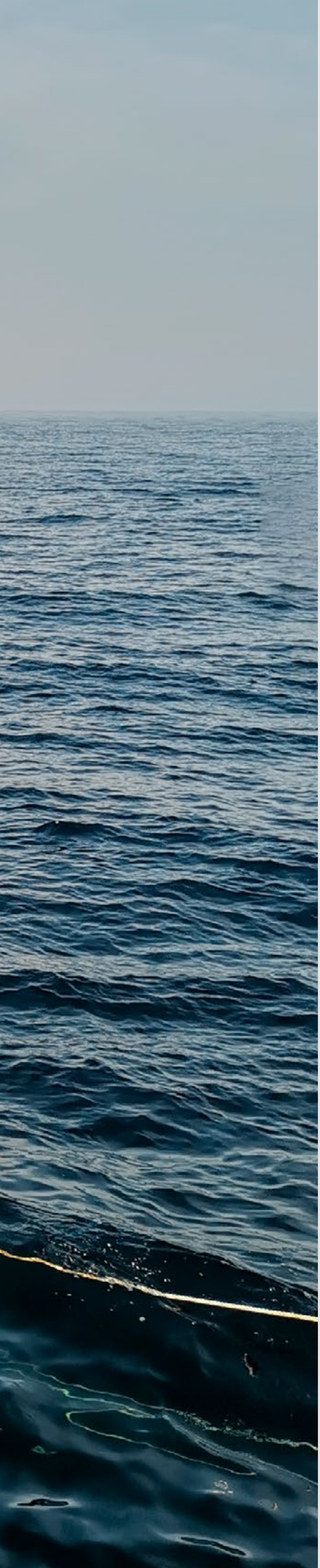

Green
Investment
Group
울산동방귀신고래2
귀신고래해상풍력발전2호(주)



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.

Contents

For the financial year ended 31 March 2020

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

		CONSOLIDATED		COMPANY	
	Notes	2020 $m	2019 $m	2020 $m	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.

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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

		CONSOLIDATED		COMPANY	
	Notes	2020[1] $m	2019[2] $m	2020 $m	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.

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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 – Commodity price risk	– Interest rate risk – Foreign exchange risk (spot) – Commodity price risk	– Foreign exchange risk (spot)
Hedged item	– Fixed interest rate financial assets and liabilities – Commodity transportation contracts	– Floating interest rate financial assets and liabilities – Foreign currency denominated interest bearing financial assets and liabilities – Highly probable forecast commodity sales	– Foreign operations
Hedging instruments	– Interest rate swaps – Commodity forward contracts – Cross currency swaps	– Interest rate swaps – Cross currency swaps – Commodity swaps and futures	– Foreign exchange forward contracts – Foreign currency denominated issued debt
Designation and documentation	At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that: – an economic relationship exists between the hedged item and the hedging instrument – credit risk does not dominate the changes in value of either the hedged item or the hedging instrument – the hedge ratio is reflective of the Consolidated Entity's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument.		
Accounting treatment for the hedging instrument	Fair value through the income statement.	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. 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.

Note 2
Operating profit before income tax

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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.

Note 2
Operating profit before income tax continued

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 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	CONSOLIDATED 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).

Note 4
Income tax expense

	CONSOLIDATED		COMPANY	
	2020 $m	2019 $m	2020 $m	2019 $m
(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%).

Note 5
Dividends paid or provided for

(i) Dividends paid

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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 2020	CONSOLIDATED 2019	COMPANY 2020	COMPANY 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	CONSOLIDATED 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. 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

	2020 $m	2019 $m	2020 $m	2019 $m
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

	2020 $m	2019 $m	2020 $m	2019 $m
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

	2020 $m	2019 $m	2020 $m	2019 $m
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 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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

Note 10
Held for sale and other assets

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.

Note 11
Loan assets

	CONSOLIDATED 2020 Gross $m	CONSOLIDATED 2020 ECL allowance[(4)] $m	CONSOLIDATED 2020 Net $m	CONSOLIDATED 2019 Gross $m	CONSOLIDATED 2019 ECL allowance[(4)] $m	CONSOLIDATED 2019 Net $m
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 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. 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. 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. **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. **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. **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 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. 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. 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. **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. **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. **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 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	CONSOLIDATED 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	CONSOLIDATED 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	COMPANY 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

	2020 $m	2019 $m	2020 $m	2019 $m
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

	2020 $m	2019 $m	2020 $m	2019 $m
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

	2020 $m	2019 $m	2020 $m	2019 $m
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

	2020 $m	2019 $m	2020 $m	2019 $m
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.

Note 22
Debt issued

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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)

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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 – 17 September 2021 – 17 March 2022	– 16 December 2024 – 16 June 2025 – 15 December 2025
Other exchange events	– Acquisition date (where a party acquires control of MGL) – 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) – 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 – 10 March 2027 – 10 September 2027 – Earlier in specified circumstances at the discretion of MGL, subject to APRA approval.	– 24 March 2020 – 24 September 2020 – 24 March 2021 – Earlier in specified circumstances at the discretion of MBL subject to APRA approval.	n/a
– Acquisition date (where a party acquires control of MGL) – 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) – Where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) – Where MBL's common equity Tier 1 Capital ratio falls below 5.125%.	– Acquisition date (where a party acquires control of MBL or MGL) – Where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) – Where MBL's common equity Tier 1 capital ratio falls below 5.125%.
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:
(In Australian dollar equivalent)

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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.

Note 25
Contributed equity continued

	Notes	2020 Number of shares	2019 Number of shares	2020 Total $m	2019 Total $m
				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 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m

Note 26
Reserves, retained earnings and non-controlling interests

(i) Reserves

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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.

Note 26
Reserves, retained earnings and non-controlling interests continued

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
(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]

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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:

	2020[2] $m	2019 $m	2020 $m	2019 $m
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 2020[1] $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 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	CONSOLIDATED 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. 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

	CONSOLIDATED 2020 $m	CONSOLIDATED 2019 $m	COMPANY 2020 $m	COMPANY 2019 $m
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	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
		MATURITY ANALYSIS PER NOTIONAL				
						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

		CONSOLIDATED CARRYING AMOUNT			
		2020		2019	
Instrument type	Risk category	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	OF WHICH PAST DUE 31 to <90 days $m	OF WHICH PAST DUE Total past due but not default[(1)] $m	Default $m	Total $m
								CONSOLIDATED 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 Stage I $m	**COMPANY 2020** Total $m	COMPANY 2019 Stage I $m	COMPANY 2019 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 $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 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 Due from subsidiaries[1] $m	COMPANY 2019 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.

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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

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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	RANGE OF INPUTS 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	CONSOLIDATED 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

	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	For those liabilities that only have recourse to the transferred assets: 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	CONSOLIDATED 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 spólka 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

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.

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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. 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. In order to meet the ECL requirements of AASB 9, the Consolidated Entity has developed models that involve judgement including determining assumptions such as defining a significant increase in credit risk (SICR). The ECL models of the Consolidated Entity rely on numerous data elements and certain post model adjustments are applied based on the Consolidated Entity's judgement. Given the extent of judgement involved, we 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: – review, challenge and approval of certain forward-looking macroeconomic assumptions and scenario weightings, including specifically the consideration of impacts from COVID-19 – the accuracy of certain critical data elements used in key ECL models, and – the review and challenge forums to assess the ECL output and post model adjustments. In addition to controls testing, we also performed substantive procedures including: – using PwC credit modelling experts to assess the 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 – using PwC credit modelling experts to assess whether the list of critical data elements identified by the Consolidated Entity is reasonable for key models – 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 – 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 – testing the completeness and accuracy of certain critical data elements used in key ECL models – assessing certain post model adjustments identified by the Consolidated Entity – considering the impacts on the ECL of events occurring subsequent to balance date. For credit impaired loan (stage III) provisions, we examined a sample of individual loan exposures to consider the reasonableness of provisions adopted. 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
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. The COVID-19 pandemic results in a number of these assets showing indicators of impairment at 31 March 2020. 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: – evaluating the Consolidated Entity's assessments of whether there were any indicators of impairment – evaluating the appropriateness of the impairment assessment methodology and certain assumptions applied in calculating the recoverable amount – comparing previous cashflow forecasts to actual results to assess the ability of the Consolidated Entity to forecast accurately – assessing the competence, capability and objectivity of the external appraisers, where relevant – engaging PwC valuation experts where relevant – applying sensitivity analysis to key assumptions – assessing certain underlying data used in determining the carrying value and recoverable amount of the relevant samples, and – testing the mathematical accuracy of the Consolidated Entity's discounted cashflow models which were used to determine the recoverable amount of the asset. 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. 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. Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over: – approval and validation of the models adopted – accuracy of data and inputs to models – the Consolidated Entity's process for testing valuations, and – governance and review. 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. For a sample of financial investments and loan assets, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of the inputs used. For a sample of financial investments we assessed the sensitivity of the valuations to alternative assumptions where appropriate. We assessed the 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: – the framework of governance over IT systems – controls over program development and changes – controls over access to programs, data and IT operations, and – governance over generic and privileged user accounts. Given the reliance on the IT systems in the financial reporting process, 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. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we 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. 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. 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. 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. 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. 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. 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. 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
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. 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. 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: – evaluating the methodology applied in the impairment assessment conducted – assessing certain underlying data used in determining the carrying value and recoverable amount for the investment in subsidiary, and – engaging PwC valuation experts where relevant. 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.

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