares twice a year following the interim and final results announcements. The proposed dates for the 2020 calendar year are in the calendar above.

### Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie ordinary shares rather than receiving dividends in cash.

## Stock exchange listing

| Equity or hybrid security | Stock exchange listing | Trading code |
|---|---|---|
| **Macquarie Group Limited Securities** | | |
| Macquarie ordinary shares | ASX | MQG |
| Macquarie Group Capital Notes 2 (MCN2) | ASX | MQGPB |
| Macquarie Group Capital Notes 3 (MCN3) | ASX | MQGPC |
| Macquarie Group Capital Notes 4 (MCN4) | ASX | MQGPD |
| **Macquarie Bank Limited Convertible Securities** | | |
| Macquarie Additional Capital Securities (MACS) | SGX | 6F6B |

Macquarie also has debt securities quoted on the London Stock Exchange.

## Equity and hybrid securities

The following information is correct as at 31 March 2020.

## Macquarie Group Limited securities

### Fully paid ordinary shares

#### Voting rights

At meetings of members or classes of members, each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands, every person present who is a member or a proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

(i) one vote for each fully paid share held by the member, and

(ii) that proportion of a vote for any partly paid ordinary share calculated in accordance with clause 8.18 of the MGL Constitution.

A copy of the Constitution is available at **macquarie.com/leadership-corporate-governance**

# Additional investor information

Continued

## 20 largest holders

| Registered holder | Number of ordinary shares held | % of ordinary shares |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 97,824,296 | 27.60 |
| J P Morgan Nominees Australia | 65,292,689 | 18.42 |
| Citicorp Nominees Pty Limited | 22,273,573 | 6.29 |
| National Nominees Limited | 13,314,483 | 3.76 |
| BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 11,654,874 | 3.29 |
| Bond Street Custodians Limited <MEREP Trustee – RSU Allocated> | 11,454,962 | 3.23 |
| BNP Paribas Noms Pty Ltd <DRP> | 4,244,569 | 1.20 |
| Bond Street Custodians Limited <MEREP Trustee – Unallocated> | 3,025,877 | 0.85 |
| Argo Investments Limited | 2,458,151 | 0.69 |
| HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C> | 2,377,185 | 0.67 |
| Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 1,957,718 | 0.55 |
| Bond Street Custodians Limited <Solium Nominees Aus Pty Ltd> | 1,954,908 | 0.55 |
| Australian Foundation Investment Company Limited | 1,749,967 | 0.49 |
| Nicholas Moore | 1,394,495 | 0.39 |
| Netwealth Investments Limited <Wrap Services A/C> | 1,081,254 | 0.31 |
| Milton Corporation Limited | 1,065,990 | 0.30 |
| National Nominees Limited <N A/C> | 899,584 | 0.25 |
| AMP Life Limited | 882,382 | 0.25 |
| BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP | 844,728 | 0.24 |
| HSBC Custody Nominees | 694,077 | 0.20 |
| **Total** | 246,445,762 | 69.54 |

## Substantial shareholders

The following holders are registered by MGL as a substantial shareholder, having declared a relevant interest in accordance with the Act, in the voting shares below:

| Registered holder | Number of ordinary shares held |
|---|---|
| Macquarie Group Limited | 21,183,227 |
| BlackRock Group | 20,601,274 |
| Vanguard | 17,726,376 |

## Spread of shareholdings

| Range | Number of shareholders | Number of shares | % of shares |
|---|---|---|---|
| 1–1,000 | 143,089 | 36,815,076 | 10.39 |
| 1,001–5,000 | 19,723 | 37,207,620 | 10.50 |
| 5,001–10,000 | 1,300 | 8,828,161 | 2.49 |
| 10,001–100,000 | 617 | 15,111,862 | 4.26 |
| 100,001 shares and over | 59 | 256,418,677 | 72.36 |
| **Total** | 164,788 | 354,381,396 | 100.00 |

There were 3,253 shareholders (representing 8,886 shares) who held less than a marketable parcel.

## Macquarie Group Capital Notes 2 (MCN2)

### Voting rights

MCN2 may convert into a variable number of MGL ordinary shares on 18 March 2024 or at other times, subject to various conditions. Holders of MCN2 have no voting rights in respect meetings of members of MGL prior to conversion.

### 20 largest holders

| Registered holder | Number of MCN2 held | % of MCN2 |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 538,813 | 10.15 |
| BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP | 121,783 | 2.29 |
| Australian Executor Trustees Limited <IPS Super A/C> | 116,141 | 2.19 |
| National Nominees Limited | 101,372 | 1.91 |
| Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C> | 72,810 | 1.37 |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 69,540 | 1.31 |
| Netwealth Investments Limited <Wrap Services A/C> | 64,068 | 1.21 |
| Dimbulu Pty Ltd | 50,000 | 0.94 |
| Australian Executor Trustees Limited <IPS IDPS A/C> | 34,154 | 0.64 |
| G C F Investments Pty Ltd | 26,610 | 0.50 |
| J P Morgan Nominees Australia | 25,192 | 0.47 |
| Sargon CT Pty Ltd <Charitable Foundation> | 24,259 | 0.46 |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 24,171 | 0.46 |
| Federation University Australia | 22,910 | 0.43 |
| Netwealth Investments Limited <Super Services A/C> | 22,571 | 0.43 |
| AK Plastics Pty Ltd <Andrew Kohn Staff S/F A/C> | 15,000 | 0.28 |
| Gandino Pty Ltd | 15,000 | 0.28 |
| Neboda Pty Ltd | 15,000 | 0.28 |
| Equitas Nominees Pty Limited <PB-600281 A/C> | 14,900 | 0.28 |
| Eastcote Pty Ltd <Van Lieshout Family A/C> | 13,700 | 0.26 |
| **Total** | 1,387,994 | 26.14 |

### Spread of noteholdings

| Range | Number of MCN2 holders | Number of MCN2 | % of MCN2 |
|---|---|---|---|
| 1–1,000 | 6,658 | 2,193,230 | 41.30 |
| 1,001–5,000 | 635 | 1,330,866 | 25.06 |
| 5,001–10,000 | 43 | 314,614 | 5.93 |
| 10,001–100,000 | 23 | 593,102 | 11.17 |
| 100,001 notes and over | 4 | 878,109 | 16.54 |
| **Total** | 7,363 | 5,309,921 | 100.00 |

There were two noteholders (representing nine notes) who held less than a marketable parcel.

## Macquarie Group Capital Notes 3 (MCN3)

### Voting rights

MCN3 may convert into a variable number of MGL ordinary shares on 15 December 2027 or at other times, subject to various conditions. Holders of MCN3 have no voting rights in respect meetings of members of MGL prior to conversion.

### 20 largest holders

| Registered holder | Number of MCN3 held | % of MCN3 |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 621,072 | 6.21 |
| Australian Executor Trustees Limited <IPS Super A/C> | 204,217 | 2.04 |
| National Nominees Limited | 155,388 | 1.55 |
| Netwealth Investments Limited <Wrap Services A/C> | 128,922 | 1.29 |
| Diocese Development Fund – Catholic Diocese of Paramatta | 115,000 | 1.15 |
| Citicorp Nominees Pty Limited | 99,038 | 0.99 |
| J P Morgan Nominees Australia | 86,851 | 0.87 |
| BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP | 84,412 | 0.84 |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 80,561 | 0.81 |
| Longhurst Management Services Pty Ltd | 60,000 | 0.60 |
| Mutual Trust Pty Ltd | 58,986 | 0.59 |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 56,687 | 0.57 |
| Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C> | 48,613 | 0.49 |
| Dimbulu Pty Ltd | 40,000 | 0.40 |
| Australian Executor Trustees Limited <IPS IDPS A/C> | 38,649 | 0.39 |
| Australian Executor Trustees Limited <No 1 Account> | 37,371 | 0.37 |
| Invia Custodian Pty Limited <Income Pool A/C> | 33,520 | 0.34 |
| Federation University Australia | 30,158 | 0.30 |
| Zashvin Pty Ltd | 30,000 | 0.30 |
| BNP Paribas Noms Pty Ltd <DRP> | 29,467 | 0.29 |
| **Total** | 2,038,912 | 20.39 |

### Spread of noteholdings

| Range | Number of MCN3 holders | Number of MCN3 | % of MCN3 |
|---|---|---|---|
| 1–1,000 | 11,510 | 3,889,783 | 38.90 |
| 1,001–5,000 | 1,334 | 2,768,339 | 27.68 |
| 5,001–10,000 | 86 | 646,260 | 6.46 |
| 10,001–100,000 | 55 | 1,471,019 | 14.71 |
| 100,001 notes and over | 5 | 1,224,599 | 12.25 |
| **Total** | 12,990 | 10,000,000 | 100.00 |

There were five noteholders (representing 20 notes) who held less than a marketable parcel.

## Macquarie Group Capital Notes 4 (MCN4)

### Voting rights

MCN4 may convert into a variable number of MGL ordinary shares on 10 September 2029 or at other times, subject to various conditions. Holders of MCN4 have no voting rights in respect meetings of members of MGL prior to conversion.

### 20 largest holders

| Registered holder | Number of MCN4 held | % of MCN4 |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 522,649 | 5.77 |
| Netwealth Investments Limited <Wrap Services A/C> | 142,003 | 1.57 |
| J P Morgan Nominees Australia | 138,866 | 1.53 |
| Dimbulu Pty Ltd | 100,000 | 1.10 |
| BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP | 96,613 | 1.07 |
| National Nominees Limited | 82,526 | 0.91 |
| Citicorp Nominees Pty Limited | 68,825 | 0.76 |
| John E Gill Trading Pty Ltd | 65,000 | 0.72 |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 38,820 | 0.43 |
| Invia Custodian Pty Limited <Income Pool A/C> | 33,950 | 0.37 |
| JDB Services Pty Ltd <RAC & JD Brice Invest A/C> | 32,967 | 0.36 |
| Nora Goodridge Investments Pty Limited | 30,000 | 0.33 |
| Qushan Pty Ltd <The Qu Family A/C> | 28,000 | 0.31 |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 25,130 | 0.28 |
| Pendant Realty Pty Ltd | 25,000 | 0.28 |
| Sneath & King Pty Ltd <Sneath & King S/F A/C> | 25,000 | 0.28 |
| Abbysah Pty Ltd <The Weiss Family A/C> | 24,580 | 0.27 |
| Australian Executor Trustees Limited <IPS Super A/C> | 24,327 | 0.27 |
| Citicorp Nominees Pty Limited <DPSL A/C> | 24,077 | 0.27 |
| Troxfield Pty Ltd <Rosebery Super Fund A/C> | 22,720 | 0.25 |
| **Total** | 1,551,053 | 17.13 |

### Spread of noteholdings

| Range | Number of MCN4 holders | Number of MCN4 | % of MCN4 |
|---|---|---|---|
| 1–1,000 | 11,055 | 3,717,782 | 41.06 |
| 1,001–5,000 | 1,197 | 2,547,547 | 28.13 |
| 5,001–10,000 | 98 | 730,566 | 8.07 |
| 10,001–100,000 | 51 | 1,255,497 | 13.87 |
| 100,001 notes and over | 3 | 803,518 | 8.87 |
| **Total** | 12,404 | 9,054,910 | 100.00 |

There were 82 noteholders (representing 380 notes) who held less than a marketable parcel.

## Macquarie Bank Limited convertible securities

### Macquarie Additional Capital Securities (MACS)

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

As at 31 March 2020, the $US750 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

## Unlisted securities

The following information is correct as at 31 March 2020.

### Exchangeable shares

62,419 exchangeable shares on issue are held by 11 former employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of a MGL ordinary share. They reached their 10-year anniversary in November 2017, upon which the scheme conditions remain in place, however a redemption date may be set at any time. They carry no voting rights in respect of meetings of members of MGL, prior to exchange.

38,082 exchangeable shares on issue are held by 8 former employees of Tristone Capital Global Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of a MGL ordinary share. They reached their 10-year anniversary in August 2019, upon which the scheme conditions remain in place, however a redemption date can be set at any time and carry no voting rights in respect of meetings of members of MGL prior to exchange.

### MEREP

3,177,680 DSUs are held by 531 participants and 1,017,433 PSUs are held by 17 participants in the MEREP.

### American Depository Receipt (ADR) program

Macquarie ADRs are negotiable certificates issued by BNY Mellon, with one ADR representing one MGL ordinary share. They are traded under the symbol MQBKY and are classified as Level 1. They are not listed on any exchange and are only traded over-the-counter via brokers.

BNY Mellon:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516 USA

Toll-free telephone number for domestic callers:
1 888 BNY ADRs

Telephone number for international callers:
+1 201 680 6825

Further information can be found at:
**adrbnymellon.com/resources/individual-investors**

## Enquiries

Investors who wish to enquire about any administrative matter relating to their MGL shareholding, MCN2, MCN3 or MCN4 security holding are invited to contact the Share Registry at:

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000 Australia

Telephone: 1300 554 096 (within Australia)
+61 2 8023 5470 (international)
Email: **macquarie@boardroomlimited.com.au**
Website: **investorserve.com.au**

All other enquiries relating to a MGL share investment can be directed to:

### Investor relations

Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333
Email: **macquarie.shareholders@macquarie.com**
Website: **macquarie.com/investors**

Macquarie's Company Secretary, Dennis Leong, may be contacted on the above number and email address.

### Website

The Interim and Annual Reports, presentations, dividend information and other investor information is available **macquarie.com/investors**

# Ten year history

The financial information for the financial years ended 31 March 2011–2020 is based on the reported results using the Australian Accounting Standards that were effective and adopted by the Consolidated Entity at the reporting dates, which also comply with IFRS as issued by the IASB. Reporting periods have been restated only to the extent as required by the accounting standards. The financial reporting periods may hence not be fully comparable with one another as a result of changes in accounting standards' requirements.

| Financial years ended 31 March | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income Statement ($m)** | | | | | | | | | | |
| Net operating income | **12,325** | 12,754 | 10,920 | 10,364 | 10,158 | 9,262 | 8,132 | 6,657 | 6,963 | 7,665 |
| Total expense | **(8,871)** | (8,887) | (7,456) | (7,260) | (7,143) | (6,740) | (6,026) | (5,252) | (5,914) | (6,394) |
| Operating profit before income tax | **3,454** | 3,867 | 3,464 | 3,104 | 3,015 | 2,522 | 2,106 | 1,405 | 1,049 | 1,271 |
| Income tax expense | **(728)** | (879) | (883) | (868) | (927) | (899) | (827) | (533) | (287) | (282) |
| Profit for the financial year | **2,726** | 2,988 | 2,581 | 2,236 | 2,088 | 1,623 | 1,279 | 872 | 762 | 989 |
| Macquarie Income Securities distributions | **(12)** | (15) | (14) | (15) | (16) | (18) | (18) | (21) | (26) | (26) |
| Macquarie Income Preferred Securities distributions | **–** | – | – | – | (1) | (5) | (4) | (4) | (4) | (4) |
| Loss/(profit) attributable to other non-controlling interests | **17** | 9 | (10) | (4) | (8) | 4 | 8 | 4 | (2) | (3) |
| Profit attributable to ordinary equity holders | **2,731** | 2,982 | 2,557 | 2,217 | 2,063 | 1,604 | 1,265 | 851 | 730 | 956 |
| **Statement of financial position ($m)** | | | | | | | | | | |
| Total assets | **255,802** | 197,757 | 191,325 | 182,877 | 196,755 | 187,976 | 153,904 | 144,748 | 153,626 | 157,568 |
| Total liabilities | **234,018** | 179,393 | 173,145 | 165,607 | 181,091 | 173,580 | 141,990 | 132,793 | 141,894 | 145,636 |
| Net assets | **21,784** | 18,364 | 18,180 | 17,270 | 15,664 | 14,396 | 11,914 | 11,955 | 11,732 | 11,932 |
| Total loan assets | **94,117** | 77,811 | 73,509 | 69,288 | 72,393 | 67,663 | 49,965 | 47,449 | 41,930 | 42,923 |
| Impaired loan assets (net of provision)[1] | **1,528** | 1,674 | 351 | 547 | 418 | 594 | 365 | 368 | 357 | 340 |
| **Share Information** | | | | | | | | | | |
| Dividends per share (cents per share) | | | | | | | | | | |
| Interim | **250** | 215 | 205 | 190 | 160 | 130 | 100 | 75 | 65 | 86 |
| Final | **180** | 360 | 320 | 280 | 240 | 200 | 160 | 125 | 75 | 100 |
| Special[2] | **–** | – | – | – | – | – | 116 | – | – | – |
| Total | **430** | 575 | 525 | 470 | 400 | 330 | 376 | 200 | 140 | 186 |
| Basic EPS (cents per share) | **791.0** | 883.3 | 758.2 | 657.6 | 619.2 | 502.3 | 383.6 | 251.2 | 210.1 | 282.5 |
| Share price as at 31 March ($) | **85.75** | 129.42 | 102.90 | 90.20 | 66.09 | 76.67 | 57.93 | 37.15 | 29.08 | 36.60 |
| Ordinary shares (million shares) | **354.4** | 340.4 | 340.4 | 340.4 | 340.3 | 333.5 | 321.1 | 339.5 | 348.6 | 346.8 |
| Market capitalisation as at 31 March (fully paid ordinary shares) ($m) | **30,388** | 44,052 | 35,024 | 30,700 | 22,491 | 25,569 | 18,601 | 12,613 | 10,137 | 12,693 |
| Net tangible assets per ordinary share ($) | **50.21** | 46.21 | 45.12 | 42.74 | 41.23 | 38.19 | 31.71 | 29.94 | 28.12 | 28.91 |
| **Ratios (%)** | | | | | | | | | | |
| Return on average ordinary shareholders' funds | **14.5** | 18.0 | 16.8 | 15.2 | 14.7 | 14.0 | 11.1 | 7.8 | 6.8 | 8.8 |
| Ordinary dividend payout ratio | **55.8** | 65.6 | 69.8 | 72.0 | 65.7 | 67.6 | 66.8 | 79.0 | 66.4 | 67.3 |
| Expense/income ratio | **72.0** | 69.7 | 68.3 | 70.1 | 70.3 | 72.8 | 74.1 | 78.9 | 84.9 | 83.4 |
| Net loan loss as % of loan assets (excluding securitisation SPVs and segregated futures funds) | **0.8** | 0.4 | 0.3 | 0.5 | 1.0 | 0.7 | 0.4 | 0.4 | 0.5 | 0.4 |
| **Assets under management ($b)** | **606.9** | 551.3 | 496.7 | 481.7 | 478.6 | 486.3 | 426.9 | 347.4 | 326.9 | 309.8 |
| Staff numbers | **15,849** | 15,602 | 14,810 | 13,925 | 14,660 | 14,373 | 14,180 | 13,905 | 14,519 | 15,791 |

(1) Represents net exposure in credit impaired loan assets as per Australian accounting standards for the financial year ended 31 March 2019–2020. For financial years ended 31 March 2011–2018, represents net exposure in impaired loan assets disclosed as per Australian regulatory authority requirements.
(2) The special dividend for the year ended 31 March 2014 represented the special dividend component of the in-specie distribution of Sydney Airport stapled securities in January 2014. The total distribution including return of capital was 373 cents per share.

# Glossary

| Defined term | Definition |
|---|---|
| A | |
| AASB | Australian Accounting Standards Board |
| ABCN | Australian Business and Community Network |
| the Act | *Corporations Act 2001* (Cth) |
| ADI | Authorised deposit-taking institution |
| ADR | American Depository Receipt |
| AEC | Australian Electoral Commission |
| AGM | Annual General Meeting |
| AICD | Australian Institute of Company Directors |
| ALA | Alternative liquid assets |
| All Ords Index | All Ordinaries Accumulation Index |
| ALCO | Asset and Liability Committee |
| AMA | Advanced Measurement Approach |
| Annual Report | MGL's 2020 Annual Report |
| ANZ | Australia and New Zealand |
| APRA | Australian Prudential Regulation Authority |
| ARR | Alternative reference rates |
| ASIC | Australian Securities & Investments Commission |
| ASX | Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited |
| AUM | Assets under management |
| B | |
| BAC | Board Audit Committee |
| Bank Group | MBL and its subsidiaries |
| Banking Royal Commission | The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry |
| BBSW | Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc. |
| BCBS | Basel Committee on Banking Supervision |
| BCN | Macquarie Bank Capital Notes |
| BEAR | Banking Executive Accountability Regime |
| BFS | Banking and Financial Services Group |
| BGCC | Board Governance and Compliance Committee |
| BNC | Board Nominating Committee |

| Defined term | Definition |
|---|---|
| the Board, Macquarie Board | The Board of Voting Directors of Macquarie Group Limited |
| BRC | Board Remuneration Committee |
| BRiC | Board Risk Committee |
| Businesses | The areas within the Operating Groups carrying out various operations |
| C | |
| CAF | Corporate and Asset Finance Group |
| CAGR | Compound annual growth rate |
| CCB | Capital conservation buffer |
| CCyB | Countercyclical capital buffer |
| CDS | Credit default swaps |
| CEFC | Clean Energy Finance Corporation |
| Central Service Groups | The Central Service Groups consist of RMG, LGL, FMG and COG |
| CEO | Managing Director and Chief Executive Officer |
| CGM | Commodities and Global Markets Group |
| CFO | Chief Financial Officer |
| CLF | Committed liquidity facility |
| COG | Corporate Operations Group |
| the Company, MGL | Macquarie Group Limited ABN 94 122 169 279 |
| Comparable Key Management Personnel (Comparable KMP) | Executive KMP who were members of the Executive Committee for the full year in both FY2020 and FY2019 |
| Conduct Risk | The risk of behaviour or action taken by individuals employed by on or behalf of Macquarie or taken collectively in representing Macquarie that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff or Macquarie |
| The Consolidated Entity, Macquarie | MGL and its subsidiaries |
| Corporate | Head office and Central Service Groups including Group Treasury |
| CRD IV | Capital Requirements Directive IV |
| CRO | Chief Risk Officer |
| CSIRO | Commonwealth Scientific and Industrial Research Organisation |
| CVA | credit valuation adjustments |

| Defined term | Definition |
|---|---|
| D | |
| Deed | Deed of Access, Indemnity, Insurance and Disclosure |
| Deed Poll | Indemnity and Insurance Deed Poll dated 12 September 2007 |
| DFVTPL | Designated as FVTPL |
| Directors | the Voting Directors of MGL (unless the context indicates otherwise) |
| Divisions | named divisions within Macquarie |
| DPS Plan | Directors' Profit Share Plan |
| DRP | Dividend Reinvestment Plan |
| DSU | Deferred Share Unit issued under the MEREP |
| DVA | debit valuation adjustments |
| E | |
| EAD | Exposure at default |
| ECAM | Economic Capital Adequacy Model |
| ECL | Expected credit loss |
| EIR | Effective interest rate |
| EMEA | Europe, Middle East and Africa |
| EPS | earnings per share |
| ESP | Macquarie Group Employee Share Plan |
| ESG | Environmental, Social and Governance |
| ESR | Environmental and Social Risk |
| EU | the European Union |
| Executive Director | Macquarie's most senior level of employee including Group Heads, Division Heads and senior business unit managers |
| Executive Key Management Personnel (Executive KMP) | Members of the Executive Committee of MGL |
| Executive Voting Director | an executive Board member |
| F | |
| FCTR | Foreign currency translation reserve |
| FIRB | Foundation Internal Ratings Based Approach |
| FLI | Forward looking information |
| FMG | Financial Management Group |
| the Foundation | Macquarie Group Foundation |

| Defined term | Definition |
|---|---|
| FRN | Floating rate notes |
| FVA | Funding valuation adjustment |
| FVOCI | Fair value through other comprehensive income |
| FVTPL | Fair value through profit or loss |
| G | |
| GDP | gross domestic product |
| GIG | Green Investment Group |
| GRI | Global Reporting Initiative |
| Group Head | The Head of a particular Operating or Central Service Group |
| H–J | |
| HFT | Held for active trading |
| HQLA | High quality liquid assets |
| IASB | International Accounting Standards Board |
| IBOR | Interbank-offered rates |
| IFRS | International Financial Reporting Standards |
| IRRBB | Interest rate risk in the banking book |
| K | |
| Key Management Personnel (KMP) | all Voting Directors and members of the Executive Committee of MGL |
| L | |
| LEADS | Leadership Advancement Development and Support |
| LGBTQ | Lesbian Gay Bisexual Transgender and Queer |
| LGL | Legal and Governance Group |
| LMI | Lenders mortgage insurance |
| Loss Given Default (LGD) Estimate | Macquarie's estimated economic loss should a counterparty default occur |
| LTIFR | Lost Time Injury Frequency Rate |
| LVR | loan to value ratio |
| M | |
| M&A | Mergers and acquisitions |
| Macquarie Bank, MBL | Macquarie Bank Limited ABN 46 008 583 542 |
| Macquarie Board, the Board | the Board of Voting Directors of MGL |
| Macquarie, the Consolidated Entity | MGL and its subsidiaries |
| MAF | Macquarie AirFinance |

# Glossary

Continued

| Defined term | Definition |
|---|---|
| MFHPL | Macquarie Financial Holdings Pty Limited |
| MGL ordinary shares, MQG | MGL fully paid ordinary shares |
| Malus | The discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement |
| MAM | Macquarie Asset Management Group |
| Management | Division Directors and Executive Directors who have management or risk responsibility for a Division or business area |
| MCN2 | Macquarie Group Capital Notes 2 |
| MCN3 | Macquarie Group Capital Notes 3 |
| MCN4 | Macquarie Group Capital Notes 4 |
| MEREP | Macquarie Group Employee Retained Equity Plan |
| MGL, the Company | Macquarie Group Limited ABN 94 122 162 279 |
| MIDIS | Macquarie Infrastructure Debt Investment Solutions |
| MIM | Macquarie Investment Management |
| MIRA | Macquarie Infrastructure and Real Assets |
| MIS | Macquarie Income Securities |
| MSCI | Morgan Stanley Capital International |
| MSIS | Macquarie Specialised Investment Solutions |
| N | |
| NCD | Negotiable certificates of deposit |
| NCI | non-controlling interests |
| NED | Non-Executive Director |
| NIFO | Net investment in foreign operations |
| NOHC | Non-Operating Holding Company |
| Non-Bank Group | MGL, MFHPL and its subsidiaries |
| NPAT | net profit after tax |
| O | |
| OCI | Other comprehensive income |
| OECD | Organisation for Economic Co-operation and Development |
| Operating Groups | The Operating Groups consist of MAM, BFS, CGM and MacCap |

| Defined term | Definition |
|---|---|
| Operationally Segregated Subsidiaries, OSS | The operations of some controlled subsidiaries are "segregated" from the rest of Macquarie, and a tailored Risk Management Framework may be adopted |
| OTC | over-the-counter |
| P | |
| PD | Probability of default |
| POCI | Purchased or originated credit-impairment |
| PPAs | power purchase agreements |
| PRI | UN Principles for Responsible Investment |
| Probability of Default (PD) Estimate or MQ Rating | An estimate of the likelihood of the rated entity defaulting on its financial obligations to Macquarie over the period of a year and should look 'through the cycle' – i.e. represent the probability of default in natural economic conditions |
| PSU | Performance Share Unit issued under the MEREP |
| PwC | PricewaterhouseCoopers |
| Q–R | |
| RAS | Risk Appetite Statement |
| RBA | Reserve Bank of Australia |
| RMG | Risk Management Group |
| ROE | return on ordinary equity |
| ROU | Right-of-use |
| RSU | Restricted Share Unit issued under the MEREP |
| S | |
| S&P | Standard & Poor's |
| Senior Executive | Macquarie's combined Division Director and Executive Director population |
| Scope 1 | Emissions released to the atmosphere as a direct result of an activity, or series of activities controlled by an organisation. For example, emissions from natural gas and diesel usage in corporate offices. |
| Scope 2 | Indirect emissions released to the atmosphere associated with the generation of purchased or acquired electricity, heating and cooling consumed by the organisation. |
| Scope 3 | Indirect emissions, other than Scope 2 emissions, that are a consequence of the activities of the company but occur from sources not owned or controlled by the company. For example, emissions associated with employee travel. |

| Defined term | Definition |
|---|---|
| Senior Management | Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation |
| SEs | Structured entities |
| SFE | Sydney Futures Exchange |
| SGX | Singapore Stock Exchange |
| SICR | Significant increase in credit risk |
| SPEs | special purpose entities |
| SPPI | Solely payment of principal and interest |
| T | |
| TCFD | Financial Stability Board's Task Force on Climate-related Financial Disclosures |
| tCO2-e (Carbon dioxide equivalent in tonnes) | metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency) |
| TJ | terajoules |
| TSR | total shareholder return |
| U–V | |
| the UK Code | The UK Remuneration Code |
| VaR | Value-at-Risk |
| Voting Directors | the Voting Directors of MGL as defined in the MGL Constitution |
| W–Z | |
| WHS | Work Health and Safety |
| WHSE | work health, safety and environmental |
| XVA | derivative valuation adjustments, including CVA, DVA and FVA |

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