MACQUARIE

Consolidated Annual Report

Macquarie Financial Holdings Pty Limited and its subsidiaries

Year ended 31 March 2021

ACN 124 071 398

The Company’s registered office is:
Level 6, 50 Martin Place
Sydney, NSW 2000
Australia

Directors' Report
for the financial year ended 31 March 2021

In accordance with a resolution of the Directors of Macquarie Financial Holdings Pty Limited (the Company or MFHPL), the Directors submit herewith the financial report of the Company and its subsidiaries (the Consolidated Entity) for the year ended 31 March 2021.

Directors

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

Name of Director	Appointed on	Resigned on
S. Dyson	25 March 2015	–
A.J. Lewis	24 March 2021	–
S. Green	22 December 2015	24 March 2021
J.A. Fowler (alternate to S. Green)	16 December 2019	13 July 2020
D. Saad	29 January 2019	–

Principal activities

The principal activity of the Company is to act as the holding company within the Macquarie Non-Bank Group[1] for Macquarie Capital (MacCap) and the Macquarie Transportation business of Macquarie Asset Management (MAM).

During the previous year, the Consolidated Entity agreed to transfer its MAM business (except for Macquarie Transportation business and certain other excluded assets) to another Non-Bank Group holding company, Macquarie Asset Management Holding Pty Limited (MAMH), a 100% owned subsidiary of Macquarie Group Limited (MGL). The majority of the in-scope MAM businesses were transferred during the previous year while the remaining in-scope businesses, materially being Macquarie Infrastructure Real Assets in the US, that are presented as held for sale at the balance date and will be transferred in the coming years.

Result

The consolidated profit after income tax attributable to the ordinary equity holder for the financial year ended 31 March 2021 was $1,177 million (2020: $8,018 million). This result represents profit from continuing operations of $705 million (2020: $570 million) and profit from discontinued operations of $472 million (2020: $7,448 million).

Dividends

During the previous year the Company paid a dividend of $795 million from the gain on disposal of MAM businesses. No dividends were paid or resolved to be paid by the Company during the current financial year.

State of affairs

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

Review of continuing operations

The profit attributable to the ordinary equity holder from continuing operations of the Consolidated Entity for the year ended 31 March 2021 was $705 million, as compared to $570 million in the previous financial year.

Net operating income from continuing operations for the year ended 31 March 2021 was $3,502 million compared to $3,572 million in the previous financial year.

Total operating expenses from continuing operations for the year ended 31 March 2021 were $2,693 million, a decrease of 10% percent from $2,988 million in the previous financial year, primarily due to a decrease in employment and occupancy expenses.

Events subsequent to balance sheet date

At the date of this report, the Directors are not aware of any matter or circumstances other than those disclosed in financial report, that have significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity subsequent to 31 March 2021.

Likely developments, business strategies and prospects

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

(1) Macquarie Group refers to Macquarie Group Limited (MGL) as the ultimate parent entity and its subsidiaries. Further, Macquarie comprises of the Bank Group (Macquarie Bank Limited (MBL) and its subsidiaries), and the Non-Bank Group (Macquarie Asset Management Holding Pty Limited (MAMH) and MFHPL along with their subsidiaries).

Directors' Report
for the financial year ended 31 March 2021 continued

Directors' indemnification

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

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

The indemnity does not apply to the extent that:

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

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

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

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

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

Environmental regulations

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

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Act, is set out on page 3 of this report.

Rounding of amounts

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

S. Dyson
Director

Sydney
12 July 2021

Auditor's Independence Declaration

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

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

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

This declaration is in respect of Macquarie Financial Holdings Pty Limited and the entities it controlled during the period.

K. Stubbins

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
12 July 2021

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Financial Report
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The financial report was authorised for issue by the Board of Directors on 12 July 2021.

The Board of Directors has the power to amend and reissue the financial report.

Consolidated income statement
for the financial year ended 31 March 2021

	Notes	2021[1] $m	2020[1] $m
Interest and similar income			
Effective interest rate method	2	634	987
Other	2	67	54
Interest and similar expense	2	(594)	(1,246)
Net interest income/(expense)	2	107	(205)
Fee and commission income	2	1,951	1,974
Net trading income	2	222	216
Net operating lease income	2	80	380
Share of net losses of associates and joint ventures	2	(179)	(62)
Net credit impairment charges	2	(144)	(356)
Other impairment charges	2	(147)	(37)
Other operating income and charges	2	1,612	1,662
Net operating income		3,502	3,572
Employment expenses	2	(1,466)	(1,707)
Brokerage, commission and trading-related fee expenses	2	(145)	(117)
Occupancy expenses	2	(100)	(146)
Non-salary technology expenses	2	(115)	(126)
Other operating expenses	2	(867)	(892)
Total operating expenses		(2,693)	(2,988)
Operating profit from continuing operations before income tax		809	584
Income tax expense	3	(118)	(23)
Profit from continuing operations after income tax		691	561
Profit from discontinued operations after income tax[1]	38	472	7,448
Profit from continuing and discontinued operations after income tax		1,163	8,009
Loss attributable to non-controlling interests		14	9
Profit attributable to the ordinary equity holder of Macquarie Financial Holdings Pty Limited		1,177	8,018
From continuing operations		705	570
From discontinued operations	38	472	7,448

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

(1) Income and expenses related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*. The comparative period has been represented to align with the current year presentation.

Consolidated statement of comprehensive income
for the financial year ended 31 March 2021

	Notes	2021[1] $m	2020[1] $m
Profit from continuing and discontinued operations after income tax		**1,163**	8,009
Other comprehensive (loss)/income[2]			
Movements in items that may be subsequently reclassified to the income statement:			
Fair value through other comprehensive income (FVOCI) reserve:	24		
Revaluation movement		163	(54)
Changes in allowance for expected credit losses		(125)	16
Cash flow hedges:	24		
Revaluation movement		(8)	(20)
Transferred to income statement		(13)	79
Share of other comprehensive loss of associates and joint ventures	24	(22)	(136)
Foreign exchange movements on translation and hedge accounting of foreign operations		(920)	698
Total other comprehensive (loss)/income		(925)	583
Other comprehensive (loss)/income from continuing operations		(910)	550
Other comprehensive (loss)/income from discontinued operations[1]	38	(15)	33
Total comprehensive income		**238**	8,592
Total comprehensive loss/(income) attributable to non-controlling interests		57	(24)
Total comprehensive income/(loss) attributable to the ordinary equity holder of Macquarie Financial Holdings Pty Limited		**295**	8,568
From continuing operations		(162)	1,096
From discontinued operations	38	457	7,472

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

(1) Other comprehensive Income related to the discontinued operations has been presented as part of 'Profit from discontinued operations after income tax' under Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations.*

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

Consolidated statement of financial position
as at 31 March 2021

	Notes	2021 $m	2020 $m
Assets			
Cash and bank balances		**2,745**	1,464
Reverse repurchase agreements and cash collateral on securities borrowed		**2,126**	2
Trading assets	5	**534**	603
Settlement and margin money assets	6	**6,095**	4,092
Derivative assets	7	**74**	766
Financial investments	8	**1,525**	1,480
Held for sale assets	38	**1,385**	3,193
Other assets	9	**2,108**	2,573
Loan assets	10	**6,066**	6,446
Due from related body corporate entities	26	**18,427**	38,125
Interests in associates and joint ventures	12	**2,334**	5,943
Property, plant and equipment and right-of-use assets	13	**1,798**	1,780
Intangible assets	14	**1,272**	1,656
Deferred tax assets	15	**478**	510
Total assets		**46,967**	68,633
Liabilities			
Cash collateral on securities lent		**–**	11
Trading liabilities	16	**71**	181
Settlement and margin money liabilities	17	**5,873**	3,763
Derivative liabilities	18	**102**	574
Held for sale liabilities	38	**709**	1,002
Other liabilities	19	**2,687**	2,149
Borrowings		**1,523**	3,867
Due to related body corporate entities	26	**21,850**	42,443
Debt issued	20	**2,712**	3,470
Deferred tax liabilities	15	**56**	96
Total liabilities excluding loan capital		**35,583**	57,556
Loan capital	22	**2,131**	2,100
Total liabilities		**37,714**	59,656
Net assets		**9,253**	8,977
Equity			
Contributed equity	23	**7,858**	7,857
Reserves	24	**(399)**	483
Retained earnings	24	**1,501**	347
Total capital and reserves attributable to the ordinary equity holder of Macquarie Financial Holdings Pty Limited		**8,960**	8,687
Non-controlling interests	24	**293**	290
Total equity		**9,253**	8,977

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

Consolidated statement of changes in equity
for the financial year ended 31 March 2021

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 1 Apr 2019		5,910	(67)	447	6,290	210	6,500
Profit/(loss) from continuing and discontinued operations after income tax		–	–	8,018	8,018	(9)	8,009
Other comprehensive income, net of tax		–	550	–	550	33	583
Total comprehensive income		–	550	8,018	8,568	24	8,592
Transactions with equity holder in their capacity as ordinary equity holder:							
Return of capital to MGL	23	(5,767)	–	–	(5,767)	–	(5,767)
Dividends paid	4	–	–	(795)	(795)	–	(795)
Contributions of ordinary equity	23	501	–	–	501	–	501
Change attributable to group restructure	24	–	–	(102)	(102)	–	(102)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(3)	(3)	57	54
Dividends paid or provided for		–	–	–	–	(1)	(1)
Other equity movements:							
Restructure reserve transferred to retained earnings[(1)]	23,24	7,218	–	(7,218)	–	–	–
Return of capital to MGL in relation to share-based payments	23	(5)	–	–	(5)	–	(5)
		1,947	–	(8,118)	(6,171)	56	(6,115)
Balance as at 31 Mar 2020		**7,857**	**483**	**347**	**8,687**	**290**	**8,977**
Profit/(loss) from continuing and discontinued operations after income tax		**–**	**–**	**1,177**	**1,177**	**(14)**	**1,163**
Other comprehensive loss, net of tax		**–**	**(882)**	**–**	**(882)**	**(43)**	**(925)**
Total comprehensive (loss)/income		**–**	**(882)**	**1,177**	**295**	**(57)**	**238**
Transactions with equity holder in their capacity as ordinary equity holder:							
Change attributable to group restructure	24	**–**	**–**	**(23)**	**(23)**	**–**	**(23)**
Non-controlling interests:							
Change in non-controlling ownership interests		**–**	**–**	**–**	**–**	**64**	**64**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(4)**	**(4)**
Other equity movements:							
Tax contribution from MGL attributable to group restructure	23	**3**	**–**	**–**	**3**	**–**	**3**
Return of capital to MGL in relation to share-based payments	23	**(2)**	**–**	**–**	**(2)**	**–**	**(2)**
		1	**–**	**(23)**	**(22)**	**60**	**38**
Balance at 31 Mar 2021		**7,858**	**(399)**	**1,501**	**8,960**	**293**	**9,253**

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

(1) During the previous year, a portion of the restructure reserve that was earlier recognised against contributed equity was transferred to retained earnings following the sale of certain MAM businesses to which the previously recognised restructure reserves was related. Refer to Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.

Consolidated statement of cash flows
for the financial year ended 31 March 2021

	Notes	2021 $m	2020 $m
Cash flows (utilised in)/generated from operating activities			
Interest income and expense:			
Received		709	1,060
Paid		(593)	(1,263)
Fee, commission and non-interest income and expenses:			
Received		4,002	4,789
Paid		(1,246)	(1,249)
Operating lease income received		124	549
Dividends and distributions received		67	200
Operating expenses paid:			
Employment expenses		(1,702)	(2,024)
Other operating expenses		(980)	(1,931)
Income tax paid		(176)	(179)
Changes in operating assets:			
Loan assets and balances with related body corporate entities		(10,039)	2,956
Assets under operating lease		37	28
Other assets		(258)	(182)
Trading assets and liabilities, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities), and trading income		622	89
Changes in operating liabilities:			
Borrowings		104	2,875
Debt issued		(100)	(278)
Other liabilities		(30)	26
Net cash flows (utilised in)/generated from operating activities	25	(9,459)	5,466
Cash flows generated from investing activities			
Net (payments for)/proceeds from financial investments		(73)	413
Associates, joint ventures, subsidiaries and businesses:			
Proceeds from the disposal of or capital return, net of cash deconsolidated		9,866	7,033
Payments for the acquisition of or additional capital contribution, net of cash acquired		(830)	(4,762)
Property, plant and equipment, right-of-use assets and intangible assets:			
Proceeds from disposals		455	70
Payments for acquisition		(546)	(983)
Net cash flows generated from investing activities		8,872	1,771

Consolidated statement of cash flows
for the financial year ended 31 March 2021 continued

	Notes	2021 $m	2020 $m
Cash flows generated from/ (utilised in) financing activities			
Ordinary shares			
Issuance		–	500
Return of capital		–	(5,767)
Proceeds from non-controlling interests		3	400
Loan Capital			
Issuance	25	2,131	2,100
Redemption	25	(2,100)	(1,100)
Dividends paid		–	(795)
Net cash flows generated from/(utilised in) financing activities		34	(4,662)
Net (decrease)/increase in cash and cash equivalents		(553)	2,575
Cash and cash equivalents at the beginning of the financial year		9,484	6,068
Foreign exchange movement on cash and cash equivalent		(1,195)	841
Cash and cash equivalents at the end of the financial year	25	7,736	9,484

The above consolidated statement of cash flows should be read in conjunction with the accompanying note

Note 1

Basis of preparation

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with *Australian Accounting Standards* and the *Corporations Act 2001* (CT).

MFHPL is a for-profit Company for the purposes of preparing this Financial Report. MFHPL prepares consolidated financial statements and has provided separate Parent entity information under Note 40 *Company financial information*.

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 (MFHPL and its subsidiaries) as well as to the Company (MFHPL), unless otherwise stated.

(i) Compliance with IFRS as issued by the IASB

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

(ii) Basis of measurement

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

- financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL), financial assets classified as fair value through other comprehensive income (FVOCI) and financial instruments that have been designated as FVTPL (DFVTPL)
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships
- non-current assets and disposal groups that have been classified as held for sale and where 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 that are measured at fair value, such as investment property.

(iii) Critical accounting estimates and significant judgements

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

- 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 42(vi))
- 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 42(vi))
- 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 42(xx) and Note 11)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including the reversal thereof (Note 42(i), Note 42(xx), Note 11 and Note 12)
- the timing and amount of impairment of goodwill and other identifiable intangible assets and, where applicable, the reversal thereof (Note 42(xx) and Note 14)
- 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 42(ix) and Note 34)
- determination of significant influence over associates, joint control over arrangements and control over subsidiaries, including the assessment of whether certain rights are protective or substantive in nature, whether these rights are held in the capacity as agent or principal, and whether the level of involvement in an investee's relevant activities is sufficient to significantly affect the returns generated (Note 42(i))
- recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities can require significant judgement, particularly where the recoverability of such tax balances relies on the estimation of future taxable profits and management's determination of the likelihood that uncertain tax positions will be accepted by the relevant taxation authority (Note 42(v), Note 3 and Note 15)
- recognition and measurement of certain revenue streams including performance fees from Macquarie-managed funds and other capital market investments and transactions (Note 42(iv)
- recognition and measurement of provisions related to actual and potential claims, determination of contingent liabilities (Note 42(xv))
- the application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 42(ix) and Note 31)
- the timing of the derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 42(i)).

Notes to the financial statements
for the financial year ended 31 March 2021 continued

- the determination of whether an asset or group of assets is held for sale and/or constitutes a discontinued operation of the Consolidated Entity (Note 42(xxviii).

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.

(iv) Coronavirus (COVID-19) impact

The Novel Coronavirus (COVID-19) has had significant impacts on global economies and equity, debt and commodity markets, led to several changes in the economy and resulted in several support actions by financial markets, governments, and regulators. The impact of COVID-19 continues to evolve and, where applicable, has been incorporated into the determination of the Consolidated Entity's results of operations and measurement of its assets and liabilities at the reporting date.

The Consolidated Entity's processes to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in its 31 March 2020 financial statements. Those processes identified that expected credit losses (Note 11) and the assessment of the impairment of non-financial assets (Note 12 and Note 14) required continued judgement as a result of the impact of COVID-19.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, actual outcomes may differ to those forecasted which may impact the accounting estimates included in these financial statements. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods. The impact of COVID-19 has been discussed further in each of the related notes.

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

(i) AASB Revised Conceptual Framework for Financial Reporting

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

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

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

(ii) Other amendments made to existing standards

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

Note 2

Operating profit from continuing operations before income tax

	2021[1] $m	2020[1] $m
Net interest expense		
Interest and similar income		
Effective interest rate method[2]	634	987
Other	67	54
Interest and similar expense[3]	(594)	(1,246)
Net interest income/(expense)	107	(205)
Fee and commission income		
Mergers and acquisitions, advisory and underwriting fees	843	1,013
Base and performance fees[4]	529	362
Brokerage and commissions	421	377
Other fee and commission income	158	222
Total fee and commission income	1,951	1,974
Net trading income[5]		
Commodities[6],[7]	292	(51)
Equities	68	193
Credit, interest rate, foreign exchange and other products	(138)	74
Net trading income	222	216
Net operating lease income		
Rental income	116	570
Depreciation and other operating lease-related charges	(36)	(190)
Net operating lease income	80	380
Share of net losses of associates and joint ventures[8]	(179)	(62)

(1) Income and expenses related to the discontinued operations have been presented as part of "Profit from discontinued operations after income tax" under Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.
(2) Includes interest income calculated using the EIR method of $571 million (2020: $1,054 million) on financial assets that are measured at amortised cost and $63 million (2020: $79 million) on financial assets measured at FVOCI.
(3) Includes interest expense on financial liabilities measured at amortised cost calculated using the EIR method of $594 million (2020: $1,245 million).
(4) Includes base fees of $141 million (2020: $125 million).
(5) 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 42(ix) *Derivative instrument and hedging activities.*
(6) Includes $195 million (2020: $209 million) of transportation, storage and certain other trading-related costs.
(7) Includes $36 million (2020: $26 million) depreciation on right-of-use (ROU) assets for trading-related businesses.
(8) Includes the Consolidated Entity's equity-accounted share of impairments on aircraft in Macquarie AirFinance. Refer to Note 12 *Interests in associates and joint ventures*.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 2

Operating profit from continuing operations before income tax continued

	2021[1] $m	2020[1] $m
Credit and other impairment charges		
Credit impairment charges		
Loan assets	(127)	(294)
Loan to associates and joint ventures	(17)	(14)
Margin money and settlement assets	(13)	(4)
Financial investments	2	(2)
Other assets	4	(22)
Undrawn commitments and financial guarantees	7	(21)
Gross credit impairment charges	(144)	(357)
Recovery of exposures previously written off	–	1
Net credit impairment charges	(144)	(356)
Other impairment (charges)/reversal		
Interests in associates and joint ventures	(28)	7
Other non-financial assets	(119)	(44)
Total other impairment charges	(147)	(37)
Total credit and other impairment charges	(291)	(393)
Other operating income and charges		
Investment Income		
Net gain/(loss) on:		
Interests in associates and joint ventures	895	1,186
Equity investments	97	98
Debt investments	(2)	(58)
Non-financial assets	390	14
Disposal of businesses and subsidiaries	348	264
Change of control, joint control and/or significant influence	14	194
Total investment income	1,742	1,698
Subsidiaries held for investment purposes[2]		
Net operating revenue [3]	354	467
Expenses[4]	(504)	(573)
Net loss incurred by subsidiaries held for investment purposes	(150)	(106)
Other income and charges[5]	20	70
Total other operating income and charges	1,612	1,662
Net operating income	3,502	3,572

(1) Income and expenses related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.
(2) Subsidiaries held for investment purposes are consolidated entities that are held with the ultimate intention to sell as part of Macquarie's investment activities.
(3) Includes revenue of $968 million (2020: $858 million) after deduction of $614 million (2020: $391 million) related to cost of goods sold.
(4) Includes employment expenses, depreciation and amortisation expenses and other operating expenses.
(5) Includes $58 million (2020: $24 million) of loss on the derecognition of loans at amortised cost.

Note 2

Operating profit from continuing operations before income tax continued

	2021[(1)] $m	2020[(1)] $m
Employment expenses		
Salary and related costs including commissions, superannuation and performance-related profit share	(1,230)	(1,443)
Share based payments	(212)	(253)
Provision for long service leave and annual leave	(24)	(11)
Total employment expenses	(1,466)	(1,707)
Brokerage, commission and trading-related fee expenses		
Brokerage and other trading-related fee expenses	(81)	(79)
Other fee and commission expenses	(64)	(38)
Total brokerage, commission and trading-related fee expenses	(145)	(117)
Occupancy expenses		
Lease expenses[(2)]	(54)	(63)
Depreciation on own use assets: building, furniture, fittings and leasehold improvements	(26)	(21)
Other occupancy expenses	(20)	(62)
Total occupancy expenses	(100)	(146)
Non-salary technology expenses		
Information services	(78)	(85)
Depreciation on own use asset: equipment	(7)	(7)
Service provider and other non-salary technology expenses	(30)	(34)
Total non-salary technology expenses	(115)	(126)
Other operating expenses		
Service cost recoveries by related entities	(496)	(493)
Professional fees	(172)	(174)
Indirect and other taxes	(43)	(45)
Auditor's remuneration	(10)	(14)
Travel and entertainment expenses	(8)	(82)
Communication expenses	(7)	(9)
Advertising and promotional expenses	(3)	(5)
Amortisation of intangibles assets	(2)	(5)
Depreciation on own use assets: infrastructure assets	(3)	(1)
Other expenses	(123)	(64)
Total other operating expenses	(867)	(892)
Total operating expenses	(2,693)	(2,988)
Operating profit from continuing operations before income tax	809	584

(1) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.
(2) Includes $48 million (2020: $56 million) of depreciation on ROU assets relating to property leases.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 3

Income tax expense

	2021 $m	2020 $m
(i) Income tax expense		
Current tax expense	(257)	(676)
Deferred tax benefit	46	306
Total income tax expense	(211)	(370)
Income tax (expense)/benefit is attributable to:		
Profit from continuing operations	(118)	(23)
Profit from discontinued operations (Note 38)	(93)	(347)
(ii) Reconciliation of income tax expense to *prima facie* tax expense		
Prima facie income tax expense on operating profit(1)	(413)	(2,514)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	223	189
Other items	(21)	14
Gain on sale of discontinued operations	–	1,941
Total income tax expense	(211)	(370)
(iii) Tax benefit/(expense) relating to items of OCI		
FVOCI reserve	(11)	19
Cash flow hedge reserve	6	(17)
Foreign currency translation reserve	–	24
Share of other comprehensive loss of associates and joint ventures	14	20
Total tax benefit relating to items of OCI	9	46
(iv) Deferred tax benefit/(expense) represents movement in deferred tax assets/liabilities		
Property, plant and equipment	–	1
Intangible assets	18	(20)
Financial investments and interests in associates and joint ventures	(12)	37
Tax losses	(27)	14
Operating and finance lease assets	9	134
Loan assets and derivatives	(15)	20
Other assets and liabilities	73	120
Total deferred tax benefit represents movements in deferred tax assets/liabilities	46	306

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

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

	2021 $m	2020 $m

Note 4

Dividends paid

Ordinary share capital		
Interim dividend paid(1)	–	795
Total dividends paid (Note 24)	**–**	795

(1) The dividend of $795 million was paid to MGL from the proceeds of the sale of certain MAM businesses. Refer to Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations* for further information.

Note 5

Trading assets

	2021 $m	2020 $m
Commodities	**297**	245
Corporate loans and debt securities	**137**	325
Equities		
Listed	**99**	31
Unlisted	**1**	2
Total trading assets	**534**	603

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

Note 6

Settlement and margin money assets

	2021 $m	2020 $m
Security settlements	**5,425**	3,492
Commodity settlements	**370**	323
Margin money	**300**	277
Total settlement and margin money assets	**6,095**	4,092

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

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 7

Derivative assets

Held for trading	**74**	747
Designated in hedge relationships[1]	**–**	19
Total derivative assets	**74**	766

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 31 *Hedge accounting*.

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

	2021 $m	2020 $m

Note 8

Financial investments

Equities		
Listed	**310**	398
Unlisted	**926**	809
Debt securities		
Money market securities	**197**	107
Other debt securities	**86**	79
Corporate loans and securities	**6**	87
Total financial investments[1]	**1,525**	1,480

(1) Includes investments in Macquarie-managed funds of $258 million (2020: $246 million).

Of the above amounts, $287 million (2020: $186 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 9

Other assets

Debtors and prepayments[1]	**1,242**	1,623
Investment properties and other inventory [2]	**518**	537
Income tax receivable	**337**	404
Other	**11**	9
Total other assets	**2,108**	2,573

(1) Includes $335 million (2020: $365 million) of fee and commission receivables and $75 million (2020:118 million) of fee-related contract assets.
(2) Includes $167 million (2020: $195 million) of investment properties measured at fair value. The valuation is classified as Level 3 in the fair value hierarchy as defined in Note 34 *Fair values of financial assets and liabilities*.

Of the above amounts, $1,359 million (2020: $1,936 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 10

Loan assets

	2021			2020		
	Gross $m	ECL allowance[1] $m	Net $m	Gross $m	ECL allowance[1] $m	Net $m
Corporate, commercial and other lending	5,789	(355)	5,434	5,654	(227)	5,427
Home loans	480	–	480	547	–	547
Asset financing	152	–	152	483	(11)	472
Total loan assets	6,421	(355)	6,066	6,684	(238)	6,446

(1) The ECL allowance carried against loan assets measured at FVOCI is not represented in the table as the allowance is Included in reserves. Refer Note 11 *Expected credit losses*.

Of the above amounts, $485 million (2020: $1,618 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Loan assets continue to represent the Consolidated Entity's most significant component of credit exposures on which expected credit losses (ECL) allowances are carried. The credit quality of the Consolidated Entity's loan assets, which are monitored through its credit policies, is reported under Note 32.1 *Credit Risk.*

Repossessed collateral

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

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 their financing needs in acquiring movable assets such as small plant and equipment, electronic and IT equipment. Finance lease receivables do not include retail products such as hire purchase, mortgages related to movable property and consumer loans. The following table represents the maturity profile of the contractual undiscounted cashflows of the Consolidated Entity:

	2021			2020		
	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m
Within one year	74	(6)	68	130	(12)	118
Between one and two years	47	(3)	44	59	(5)	54
Between two and three years	26	(1)	25	33	(2)	31
Between three and four years	7	–	7	13	–	13
Between four and five years	2	–	2	2	–	2
Total	156	10	146	237	(19)	218

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 11

Expected credit losses

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

Model inputs

The Consolidated Entity segments its credit portfolio into representative groupings which are typically based on shared risk characteristics.

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

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

The key model inputs used in measuring the ECL include:

- Exposure at default (EAD): The EAD represents the estimated exposure in the event of a default.
- Probability of default (PD): The calculation of PDs for wholesale exposures is generally performed at a facility level. 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 wholesale portfolios are also adjusted for FLI.
- Loss given default (LGD): The LGD associated with the PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios.

Method of determining significant increase in credit risk (SICR)

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

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposures' credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other 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.

Exposures

Retail exposures

Exposures are assigned a behavioural score which considers the exposures' lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposures' credit behaviour.

SICR movement thresholds of behavioural score movements between origination and reporting date have been established that, where exceeded, result in the exposure being categorised as stage II.

Wholesale exposures

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

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

For both retail and wholesale portfolios:

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

Definition of default

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

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

Note 11

Expected credit losses continued

Forward looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The predicted relationships between these key indicators and the key model 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.

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. These overlays consider the risk that losses predicted to occur at points of particular economic stress, which have since been passed, are yet to occur and that uncertainty exists as to whether enhanced levels of government and other-related support measures may cause the loss emergence profile to differ to that for which the models have been calibrated. These overlays also account for the risk that underlying credit risk events have occurred but observable modelled inputs are yet to reflect those events, as well as risks that are specific to regional, counterparties or industries which are difficult to account for within the modelled outcomes. Overtime the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately $125 million. These judgements are reviewed by FMG and RMG at each reporting date.

RMG is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, three possible economic scenarios have been developed, being an upside, downside and base case scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposure's PDs and LGDs.

The scenarios have been developed using a combination of publicly available data, internal forecasts and third-party information to form the initial baseline. Internal specialists within the Consolidated Entity are consulted to assist in refining and challenging the baseline and the alternate scenarios. For the current reporting period the Consolidated Entity has continued to anchor the upside and downside scenarios with COVID-19 as the key driver of the macroeconomic outlook.

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

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

Where limited official data sources against which to benchmark key economic indicators on a forward-looking basis exist, 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.

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

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

The modelled ECL for each scenario is sensitive to the speed and resilience of post-COVID-19 economic normalisation, and the longevity of monetary and fiscal intervention, as these influence both the probability of default, and the value of collateral that may be utilised.

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

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 11

Expected credit losses continued

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$475 million (2020: $560 million)(1)	Probable	**Global**: The baseline assumes the economic recovery continues through the first half of 2021 helped by continuation of localised health and enduring fiscal and monetary stimulus across most economies. Job retention schemes and other policy measures are expected to ease gradually through 2021 as recoveries take hold, ensuring that official unemployment rates remain stable as economic activity returns gradually towards normalised levels. In developed markets outside Europe, GDP is expected to return to pre-COVID-19 levels by mid-2021. **Australia**: The Australian economy is expected to recover ahead of other economies having experienced a relatively small contraction in 2020. Equity markets are expected to continue to stabilise and return to modest growth reaching pre-COVID-19 peaks at the end of 2021. With localised restrictions generally eased, unemployment rates continue to fall from a peak of 7.1% in mid-2020 declining to ~5% by the end of 2022. House prices increase by 8% in 2021, supported by low rates as the RBA maintains the cash rate at historic lows until 2023. **United States**: The unemployment rate continues to fall from its high of ~13% in the first half of 2020, albeit at a slowing pace remaining above pre-COVID-19 levels, reaching ~5% in early 2022. US GDP contracted by ~10% in the first half of 2020 but is expected to return to pre-COVID-19 levels in the second quarter of 2021 fuelled by robust stimulus measures.10-year government bond yields are expected to remain at historical lows while equities trend higher. **Europe**: European GDP is not expected to recover to pre-COVID-19 levels until the second half of 2022. The unemployment rate is expected to peak at ~9% in mid-2021 and return slowly to pre-COVID-19 levels of ~7% by 2025. The European Central Bank (ECB) is expected to maintain its policy rate in slightly negative territory

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

Note 11

Expected credit losses continued

Scenario	Weighting	Expectation
Downside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$760 million (2020: $745 million)[1]	Possible	**Global:** The downside assumes the COVID-19 recovery is more protracted as fresh outbreaks trigger renewed lockdown measures, while delayed or ineffectual vaccination programmes fail and are unable to facilitate a return to pre-COVID economic environments. The impact to global economic output is significantly less than the initial wave in early 2020, but the recovery trajectory is slow as low interest rates and limited fiscal capacity constrain the scope for further stimulus. Employment rates in this scenario stagnate at elevated levels across developed markets throughout 2021. With equity markets reversing much of their gains in 2021 as it becomes clear that recovery will be more prolonged. **Australia**: Returning to recession in 2021, the downward trend in unemployment rates ends and remains above 6% (~1% above pre-COVID-19 levels) until mid-2023. Australian GDP in this scenario would return to pre-COVID-19 levels in mid-2022 and growth rates would remain modest thereafter. House prices may continue to rise by 3% in 2021 before correcting sharply in 2022, falling by 8% and not recovering to pre-pandemic levels until late 2024. The RBA would maintain the cash rate at historic lows until the end of 2024. **United States**: GDP growth briefly tips into negative territory in the second half of 2021 but avoids the severe shocks of 2020, ultimately restoring pre-pandemic output by early 2022.The declining unemployment rate reverses only modestly but remains at ~6% and above into late 2022 at ~2.5% above the pre-COVID-19 levels. 10-year government bond yields remain below 1% for the forecast period and central bank rates are kept at all-time lows until 2025. **Europe**: Hardest-hit of developed markets, European GDP stagnates through 2021, with GDP remaining ~5% below pre-COVID-19 levels at the end of 2021, only returning to pre-pandemic highs in 2025. Increases in the unemployment rate are contained by fiscal measures though the rate remains slightly above pre-COVID-19 levels at 8-9% through to 2025. The ECB maintains interest rates in negative territory for the forecast period.
Upside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$450 million (2020: $440 milion[1]	Unlikely	**Global:** The scenario assumes swift results through medical developments allows for a faster removal of restrictions without triggering subsequent outbreaks of COVID-19, enabling normalisation and the release of pent-up demand. Governments and central banks would gradually ease accommodative monetary and fiscal policies without economic harm in this scenario. The growth trajectory is steeper and maintained, allowing for the removal of active stimulus by governments and central banks without prompting reversals. Global GDP surpasses pre-COVID-19 levels by mid-2021 facilitating higher employment and stimulating commodity prices. Equity markets also rally, driven by the positive economic and health developments and continued support from monetary policy. **Australia:** GDP surpasses pre-COVID-19 levels by mid-2021 and continues to grow at upwards of 3% annually through to 2024. The uptick in economic activity segues with the withdrawal of job retention schemes, while unemployment rates fall to 5% by the end of 2021 and continue to fall as low as 4.5%. House prices respond to this improved outlook and increase sharply by ~9% in 2021 and 6% in 2022.

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

Notes to the financial statements
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Note 11

Expected credit losses continued

The table below presents the gross exposure and related ECL allowance for assets measured at amortised cost or FVOCI and off-balance sheet item 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 MAR 2021
Cash and bank balances	**2,745**	**–**	**–**	**2,745**	**–**	**–**	**–**	**–**
Reverse repurchase agreements and cash collateral on securities borrowed	**–**	**2,126**	**–**	**2,126**	**–**	**–**	**–**	**–**
Settlement and margin money assets	**6,112**	**–**	**–**	**6,112**	**17**	**–**	**–**	**17**
Financial investments	**–**	**9**	**–**	**9**	**–**	**–**	**–**	**–**
Held for sale assets	**47**	**6**	**–**	**53**	**–**	**–**	**–**	**–**
Other assets[2]	**925**	**–**	**13**	**938**	**25**	**–**	**–**	**25**
Loan assets	**5,868**	**322**	**–**	**6,190**	**355**	**50**	**–**	**405**
Due from related body corporate entities	**17,546**	**–**	**–**	**17,546**	**6**	**–**	**–**	**6**
Loans to associates and joint ventures	**563**	**91**	**–**	**654**	**27**	**31**	**–**	**58**
Off balance sheet exposures [3]	**–**	**–**	**5,130**	**5,130**	**–**	**–**	**33**	**33**
Total	**33,806**	**2,554**	**5,143**	**41,503**	**430**	**81**	**33**	**544**
								AS AT 31 MAR 2020
Cash and bank balances	1,464	–	–	1,464	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	2	–	–	2	–	–	–	–
Settlement and margin money assets	4,096	–	–	4,096	4	–	–	4
Financial investments	–	82	–	82	–	5	–	5
Held for sale assets	668	7	–	675	–	–	–	–
Other assets[2]	1,405	–	118	1,523	39	–	–	39
Loan assets	4,234	1,594	–	5,828	238	181	–	419
Due from related body corporate entities	32,941	3,500	–	36,441	9	–	–	9
Loans to associates and joint ventures	668	117	–	785	10	62	–	72
Off balance sheet exposures [3]	–	–	5,483	5,483	–	–	46	46
Total	45,478	5,300	5,601	56,379	300	248	46	594

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

Note 11

Expected credit losses continued

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

	Settlement and margin money assets $m	Held for sale assets $m	Financial investments $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Due from related body corporate entities $m	Off Balance sheet exposures $m	Total $m
Balance as at 1 Apr 2019	–	117	91	53	105	30	11	22	429
Credit impairment charge/(reversal)	4	(2)	2	21	294	14	1	21	355
Amounts written off, previously provided for	–	–	–	(14)	(6)	–	–	–	(20)
Disposals	–	(98)	–	–	–	–	–	–	(98)
Foreign exchange, re-classifications and other movements	–	(17)	(88)	(21)	26	28	(3)	3	(72)
Balance as at 31 Mar 2020	4	–	5	39	419	72	9	46	594
Credit impairment charge/(reversal)	**13**	**–**	**(2)**	**(2)**	**127**	**17**	**(2)**	**(7)**	**144**
Amounts written off, previously provided for	**–**	**–**	**(2)**	**(5)**	**(84)**	**(21)**	**–**	**–**	**(112)**
Foreign exchange, re-classifications and other movements	**–**	**–**	**(1)**	**(7)**	**(57)**	**(10)**	**(1)**	**(6)**	**(82)**
Balance as at 31 Mar 2021	**17**	**–**	**–**	**25**	**405**	**58**	**6**	**33**	**544**

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 11

Expected credit losses continued

ECL on loan assets

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

		LIFETIME ECL		
	Stage I 12 month ECL $m	Stage II Not credit impaired $m	Stage III Credit impaired $m	Total $m
Balance as at 1 Apr 2019	20	26	59	105
Transfers during the year	(5)	4	1	–
Credit impairment charge (Note 2)	97	40	157	294
Amounts written off, previously provided for	–	–	(6)	(6)
Foreign exchange, re-classifications and other movements	–	–	26	26
Balance as at 31 Mar 2020	112	70	237	419
Transfers during the year	**(15)**	**2**	**13**	**–**
Credit impairment charge (Note 2)	**18**	**15**	**94**	**127**
Amounts written off, previously provided for	**–**	**–**	**(84)**	**(84)**
Foreign exchange, re-classifications and other movements	**(10)**	**(9)**	**(38)**	**(57)**
Balance as at 31 Mar 2021	**105**	**78**	**222**	**405**

Note 12

Interests in associates and joint ventures

	2021 $m	2020 $m
Equity investments with no provisions for impairment	1,360	4,960
Equity investments with provisions for impairment		
Gross carrying value	481	216
Less: provisions for impairment	(139)	(132)
Equity investments with provisions for impairment	342	84
Total equity investments in associates and joint ventures[(1)]	1,702	5,044
Loans to associates and joint ventures	659	909
Less: credit impairment charges[(2)]	(27)	(10)
Total loans to associates and joint ventures	632	899
Total interests in associates and joint ventures[(3),(4)]	**2,334**	**5,943**

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

Disclosure of principal associate

The Consolidated Entity's principal associate at the balance date are:

Associates[(5)]	Carrying value 2021 $m	Carrying value 2020 $m	Ownership interest	Nature of activities	Financial reporting date
Macquarie AirFinance Limited	578	802	50%	Aircraft leasing	31 March

Macquarie AirFinance Limited

During the prior year, the Consolidated Entity disposed of Macquarie AirFinance Limited (MAF) business under the MAM Operating Group to a newly formed joint venture of which the Consolidated Entity held a 75% interest (Refer to Note 39 Acquisitions and disposals of subsidiaries and businesses). Subsequently, the Consolidated Entity disposed of a 25% interest in the joint venture and the remaining 50% retained interest was classified as an equity-accounted associate due to retaining significant influence.

MAF continues to be impacted by a global reduction in airline movements due to COVID-19 resulting in a drop in cash collections following deferrals and non-payments. As a result, an impairment analysis on an aircraft-by-aircraft basis was undertaken by MAF. Each aircraft's recoverable value, being the higher of its VIU and its fair value less costs of disposal, was determined and compared to its book value. The cash flows included in the VIU assessment considered the circumstances of each lessee and its impact on contracted lease revenue, unleased aircraft, the probability of leases being extended, the time that an aircraft is off-lease, future lease rates and disposal proceeds. The fair value less costs of disposal was determined with reference to independent appraisal values for each aircraft. MAF recognised an impairment for each aircraft where the recoverable value was less than carrying value.

The recoverable value of the Consolidated Entity's investment in MAF, after accounting for the above-mentioned equity-accounted loss, was also considered. The investment's VIU was determined using the income approach where significant inputs included forecasts over the timing and amount of distributions, and the terminal value of the investment beyond the forecast period. The investment's fair value less costs of disposal was determined with reference to the current market value of the net assets of MAF.

Changes in the carrying value of the investment during the year as a result of the appreciation of the Australian dollar against the United States dollar are accounted for in the Consolidated Entity's foreign currency translation and net investment hedge reserve, together with applicable hedges.

(1) Includes investments in Macquarie-managed funds of $156 million (2020: $208 million). The Consolidated Entity classifies its investments in such funds as equity-accounted associates where it has a less than 20% ownership interest on the basis of its ability to participate in the financial and operating policy decisions through its role as manager.
(2) Excludes expected credit losses of $31 million (2020: $62 million) recognised on loans to associates classified as FVOCI. The loans are measured at fair value and hence these expected credit losses have been recognised in reserves.
(3) Includes $1,265 million (2020: $4,929 million) relating to interests in associates and $1,069 million (2020: $1,014 million) relating to interests in joint ventures.
(4) Associates and Joint ventures have different reporting dates, which have been adjusted to align with the Consolidated Entity's reporting date.
(5) The comparative disclosures have been presented to align with Macquarie's principal associate at the reporting date.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 13

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

	2021			2020		
	Cost $m	Accumulated depreciation and impairments $m	Carrying value $m	Cost $m	Accumulated depreciation and impairments $m	Carrying value $m
Assets for own use						
Furniture, fittings and leasehold improvements	491	(205)	286	495	(232)	263
Infrastructure assets	304	(18)	286	49	–	49
Other assets	87	(42)	45	67	(38)	29
Total assets for own use	882	(265)	617	611	(270)	341
Assets under operating lease						
Aviation	967	(124)	843	1,194	(80)	1,114
Other	103	(5)	98	–	–	–
Total assets under operating lease	1,070	(129)	941	1,194	(80)	1,114
Right-of-use assets						
Property	251	(87)	164	299	(59)	240
Commodity storage	95	(57)	38	96	(29)	67
Other	40	(2)	38	19	(1)	18
Total right-of-use assets	386	(146)	240	414	(89)	325
Total property, plant and equipment	2,338	(540)	1,798	2,219	(439)	1,780

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

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 ROU assets was as follows:

Assets for own use	Furniture, fittings and leasehold improvements $m	Infrastructure assets $m	Other assets $m	Total $m
Balance at 1 Apr 2019	48	38	19	105
Acquisitions	225	113	44	382
Disposals	(10)	(101)	(29)	(140)
Reclassification and other adjustments	4	(7)	–	(3)
Depreciation expense(1)	(22)	(4)	(10)	(36)
Foreign exchange movements	18	10	5	33
Balance at 31 Mar 2020	263	49	29	341
Acquisitions	**153**	**182**	**42**	**377**
Disposals	**(18)**	**(5)**	**(13)**	**(36)**
Reclassification and other adjustments	**(51)**	**84**	**3**	**36**
Impairments	**–**	**(2)**	**–**	**(2)**
Depreciation expense(1)	**(32)**	**(4)**	**(9)**	**(45)**
Foreign exchange movements	**(29)**	**(18)**	**(7)**	**(54)**
Balance at 31 Mar 2021	**286**	**286**	**45**	**617**

Assets under operating lease	Aviation $m	Rail cars $m	Others $m	Total $m
Balance at 1 Apr 2019	1,028	612	–	1,640
Acquisitions	27	–	–	27
Disposals	(47)	–	–	(47)
Reclassification and other adjustments(2)	(9)	(589)	–	(598)
Impairments	(4)	(40)	–	(44)
Depreciation expense	(34)	(27)	–	(61)
Foreign exchange movements	153	44	–	197
Balance at 31 Mar 2020	1,114	–	–	1,114
Acquisitions	**3**	**–**	**68**	**71**
Disposals	**(10)**	**–**	**–**	**(10)**
Reclassification and other adjustments	**(13)**	**–**	**37**	**24**
Impairments	**(3)**	**–**	**–**	**(3)**
Depreciation expense	**(37)**	**–**	**(4)**	**(41)**
Foreign exchange movements	**(211)**	**–**	**(3)**	**(214)**
Balance at 31 Mar 2021	**843**	**–**	**98**	**941**

(1) Includes depreciation expense of $1 million (2020: $3 million) on infrastructure assets, $2 million (2020: $3 million) on equipment and $6 million (2020: $1 million) on furniture, fittings and leasehold improvements relating to certain subsidiaries that are held for investment purposes and are presented under other operating income and charges in Note 2 *Operating profit from continuing operations before income tax*.

(2) $589 million of Rail assets were reclassified to held for sale in the previous year and were disposed of during the current year.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 13

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

Right-of-use assets	Property $m	Commodity Storage $m	Others $m	Total $m
Balance at 1 Apr 2019	148	74	3	225
Acquisitions and additions	165	8	44	217
Disposals	(26)	–	(6)	(32)
Depreciation expense	(56)	(26)	(1)	(83)
Foreign exchange movements	24	10	1	35
Other adjustments	(15)	1	(23)	(37)
Balance at 31 Apr 2020	240	67	18	325
Acquisitions and additions	32	21	31	84
Disposals	(11)	(3)	(5)	(19)
Depreciation expense	(53)	(36)	(1)	(90)
Impairment	(4)	–	–	(4)
Foreign exchange movements	(44)	(12)	(2)	(58)
Other adjustments	4	1	(3)	2
Balance at 31 Mar 2021	164	38	38	240

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

	2021 $m	2020 $m
Within one year	93	134
Between one and two years	77	93
Between two and three years	55	69
Between three and four years	41	29
Between four and five years	33	12
Later than five years	326	11
Total future minimum lease payments receivables	625	348

Note 14

Intangible assets

	2021			2020		
	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m
Goodwill	729	–	729	1,198	(193)	1,005
Management rights and licenses	252	(34)	218	249	(16)	233
Other identifiable intangible assets	237	(43)	194	312	(10)	302
Customer and servicing contracts	152	(21)	131	124	(8)	116
Total intangible assets	1,370	(98)	1,272	1,883	(227)	1,656

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

Goodwill comprises of $60 million (2020: $190 million) related to the Consolidated Entity’s integrated business and $669 million (2020: $815 million) related to the Consolidated Entity’s other consolidated investments.

The recoverable amount was determined on the basis of the asset or cash generating unit’s fair value less costs to sell. This measurement basis for goodwill and intangible assets with indefinite lives was determined using Discounted Cashflow methodologies, in which case the key assumptions included discount rates ranging from 8%-13%, forecasted cashflows and long term growth rate information specific to the underlying asset or cash generating unit.

Further, there were no significant impairment indicators for Customer and servicing contracts, Management rights and licenses and Other identifiable intangible assets at the balance sheet date.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 14

Intangible assets continued

The movement in the carrying value of the Consolidated Entity's intangible assets is as follows:

	Goodwill $m	Management rights and licenses $m	Other identifiable intangible assets $m	Customer and servicing contracts $m	Total $m
Balance at 1 Apr 2019	376	35	404	–	815
Acquisitions[1]	700	188	219	108	1,215
Disposals, reclassification and other adjustments[2]	(186)	–	(327)	–	(513)
Amortisation[3]	–	(3)	(26)	(3)	(32)
Foreign exchange movements	115	14	31	11	171
Balance at 31 Mar 2020	1,005	234	301	116	1,656
Acquisitions[1]	**5**	**13**	**333**	**52**	**403**
Disposals, reclassification and other adjustments[2]	**(46)**	**–**	**(357)**	**–**	**(403)**
Impairment	**(106)**	**(3)**	**(10)**	**–**	**(119)**
Amortisation[3]	**–**	**(10)**	**(20)**	**(14)**	**(44)**
Foreign exchange movements	**(129)**	**(16)**	**(53)**	**(23)**	**(221)**
Balance at 31 Mar 2021	**729**	**218**	**194**	**131**	**1,272**

(1) Includes intangibles acquired as part of subsidiaries and businesses acquisition. Refer to Note 39 *Acquisitions and disposals of subsidiaries and businesses.*

(2) Includes reclassifications to held for sale. Refer to Note 39 *Acquisitions and disposals of subsidiaries and businesses* for intangible assets disposed as part of business combinations.

(3) Includes amortisation of $3 million (2020: Nil) presented under Net trading income and $39 million (2020: $27 million) under Other operating income and charges and $2 million (2020: $5 million) under Other operating expenses in the Income statement.

Note 15

Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	2021 $m	2020 $m
Other assets and liabilities	**350**	328
Tax losses	**133**	150
Financial investments and interests in associates and joint ventures	**180**	166
Property, plant and equipment	**9**	12
Loan assets and derivatives	**71**	56
Operating and finance lease assets	**15**	72
Intangible assets	**18**	14
Set-off of deferred tax liabilities	**(298)**	(288)
Net deferred tax assets	**478**	510
Operating and finance lease assets	**(128)**	(195)
Other assets and liabilities	**(31)**	(51)
Loan and derivative assets	**(96)**	(57)
Intangible assets	**(36)**	(48)
Property, plant and equipment	**(2)**	(5)
Financial investments and interests in associates and joint ventures	**(61)**	(28)
Set-off of deferred tax assets	**298**	288
Net deferred tax liabilities	**(56)**	(96)

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

Potential tax assets of approximately $209 million (2020: $200 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 $1 million (2020: $7 million) that will expire within two years, $38 million (2020: $4 million) that will expire in 2–5 years, $35 million (2020: $12 million) that will expire in 5–10 years and $155 million (2020: $169 million) that will expire in 10–20 years. $499 million (2020: $937 million) do not expire and can be carried forward indefinitely. Approximately $5 million (2020: $15m) of tax assets relating to losses are available within subsidiaries that have been classified as held for sale.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 16

Trading liabilities

	2021 $m	2020 $m
Listed equity securities	71	176
Commodities	–	5
Total trading liabilities	**71**	181

Note 17

Settlement and margin money liabilities

	2021 $m	2020 $m
Security settlements	5,561	3,407
Commodity settlements	280	333
Margin money	32	23
Total settlement and margin money liabilities	**5,873**	3,763

Note 18

Derivative liabilities

	2021 $m	2020 $m
Held for trading	85	563
Designated in hedge relationships(1)	17	11
Total derivative liabilities	**102**	574

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 31 Hedge accounting.

Note 19

Other liabilities

	2021 $m	2020 $m
Accrued charges, employment-related liabilities and provisions(1)	948	1,072
Creditors	602	311
Unitholder liabilities	496	–
Lease liabilities	299	409
Income tax payable	261	250
Other	81	107
Total other liabilities	**2,687**	2,149

(1) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and 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.

Note 20

Debt issued

	2021 $m	2020 $m
Bonds and negotiable certificates of deposit	2,699	3,461
Exchangeable shares[1]	13	9
Total debt issued[2]	2,712	3,470

(1) Includes exchangeable shares issued by subsidiaries as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. Refer to Note 23 *Contributed equity* for further details on exchangeable shares.
(2) The amount that would be contractually required to be paid at maturity to the holders of debt issued which are measured at DFVTPL is $16 million (2020: $16 million). This amount is based on the final notional amount rather than the fair value. Refer to Note 33 *Measurement categories of financial instruments* for the carrying value of debt issued measured at DFVTPL.

The Consolidated Entity has 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)

	2021 $m	2020 $m
United States dollars	2,697	3,426
Other	15	44
Total debt issued	2,712	3,470

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 21

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

The Consolidated Entity's capital management strategy uses internal 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 required to maintain capital as calculated using the Consolidated Entity's ECAM.

In determining capital requirements, transactions internal to the Consolidated Entity are eliminated. The Consolidated Entity's eligible capital consists of ordinary equity, certain reserves and hybrid instruments.

The Consolidated Entity has satisfied all internally imposed capital requirements throughout the financial year.

Note 22

Loan capital

Subordinated debt

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

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

Contract feature	Internal Capital Notes	Internal Capital Notes	Internal Capital Notes	Internal Capital Notes
Code	ICN2[(1)]	ICN Series1[(2)]	ICN Series 2[(2)]	ICN Series 3[(2)]
Issuer	Macquarie Financial Holdings Pty Limited	Macquarie Financial Holdings Pty Limited	Macquarie Financial Holdings Pty Limited	Macquarie Financial Holdings Pty Limited
Par value	$1 million	$100	$100	$100
Currency	AUD	AUD	AUD	AUD
Principal amount	2,100 million	1,000 million	406 million	725 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost
Issue date	31 March 2020	31 March 2021	31 March 2021	31 March 2021
Interest rate	30-day BBSW plus a fixed margin of 4.31% per annum, paid monthly	30-day BBSW plus a fixed margin of 4.00% per annum, paid monthly	30-day BBSW plus a fixed margin of 4.15% per annum, paid monthly	30-day BBSW plus a fixed margin of 2.90% per annum, paid monthly
Interest payment frequency	Monthly	Monthly	Monthly	Monthly
Interest Payment	Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative
Outstanding notes at reporting date	-	10 million	4.06 million	7.25 million
Maturity	31 March 2021	Perpetual unless redeemed, or exchanged in accordance with the terms of the instrument.	Perpetual unless redeemed, or exchanged in accordance with the terms of the instrument.	Perpetual unless redeemed, or exchanged in accordance with the terms of the instrument.

(1) ICN2 was redeemed in March 2021.
(2) ICN series1, ICN series 2 and ICN series 3 were issued in March 2021.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 22

Loan capital continued

The table below discloses the carrying value of loan capital at 31 March:

	2021 $m	2020 $m
Instruments with conditional repayment dates		
ICN Series 1	1,000	–
ICN Series 2	406	–
ICN Series 3	725	–
ICN2	–	2,100
Total loan capital	**2,131**	2,100

Reconciliation of loan capital by major currency

(In Australian dollar equivalent)

	2021 $m	2020 $m
Australian dollars	2,131	2,100
Total loan capital	**2,131**	2,100

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

	2021 Number of Shares	2020 Number of Shares	2021 $m	2020 $m

Note 23

Contributed equity

	2021 $m	2020 $m
Ordinary share capital	**14,249**	14,249
Restructure reserve	**(6,805)**	(6,805)
Additional paid in capital	**414**	413
Total Contributed equity	**7,858**	7,857

(i) Ordinary share capital[1]

	2021 Number of Shares	2020 Number of Shares	2021 $m	2020 $m
Balance at the beginning of the financial year	**29,811,399,431**	29,311,394,256	**14,249**	19,515
Issue of shares to MGL on retraction of exchangeable shares at $139.70 (2020: ranges from $116.86 to $136.89) per share	**1,730**	5,175	**–**	1
Issue of shares to MGL on 31 March 2020 at $1 per share	**–**	500,000,000	**–**	500
Return of capital to MGL[2]	**–**	–	**–**	(5,767)
Balance at the end of the financial year	**29,811,401,161**	29,811,399,431	**14,249**	14,249

(ii) Restructure reserve[3]

	2021 $m	2020 $m
Balance at the beginning of the financial year	**(6,805)**	(14,023)
Transferred to retained earnings	**–**	7,218
Balance at the end of the financial year	**(6,805)**	(6,805)

(iii) Additional paid in capital

	2021 $m	2020 $m
Balance at the beginning of the financial year	**413**	418
Tax contribution for business acquired under group restructure	**3**	–
Return of paid up capital[4]	**(2)**	(5)
Balance at the end of the financial year	**414**	413

(1) Ordinary shares have no par value.
(2) During the previous year, the Consolidated Entity returned capital of $5,767 million to MGL following the disposal of certain MAM businesses. Refer to Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations* for further information.
(3) Relates to the difference between the acquisition price and the book value of the net assets acquired under common control transactions.
(4) Macquarie Group Employee Retained Equity Plan (MEREP) awards are primarily settled in shares of MGL. Where MEREP awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP refer to Note 28 *Employee equity participation*.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 24

Reserves, retained earnings and non-controlling interests

(i) Reserves

	2021 $m	2020 $m
Foreign currency translation and net investment hedge reserve[(1)]		
Balance at the beginning of the financial year	676	11
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax[(2)]	(877)	686
Transferred to income statement on disposal of foreign operations, net of tax	–	(21)
Balance at the end of the financial year	(201)	676
FVOCI reserve		
Balance at the beginning of the financial year	(38)	–
Revaluation movement for the year, net of tax	163	(54)
Changes in ECL allowance, net of tax	(125)	16
Balance at the end of the financial year	–	(38)
Cash flow hedge reserve[(1)]		
Balance at the beginning of the financial year	7	(52)
Revaluation movement for the financial year, net of tax	(8)	(20)
Transferred to income statement on realisation, net of tax	(13)	79
Balance at the end of the financial year	(14)	7
Share of reserves of interests in associates and joint ventures[(1)]		
Balance at the beginning of the financial year	(162)	(26)
Share of other comprehensive loss of associates and joint ventures, net of tax	(22)	(136)
Balance at the end of the financial year	(184)	(162)
Total reserves at the end of the financial year	(399)	483

(1) For movements related to the discontinued operations, refer Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.

(2) The current year movement represents the revaluation of the Group's unhedged investments in foreign operations primarily driven by the appreciation of the Australian dollar against the United States dollar. Refer to Note 32.3 *Market Risk* for the Consolidated Entity's foreign exchange risk management policy.

	2021 $m	2020 $m

Note 24

Reserves, retained earnings and non-controlling interests continued

(ii) Retained earnings

	2021 $m	2020 $m
Balance at the beginning of the financial year	347	447
Profit attributable to the ordinary equity holder of Macquarie Financial Holdings Pty Limited (Note 2)	1,177	8,018
Dividends paid on ordinary share capital (Note 4)	–	(795)
Loss on change in ownership interest	–	(3)
Change attributable to group restructure(1)	(23)	(102)
Transferred from contributed equity(2)	–	(7,218)
Balance at the end of the financial year	1,501	347

(iii) Non-controlling interests(3)

	2021 $m	2020 $m
Share capital and partnership interests	478	399
Reserves	(60)	(26)
Accumulated losses	(125)	(83)
Total non-controlling interests	293	290

(1) Represents difference between the acquisition price and book value of the net assets acquired under common control transactions. Refer to Note 39 *Acquisitions and disposals of subsidiaries and business.*
(2) During the previous year, a portion of the restructure reserve that was recognised against contributed equity was transferred to retained earnings following the sale of certain MAM businesses to which the restructure reserve was related.
(3) Non-controlling interests represent 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.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 25

Notes to the statement of cash flows

(i) Reconciliation of cash and cash equivalents

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

	2021 $m	2020 $m
Due from related body corporate entities[1]	**3,846**	8,241
Cash and bank balances[2],[3]	**1,582**	1,143
Financial investment	**182**	50
Reverse repurchase agreements	**2,126**	–
Held for sale assets	**–**	50
Cash and cash equivalents at the end of the financial year	7,736	9,484

(1) Balance comprises of $3,846 million (2020: $4,741 million) short term deposits and $Nil (2020: $3,500 million) reverse repurchase arrangements held with MBL, a related body corporate entity.

(2) Amounts excluded from cash and cash equivalents but presented in the Statement of financial position as cash and bank balances primarily relates to $457 million (2020: $52 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of $706 million (2020: $269 million), not readily available to meet the Consolidated Entity's short-term cash commitments.

(3) Cash and bank balances includes $479 million (2020: $194 million) of restricted balances, that are restricted from use by the Consolidated Entity, including balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is subject to certain restrictions.

Note 25

Notes to the statement of cash flows continued

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

	2021 $m	2020 $m
Profit after income tax	1,163	8,009
Adjustments to profit after income tax:		
Depreciation and amortisation	210	318
ECL and impairment charges	(87)	579
Investment income and gain on sale of operating lease assets and other non-financial assets	(1,580)	(1,605)
Profit from sale of discontinued operations	–	(7,221)
Share-based payment expense	262	293
Share of net losses of associates and joint ventures	179	62
Changes in assets and liabilities:		
Carrying values of associates due to dividends received	17	226
Interest, fees and commissions receivables/payable	142	(380)
Tax balances	35	190
Debtors, prepayments, accrued charges and creditors	227	(320)
Trading assets and liabilities and net derivative financial instruments[(1)]	259	185
Other assets and liabilities	(288)	(451)
Loan assets and related entities	(10,039)	2,956
Operating lease assets	37	28
Borrowings	104	2,875
Debt issued	(100)	(278)
Net cash flows (utilised in)/generated from operating activities	**(9,459)**	5,466
(iii) Reconciliation of loan capital		
Balance at the beginning of the financial year	2,100	1,102
Cash flows		
Issuance	2,131	2,100
Redemption	(2,100)	(1,100)
Non-cash charges		
Others	2	(2)
Balance at the end of the financial year	**2,133**	2,100

(1) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements assets and liabilities.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 26

Related party information

Transactions between the Consolidated Entity and the parent entity and with other related body corporate entities under common control principally arise from the provision of loans and repayment of funding arrangements, provision of management and administration services and the provision of guarantees, restructure of businesses, repayment of capital and distribution of dividends.

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

Parent entity

The Company's parent entity is MGL, a company incorporated in Australia. MGL produces consolidated financial statements that are available for public use.

MGL as ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of this agreement are set out in Note 42(v) *Taxation*. Amounts payable to MGL includes amounts payable by the Consolidated Entity under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL are included in Due from related body corporate entities or Due to related body corporate entities, as appropriate, in the Statement of financial position.

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

	2021 $'000	2020 $'000
Interest expense	**(389,192)**	(761,827)
Return of capital (Note 23)	**–**	(5,767,047)
Redemption of loan capital	**(2,100,000)**	(1,100,000)
Issuance of loan capital	**2,131,000**	2,100,000
Dividend (Note 4)	**–**	(795,000)

The following balances, other than ordinary issued capital, were outstanding with parent entity as at financial year end:

On Balance Sheet:		
Due from related body corporate entities[(1),(2)]	**1,333,057**	7,926,539
Due to related body corporate entities[(3)]	**(18,589,241)**	(30,381,800)
Loan capital	**(2,131,144)**	(2,100,267)
Off Balance Sheet:		
Guarantees[(4)]	**3,698,484**	5,017,401
Asset development commitments[(5)]	**(859,000)**	(942,000)

(1) Amounts receivable includes funding drawn down by MGL to fund its investments in other subsidiaries and external dividend payments.
(2) Due from related body corporates primarily represents amounts paid in advance for MEREP awards offered to its employees' net of share-based payment expense (refer to Note 42(xxi) Performance based remuneration), loans and receivables as per the terms of the funding arrangements under the MLA.
(3) Due to related body corporates primarily represents the amount payable by the Consolidated Entity as per the terms of funding arrangements under MLA, payables under other bespoke loans agreements and trading-related balances including derivatives designated in hedge accounting relationships.
(4) Represents guarantees provided by MGL as the parent entity in relation to the performance and other obligations of the Consolidated Entity.
(5) Represents asset development commitments to be fulfilled by the Consolidated Entity in relation to MGL's commitment to third parties.

Note 26

Related party information continued

Other related body corporate entities

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

Additionally, transactions with Macquarie Bank Limited (MBL), a 100% owned subsidiary of MGL, relating to the disposal of Macquarie service entities to MBL have been provided in Note 39 *Acquisitions and disposals of subsidiaries and businesses*.

Transactions with Macquarie Asset Management Holdings Pty Limited (MAMH), a 100% owned subsidiary of MGL, relating to the disposal of businesses (MAM businesses) have been provided in Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.

Other than the above-mentioned transactions with MBL and MAMH, the following transactions occurred with related body corporate entities during the financial year:

	2021 $'000	2020 $'000
Interest income	**95,020**	391,960
Interest expense	**(12,656)**	(92,821)
Net fee and commission income	**365,752**	141,712
Other operating expense[1]	**(515,153)**	(616,181)

The following balances with related body corporate entities were outstanding as at the end of the financial year:

	2021 $'000	2020 $'000
On Balance Sheet:		
Due from other related body corporate entities[2], [3]	**17,094,052**	30,198,580
Due to other related body corporate entities[4]	**(3,260,758)**	(12,061,317)
Off Balance Sheet:		
Guarantees[5]	**(3,079,304)**	(3,685,360)
Indemnities	**(53,772)**	(66,564)
Letters of credit	**195,481**	233,709
Guarantee received for asset development commitments[6]	**591,019**	763,382

(1) Primarily includes service cost recoveries by related entities.
(2) Due from other related body corporates primarily represents loans and receivables as per the terms of the funding arrangements under MLA, loans and receivables under bespoke funding agreements and trading-related balances including derivatives designated in hedge accounting relationships.
(3) Includes $629,946 thousand (2020: $3,500,496 thousand) repurchase agreements under a new liquidity arrangement with MBL wherein MBL has repledged collateral amounting to $571,016 thousand (2020: $3,196,180 thousand).
(4) Due to other related body corporates primarily represents payables as per the terms of the funding arrangements under MLA, payables under bespoke funding agreements and trading-related balances including derivatives designated in hedge accounting relationships.
(5) Includes guarantees of $2,884,106 thousand (2020: $3,457,568 thousand) provided by the Consolidated Entity to MBL for its exposure with certain non-licensed entities. The Consolidated Entity has placed cash collateral of a similar amount with MBL as per the terms of the guarantee arrangement, which is included in the due from other related body corporate entities balance above.
(6) Relates to an asset development commitment to MGL guaranteed by MBL for which the Consolidated Entity has placed collateral of a similar amount with MBL.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 26

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 management services, the granting of loans and the provision of corporate advisory 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:

	2021 $'000	2020 $'000
Interest income	**72,589**	94,961
Fee and commission income[1]	**855,617**	1,216,767
Brokerage and commission expense	**(38)**	(1,095)
Other income/(expense)	**38,344**	(604)

(1) Includes $393,834 thousand (2020: $472,912 thousand) of performance fees earned.

Dividends and distributions of $20,006 thousand (2020: $343,993 thousand) were received from the Consolidated Entity's associates and joint ventures. Under the equity method of accounting, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 12 *Interests in associates and joint ventures*):

On Balance Sheet:		
Amounts receivable [1]	**47,557**	146,212
Amounts payable	**(13,812)**	(540)
Off Balance Sheet:		
Undrawn commitments[2]	**(1,043,732)**	(1,335,466)

(1) Includes $16,811 thousand (2020: $102,774 thousand) of fee-related contract assets from Macquarie-managed funds.
(2) Includes $927,844 thousand (2020: $1,298,163 thousand) of equity commitments and $115,888 thousand (2020: $37,303 thousand) of debt commitments to associates and joint ventures of the Consolidated Entity. Out of this, $46,686 thousand (2020: $353,977 thousand) of equity commitments relates to Macquarie-managed funds. Refer Note 29 Contingent liabilities and commitments.

Note 27

Key Management Personnel disclosure

Key Management Personnel

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

Directors	
S. Dyson	
D. Saad	
A.J. Lewis	(resigned on 2 July 2019, reappointed 24 March 2021)
Former Directors	
S. Green	(resigned 24 March 2021)
J.A. Fowler	(appointed 16 December 2019 to 13 July 2020) (alternate to S. Green)

In addition to the Directors listed above, the following persons, who were members of MGL's Executive Committee, also had authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries during the financial year ended 31 March 2021 and 31 March 2020, unless otherwise indicated.

Executives[(1)]	
S.R. Wikramanayake	CEO
A.H. Harvey	CFO, Head of FMG
F. Herold[(2)]	Head of Macquarie Capital Principal Finance (ceased to be a member of the Executive Committee effective from 7 May 2021)
N. O'Kane	Head of CGM
M.J. Reemst	Macquarie Bank CEO (will cease to be a member of the Executive Committee effective from 1 July 2021)
M.J. Silverton	Co-Head of Macquarie Capital (appointed effective 1 June 2019)
N. Sorbara	COO, Head of COG
M.S.W. Stanley	Head of MAM (ceased to be a member of the Executive Committee effective from 1 April 2021)
P.C. Upfold	CRO, Head of RMG
G.C. Ward	Deputy Managing Director, Head of BFS
D. Wong	Co-Head of Macquarie Capital (appointed effective 1 June 2019)
Former Executives	
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)

(1) Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 29 June 2021.
(2) Mr. F. 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.

Notes to the financial statements
for the financial year ended 31 March 2021
continued

Note 27

Key Management Personnel disclosure continued

The following table details the aggregate remuneration for KMP:

	2021 $	2020 $
Key Management Personnel Remuneration		
Amounts paid to Key Management Personnel in relation to their role as KMP of the Consolidated Entity	**53,289,035**	51,769,504

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

Note 28

Employee equity participation

MEREP

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

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

	Number of RSU Awards	
	2021	2020
RSUs on issue at the beginning of the financial year	**4,927,958**	6,543,401
Granted during the financial year	**1,854,820**	2,082,677
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(1,762,499)**	(2,934,983)
Forfeited during the financial year	**(246,637)**	(234,782)
Net transfers from/(to) related body corporate entities	**18,460**	(528,355)
RSUs on issue at the end of the financial year	**4,792,102**	4,927,958
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**72**	1,702

The weighted average fair value of the RSU Awards granted during the financial year was $124.20 (2020: $126.76).

Deferred Share Units (DSUs)

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

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

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

	Number of DSU Awards	
	2021	2020
DSUs on issue at the beginning of the financial year	**2,218,571**	2,068,056
Granted during the financial year	**763,236**	656,231
Forfeited during the financial year	**(45,248)**	(41,165)
Exercised during the financial year	**(499,049)**	(625,765)
Net transfers (to)/from related body corporate entities	**(141,078)**	161,214
DSUs on issue at the end of the financial year	**2,296,432**	2,218,571
DSUs exercisable at the end of the financial year	**623,634**	573,384

The weighted average fair value of the DSU Awards granted during the financial year was $117.88 (2020: $119.82).

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 28

Employee equity participation continued

Performance Share Units (PSUs)

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

	NUMBER OF PSU AWARDS	
	2021	2020
PSUs on issue at the beginning of the financial year	193,352	214,776
Granted during the financial year	91,976	48,278
Exercised during the financial year	(33,945)	(69,702)
Expired During the Year	(33,946)	–
PSUs on issue at the end of the financial year	217,437	193,352
PSUs exercisable at the end of the financial year	–	–

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

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

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

Note 28

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

Performance Share Units (PSUs)

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles related to MGL's performance. Only employees who are 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.

The hurdles are outlined on the following page.

(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.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 28

Employee equity participation continued

Performance hurdle 1

Hurdle	Reference group
50% of the PSUs based solely on the relative average annual return on MGL's ordinary equity (ROE) over the vesting period compared to a reference group of global financial institutions. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.	The current reference group comprises 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	Reference group
50% of the PSUs based solely on MGL's compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.

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

Assumptions used to determine the fair value of MEREP awards

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

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

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

While RSUs, DSUs and PSUs (for Executive Committee members) for FY2021 will be granted during FY2022, the company begins recognising an expense for these awards (based on an initial estimate) from 1 April 2020 related to these future grants. The expense is estimated using the estimated MEREP retention for FY2021 and applying the amortisation profile to the retained amount. For PSUs, the estimate also incorporates an interest rate to maturity of 0.44% per annum, expected vesting date of PSUs of 1 July 2025, and a dividend yield of 3.96% per annum.

In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

(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 28

Employee equity participation continued

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

For the financial year ended 31 March 2021, compensation expense relating to the MEREP totalled $212,174 thousand (2020: $287,601 thousand).

Employee Share Plan

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

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

The latest offer under the ESP was made during November 2020. A total of 112 (2020: 96) staff participated in this offer. On 9 December 2020, the participants were each allocated 7 (2020: 7) fully paid ordinary shares based on the offer amount of $1,000 and the average market share price of $139.70 (2020: $136.37), resulting in a total of 784 (2020: 672) shares being allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2021, compensation expense relating to the ESP totalled $110 thousand (2020: $91 thousand).

Other plans

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

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 29

Contingent liabilities and commitments

	2021 $m	2020 $m
Contingent liabilities exist in respect of:		
Guarantees[1]	3,536	4,163
Indemnities	281	148
Letters of credit	104	58
Total contingent liabilities[2]	3,921	4,369
Commitments exist in respect of:		
Undrawn credit facilities and securities commitments[3],[4],[5]	5,251	6,958
Property, plant and equipment and other asset developments[6],[7]	1,421	3,151
Total commitments	6,672	10,109
Total contingent liabilities and commitments[8]	10,593	14,478

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

(1) Includes $2,884 million (2020: $3,458 million) of guarantees to MBL for its exposures with certain non-extended licensed Macquarie Group entities. The Consolidated Entity has placed cash collateral of a similar amount with MBL as per the terms of the guarantee arrangement.
(2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(3) 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 commitments represents firm commitments to underwrite debt and equity securities issuances and private equity commitments.
(4) Includes $854 million (2020: $648 million) in undrawn facilities where the loan and further commitment will be assigned to a third-party post drawdown.
(5) Includes $928 million (31 March 2020: $1,298 million) of equity commitment and $116 million (31 March 2020: $37 million) of debt commitment to associates and joint ventures. Out of which, $47 million (2020: $354 million) of debt and equity commitment are to Macquarie-managed funds.
(6) Includes asset development commitments to third parties of $515 million (2020: $2,161 million) which certain subsidiaries of the Consolidated Entity funded with borrowings of $365 million (2020: $1,874 million).
(7) Includes asset development commitments in favour of a related party of $859 million (2020: $942 million).
(8) Includes $130 million (2020: $216 million) of commitments relating to the MAM business which has been classified as held for sale.

Note 30

Structured entities

The Consolidated Entity engages with structured entities (SEs) for securitisation and asset backed financing in order to diversify its sources of funding for asset origination and capital efficiency purposes. SEs are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual agreements. 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, consumer loans and leveraged corporate loans of the Consolidated Entity or of its clients.

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 asset managers investing in collateralised loan pools in the US, commercial and industrial loans, consumer loans and residential mortgages.

Other

Other includes structured entities established to raise financing and fulfil obligations for prepaid commodity delivery contracts whereby the Consolidated Entity has contractually guaranteed the performance obligation under these arrangements. Certain Macquarie-managed funds also represent interests in Structured entities.

Consolidated Structured Entities

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

SEs are consolidated when they meet the criteria described in Note 42(i) Principles of consolidation.

Interests held in unconsolidated structured entities

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

(i) creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)
(ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and
(iii) 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 and gains or losses from revaluing financial instruments.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 30

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 (excluding interests in Macquarie-managed funds that are disclosed below the following table):

	2021			2020		
	Securitisations $m	Asset-backed financing $m	Other $m	Securitisations $m	Asset-backed financing $m	Other $m
Carrying value of assets						
Trading assets	9	–	–	–	–	–
Financial investments	–	15	–	–	61	–
Loan assets	12	22	–	12	27	–
Total carrying value of assets[(1)]	21	37	–	12	88	–
Maximum exposure to loss[(2)]						
Debt, equity and derivatives held	9	15	–	12	88	–
Undrawn commitments	–	–	58	–	–	71
Total maximum exposure to loss	9	15	58	12	88	71

The Consolidated Entity's interests in Macquarie-managed funds, include receivable, contract assets; and undrawn commitments, represent the Consolidated Entity's maximum exposure to loss. The Assets under Management (AUM) of $45 billion (2020: 53 billion) represent the indicative size of these funds and is measured as the proportional ownership interest in the underlying assets of the funds and mandated assets that Macquarie actively manages or advises on.

In certain cases the Consolidated Entity invests alongside its own managed funds to demonstrate further alignment with investors. The funds invest in assets that include: infrastructure and renewables, real estate, agriculture, transportation finance, equities, fixed income, private credit and multi-asset solutions. The carrying value of the Consolidated Entity's investments in managed funds is disclosed in Note 12 *Interest in Associates and joint ventures*. Other interests in these managed funds, which include receivables, and contract assets, undrawn commitments are disclosed in Note 26 *Related party information* and Investments in Note 8 *Financial investments*. Where the Consolidated Entity does not invest in managed funds, the interests are largely in the nature of receivables and contract assets in relation to asset management services which are generally paid quarterly.

The Consolidated Entity's exposure in subordinated securitisation entities includes trading positions that are typically managed under market risk described in Note 32.3 *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.

(1) Total carrying value of assets includes $15 million (2020: $88 million) in subordinated interests for asset-backed financing activities.
(2) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.

Note 31

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 currency denominated borrowings, for each type of hedge relationship, is shown in the respective sections that follow. The maturity profile for the hedging instruments' notional amounts are reported based on their contractual maturity. Increases in the notional profiles of hedging instruments are presented as negative figures, with decreases and maturities presented as positive figures.

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

IBOR reform

The Consolidated Entity designates hedging relationships where the hedged item and/or hedging instrument reference IBOR. These rates are being transitioned to alternative reference rates (ARRs) as described in Note 42 *Summary of significant accounting policies*. IBOR reform primarily impacts the Consolidated Entity's hedge relationships referencing USD LIBOR and JPY LIBOR. The hedge relationships disclosed as impacted by IBOR reform includes all those referencing transitioning LIBOR rates at the reporting date and includes relationships that are expected to expire before mandatory transition to ARRs. The majority of these derivatives are subject to the ISDA Fallbacks Protocol for converting LIBORs to ARRs plus a spread when an index cessation event occurs.

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

Notes to the financial statements
for the financial year ended 31 March 2021 continued

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

	NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM				
	USD $m	Other $m	Total $m	Other not affected by reform(1) $m	Total Notional(2) $m
					2021
Cash flow hedges	83	-	83	1,018	1,101
Fair value hedges	6,210	356	6,566	3,153	9,719
					2020
Cash flow hedges	28	-	28	306	334
Fair value hedges	5,652	454	6,106	2,217	8,323

(1) The Consolidated Entity has exposure to rates such as BBSW and EURIBOR that are not subject to mandatory replacement and therefore do not make use of the relief (as described in Note 1 *Basis of preparation*).
(2) The notional of commodity swaps and futures, and foreign exchange contracts shown in the hedging instrument maturity table on the following page are not included in the notionals disclosed above.

Note 31

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 24(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's statements of comprehensive income. There are no cumulative gains and losses remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur (2020: $Nil).

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
						2021
Derivative assets						
Foreign exchange contracts	Foreign exchange	3	–	–	–	3
Interest rate swaps and options	Interest rate	–	–	9	48	57
Commodity swaps and futures	Commodity price	3	–	–	–	3
Derivative liabilities						
Foreign exchange contracts	Foreign exchange	2	–	–	–	2
Interest rate swaps and options	Interest rate	(63)	(42)	628	521	1,044
Commodity swaps and futures	Commodity price	7	22	32	38	99
						2020
Derivative assets						
Foreign exchange contracts	Foreign exchange	6	19	3	–	28
Interest rate swaps and options	Interest rate	–	–	102	–	102
Commodity swaps and futures	Commodity price	12	22	–	–	34
Derivative liabilities						
Interest rate swaps and options	Interest rate	(20)	(102)	16	310	204

		CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Interest rate swaps and options[(1)]	Interest rate	–	11	–	11
Commodity swaps and futures[(1)]	Commodity price	–	8	19	–

(1) The carrying amount of derivative assets and liabilities designated in cashflow hedge relationships comprises only amounts which are disclosed in the Consolidated Entity's Statement of financial position as 'Due from related body corporate entities' and 'Due to related body corporate entities' respectively.

Notes to the financial statements
for the financial year ended 31 March 2021
continued

Note 31

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.

		Gain/(loss) on hedging instrument		Gain/(loss) on hedged item		Hedge ineffectiveness Gain/(loss)	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Interest rate swaps and options	Interest rate	2	(75)	-	60	2	(15)
Commodity swaps and futures	Commodity price	(26)	33	26	(33)	-	–
Total		(24)	(42)	26	27	2	(15)

Hedge accounting executed rates

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

Hedging instruments	Currency	2021	2020
Interest rate swaps and options	USD	0.29 – 1.51%	1.51%
	AUD	0.50 – 1.19%	N/A
	EUR	(0.43) – 0.32%	0.0 – 0.17%
	NZD	1.97%	1.97%

Note 31

Hedge accounting continued

Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives and foreign currency denominated borrowings. Refer to Note 32 *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 foreign exchange gains or losses on the hedging instruments being recognised in the Consolidated Entity's other comprehensive income, within the foreign currency translation reserve. The cumulative gains or losses in the foreign currency translation reserve are reclassified to the income statement at the time at which there is a disposal or partial disposal of the hedged foreign operation (refer to Note 42 *Summary of significant accounting policies*). Hedge ineffectiveness is recognised in net trading income in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

		CARRYING AMOUNT			
		Assets		Liability	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts[1]	Foreign exchange	12	35	30	10
Foreign currency denominated borrowings[2]	Foreign exchange	–	–	8,474	11,510

		NOTIONAL AMOUNT			
		Assets		Liability	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts[3]	Foreign exchange	511	825	879	542
Foreign currency denominated borrowings	Foreign exchange	–	–	8,474	11,467

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 currency denominated borrowings (from USD to AUD). As a result, the notional value of hedging instruments presented in the table above of $9,864 million (2020: $12,834 million) represents the notional of both the derivative hedging instrument and the foreign currency denominated borrowings and hence exceeds the $8,598 million (2020: $10,508 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 currency denominated borrowings attributable to the change in foreign 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 (2020: $Nil)

(1) The carrying amount of foreign exchange contracts designated in net investment in foreign operation hedge relationships comprises only amounts which are disclosed in the Consolidated Entity's Statement of financial position as 'Due from related body corporate entities' and 'Due to related body corporate entities' respectively.
(2) The carrying amount of Foreign currency denominated borrowings designated in net investment in foreign operation hedge relationships comprises only amounts which are disclosed in the Consolidated Entity's Statement of financial position as 'Due to related body corporate entities'.
(3) Where the fair value of the derivative is positive (negative), the notional of the derivative has been similarly included in the table as an asset (liability).

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 31

Hedge accounting continued

Fair value hedges

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

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL				
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**
						2021
Derivative assets						
Interest rate swaps	Interest rate	119	618	2,369	3,811	6,917
Derivative liabilities						
Interest rate swaps	Interest rate	-	-	1,645	1,157	2,802
						2020
Derivative assets						
Interest rate swaps	Interest rate	–	–	3,559	4,763	8,322

		CARRYING AMOUNT			
		2021		**2020**	
Hedging instrument	**Risk category**	**Asset $m**	**Liability $m**	**Asset $m**	**Liability $m**
Interest rate swaps[(1)]	Interest rate	488	57	953	–

(1) The carrying amount of derivative assets and liabilities designated in fair value hedge relationships comprises only amounts which are disclosed in the Consolidated Entity's Statement of financial position as 'Due from related body corporate entities' and 'Due to related body corporate entities' respectively.

Note 31

Hedge accounting continued

Hedged item

As the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the following 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 the hedged risk is $6 million gain (2020: $12 million gain) for the Consolidated Entity and have been included in the fair value hedge adjustment in the table below. These amounts will be amortised to the income statement on an effective interest rate basis.

	2021		2020	
	Carrying amount[1] $m	Fair value hedge adjustment $m	Carrying amount[1] $m	Fair value hedge adjustment $m
Liabilities				
Due to related body corporate entities	10,113	(401)	9,239	(917)

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.

		Gain/(loss) on hedging instrument		Gain/(loss) on hedged item		Hedge ineffectiveness Gain/(loss)	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Interest rate swaps	Interest rate	(508)	628	509	(629)	1	(1)

(1) The carrying amounts in the table above exclude accrued interest and include fair value hedge adjustments.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 32

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 Macquarie Groups Annual Report.

Note 32.1 Credit risk

Credit risk is the risk that a counterparty will fail to complete its contractual obligations when they fall due. The consequential loss is either the amount of the loan or financial obligation is 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 11 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

Wholesale ratings

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

Due from related body corporate entities

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

Portfolio and country risk

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

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 32

Financial risk management continued

Note 32.1 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[1] $m	Stage II[1] $m	Stage III[1] $m	Total $m
				2021
Investment grade				
Cash and bank balances	2,646	–	–	2,646
Reverse repurchase agreements and cash collateral on securities borrowed	1,671	–	–	1,671
Settlement and margin money assets	5,137	–	–	5,137
Financial investments	9	–	–	9
Held for sale assets	43	–	–	43
Other assets	206	–	–	206
Loan assets	579	15	–	594
Due from related body corporate entities	17,537	–	–	17,537
Off balance sheet exposures	2,916	–	–	2,916
Total investment grade	30,744	15	–	30,759
Non-investment grade				
Cash and bank balances	99	–	–	99
Reverse repurchase agreements and cash collateral on securities borrowed	455	–	–	455
Settlement and margin money assets	975	–	–	975
Held for sale assets	10	–	–	10
Other assets	658	47	–	705
Loan assets	3,943	962	–	4,905
Loans to associates and joint ventures	263	319	–	582
Due from related body corporate entities	9	–	–	9
Off balance sheet exposures	1,513	652	–	2,165
Total non-investment grade	7,925	1,980	–	9,905
Default				
Other assets	–	–	27	27
Loan assets	–	–	691	691
Loans to associates and joint ventures	–	–	72	72
Off balance sheet exposures	–	–	49	49
Total default	–	–	839	839
Total	38,669	1,995	839	41,503

(1) For the definition of Stage I, II, and III, refer to Note 11 *Expected credit losses*. Whilst exposure may have migrated to Stage II, it should not be inferred that such exposures are of lower credit quality.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

	Stage I[1] $m	Stage II[1] $m	Stage III[1] $m	Total $m
Cash and bank balances	2,745	–	–	2,745
Reverse repurchase agreements and cash collateral on securities borrowed	2,126	–	–	2,126
Settlement and margin money assets	6,112	–	–	6,112
Held for sale assets	53	–	–	53
Financial investments	9	–	–	9
Other assets	864	47	27	938
Loan assets	4,522	977	691	6,190
Loans to associates and joint ventures	263	319	72	654
Due from related body corporate entities	17,546	–	–	17,546
Off balance sheet exposures	4,429	652	49	5,130
Total financial assets by ECL stage	38,669	1,995	839	41,503

(1) For the definition of Stage I, II, and III, refer to Note 11 *Expected credit losses*. Whilst exposures may have migrated to Stage II, it should not be inferred that such exposures are of lower credit quality.

Note 32

Financial risk management continued

Note 32.1 Credit risk continued

	Stage I[(1)] $m	Stage II[(1)] $m	Stage III[(1)] $m	Total $m
				2020
Investment grade				
Cash and bank balances	1,420	–	–	1,420
Settlement and margin money assets	2,938	–	–	2,938
Held for sale assets	202	–	–	202
Other assets	347	–	–	347
Loan assets	671	2	–	673
Due from related body corporate entities	36,015	–	–	36,015
Off balance sheet exposures	3,618	–	–	3,618
Total investment grade	45,211	2	–	45,213
Non-investment grade				
Cash and bank balances	44	–	–	44
Reverse repurchase agreements and cash collateral on securities borrowed	2	–	–	2
Settlement and margin money assets	1,158	–	–	1,158
Held for sale assets	284	21	–	305
Financial investments	80	–	–	80
Other assets	1,143	2	–	1,145
Loan assets	3,256	1,084	–	4,340
Loans to associates and joint ventures	665	–	–	665
Due from related body corporate entities	426	–	–	426
Off balance sheet exposures	1,694	145	–	1,839
Total non-investment grade	8,752	1,252	–	10,004
Default				
Assets and disposal groups classified as held for sale	–	–	168	168
Financial investments	–	–	2	2
Other assets	–	–	31	31
Loan assets	–	–	815	815
Loans to associates and joint ventures	–	–	120	120
Off balance sheet exposures	–	–	26	26
Total default	–	–	1,162	1,162
Total	53,963	1,254	1,162	56,379
Financial assets by ECL stage				
Cash and bank balances	1,464	–	–	1,464
Reverse repurchase agreements and cash collateral on securities borrowed	2	–	–	2
Settlement and margin money assets	4,096	–	–	4,096
Held for sale assets	486	21	168	675
Financial investments	80	–	2	82
Other assets	1,490	2	31	1,523
Loan assets	3,927	1,086	815	5,828
Loans to associates and joint ventures	665	–	120	785
Due from related body corporate entities	36,441	–	–	36,441
Off balance sheet exposures	5,312	145	26	5,483
Total financial assets by ECL stage	53,963	1,254	1,162	56,379

(1) For the definition of Stage I, II and III, refer to Note 11 *Expected credit losses*. Whilst exposures may have migrated to stage II, it should not be inferred that such exposures are of lower credit quality.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 32

Financial risk management continued

Note 32.1 Credit risk continued

Credit risk concentration

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

	Cash and bank balances $m	Reverse repurchase agreements and cash collateral on securities borrowed $m	Settlement and margin money assets $m	Financial investments $m	Held for sale assets $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Due from related body corporate entities[(1)] $m	Off balance sheet exposures $m	Total $m
											2021
Australia											
Governments	–	–	–	–	–	8	–	–	–	–	8
Financial institutions	44	–	1,333	–	–	37	110	–	15,146	–	16,670
Other	–	–	302	–	–	84	1,066	–	725	32	2,209
Total Australia	44	–	1,635	–	–	129	1,176	–	15,871	32	18,887
Asia Pacific											
Governments	–	–	124	–	–	–	–	–	–	5	129
Financial institutions	1,212	–	639	–	–	1	–	–	28	–	1,880
Other	–	–	1,433	–	–	130	16	13	110	–	1,702
Total Asia Pacific	1,212	–	2,196	–	–	131	16	13	138	5	3,711
Europe, Middle East and Africa											
Governments	–	–	10	–	–	–	–	–	–	–	10
Financial institutions	495	1,671	1,025	9	–	68	182	319	534	–	4,303
Other	–	–	36	–	13	360	2,197	89	538	185	3,418
Total Europe, Middle East and Africa	495	1,671	1,071	9	13	428	2,379	408	1,072	185	7,731
Americas											
Governments	–	–	–	–	–	87	100	–	–	–	187
Financial institutions	994	455	833	–	14	14	35	–	175	41	2,561
Other	–	–	377	–	26	149	2,484	233	290	4,867	8,426
Total Americas	994	455	1,210	–	40	250	2,619	233	465	4,908	11,174
Total gross credit risk[(2)]	2,745	2,126	6,112	9	53	938	6,190	654	17,546	5,130	41,503

(1) Due from related body corporate entities have been presented as Financial Institutions and other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

(2) 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 and excludes the benefit of collateral and credit enhancements.

Note 32

Financial risk management continued

Note 32.1 Credit risk continued

Credit risk concentration

	Cash and bank balances $m	Reverse repurchase agreements and cash collateral on securities borrowed $m	Settlement and margin money assets $m	Financial investments $m	Held for sale assets $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Due from related body corporate entities[(1)] $m	Off balance sheet exposures $m	Total $m
											2020
Australia											
Governments	–	–	–	–	–	8	–	–	–	–	8
Financial institutions	97	–	438	–	10	12	109	–	24,890	3,588	29,144
Other	–	–	93	–	42	83	695	–	7,201	43	8,157
Total Australia	97	–	531	–	52	103	804	–	32,091	3,631	37,309
Asia Pacific											
Governments	–	–	28	–	–	–	–	–	–	–	28
Financial institutions	656	–	292	–	2	10	–	–	2,676	–	3,636
Other	–	–	277	–	–	54	–	36	12	81	460
Total Asia Pacific	656	–	597	–	2	64	–	36	2,688	81	4,124
Europe, Middle East and Africa											
Governments	–	–	–	–	–	–	–	–	–	–	–
Financial institutions	357	2	852	–	19	142	–	373	421	–	2,166
Other	–	–	161	–	573	463	1,425	105	680	243	3,650
Total Europe, Middle East and Africa	357	2	1,013	–	592	605	1,425	478	1,101	243	5,816
Americas											
Governments	–	–	–	–	–	91	109	–	–	–	200
Financial institutions	354	–	1,536	80	13	393	124	–	190	116	2,806
Other	–	–	419	2	16	267	3,366	271	371	1,412	6,124
Total Americas	354	–	1,955	82	29	751	3,599	271	561	1,528	9,130
Total gross credit risk	1,464	2	4,096	82	675	1,523	5,828	785	36,441	5,483	56,379

(1) Due from related body corporate entities have been presented as Financial Institution and Others based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 32

Financial risk management continued

Note 32.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 since they are measured at fair value through profit or 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.

	Trading assets $m	Derivative assets $m	Financial investments $m	Held for sale assets $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Due from related body corporate entities[1] $m	Total $m
									2021
Australia									
Financial institutions	–	26	–	–	–	–	9	701	736
Other	–	2	–	–	20	–	7	2	31
Total Australia		28	–	–	20	–	16	703	767
Asia Pacific									
Financial institutions	–	–	–	–	–	–	–	2	2
Other	–	2	2	–	–	6	–	–	10
Total Asia Pacific		2	2	–	–	6	–	2	12
Europe, Middle East and Africa									
Financial institutions	–	8	9	–	–	–	–	7	24
Other	12	4	1	27	–	169	20	1	234
Total Europe, Middle East and Africa	12	12	10	27	–	169	20	8	258
Americas									
Financial institutions	21	10	201	–	–	–	–	2	234
Other	104	22	67	–	–	104	–	–	297
Total Americas	125	32	268	–	–	104	–	2	531
Total gross credit risk	137	74	280	27	20	279	36	715	1,568

(1) Due from related body corporate entities have been presented as Financial Institution and Others based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 32

Financial risk management continued

Note 32.1 Credit risk continued

Credit risk concentration

	Trading assets $m	Derivative assets $m	Financial investments $m	Held for sale assets $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Due from related body corporate entities[1] $m	Total $m
									2020
Australia									
Financial institutions	–	573	–	–	–	–	8	1,423	2,004
Other	–	–	–	–	8	–	1	–	9
Total Australia	–	573	–	–	8	–	9	1,423	2,013
Asia Pacific									
Financial institutions	–	8	–	–	–	–	–	–	8
Other	1	30	7	–	–	2	–	–	40
Total Asia Pacific	1	38	7	–	–	2	–	–	48
Europe, Middle East and Africa									
Financial institutions	–	150	67	–	–	–	–	25	242
Other	24	5	3	52	–	188	77	–	349
Total Europe, Middle East and Africa	24	155	70	52	–	188	77	25	591
Americas									
Financial institutions	18	–	101	–	–	–	–	59	178
Other	282	–	14	–	–	901	99	–	1,296
Total Americas	300	–	115	–	–	901	99	59	1,474
Total gross credit risk	325	766	192	52	8	1,091	185	1,507	4,126

(1) Due from related body corporate entities have been presented as Financial Institution and others based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

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 Note 33 *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 11 *Expected credit losses*.

Notes to the financial statements
for the financial year ended 31 March 2021
continued

Note 32

Financial risk management continued

Note 32.1 Credit risk continued

Collateral and credit enhancement held

Reverse repurchase agreements and cash collateral on securities borrowed

The Consolidated Entity enters into reverse repurchase transactions with counterparties which require lodgement of collateral.

Securities borrowed require the deposit of cash collateral with counterparties at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities that have been received as collateral generally in excess of the principal amount.

The fair value of non-cash collateral held not recognised in the Statement of financial position as at 31 March 2021 is $2,680 million (2020: $3,198 million). The Consolidated entity is permitted to sell or re-pledge the entire value of securities received, of which the Consolidated entity has not sold or re-pledged any of the collateral during the current and previous year. The value attributed to collateral held is judgemental and is generally subject to valuation movements. The consolidated entity may also incur additional selling costs when a defaulted position is closed out.

Loan assets

Home Loans

Of the $480 million (2020: $547 million) home loan balance, home loans of $376 million (2020: $428 million) have a loan to collateral value ratio of less than 50%.

Asset financing

The Consolidated Entity leases assets and provides asset related financing to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $152 million (2020: $472 million), the credit exposure after considering the depreciated value of collateral is $111 million (2020: $156 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 $5,434 million (2020: $5,427 million), the credit exposure after considering the estimated value of collateral and credit enhancements is $1,734 million (2020: $1,315 million).

Note 32

Financial risk management continued

Note 32.1 Credit risk continued

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 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 2021 of $25 million (2020: $479 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 which, in the event of default, require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity 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 2021, the Consolidated Entity held OTC contracts with a positive replacement value of $49 million (2020: $287 million).

Settlement and margin money assets

Security and commodity settlements of $5,425 million (2020: $3,492 million) and $370 million (2020: $323 million) respectively are included in Settlement and margin money assets, which represent amounts owed by an exchange (or a client) for equities 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 date varies as per regional regulatory and business norms.

Credit commitments

Undrawn facilities and lending commitments of $342 million (2020: $1,300 million) are secured through collateral and credit enhancements out of the total undrawn facilities and lending commitments of $5,251 million (2020: $6,958 million).

Additional collateral

Apart from collateral disclosed above, the Consolidated Entity also holds other types of collateral, such as unsupported guarantees. While such mitigants have value as a credit risk mitigant often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

For all collaterals, in the event of default realised collateral values may be lower than the value of collateral as at the reporting date.

Note 32.2 Liquidity risk

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. The Consolidated Entity is covered by the MGL liquidity policy which is approved by the MGL Board after endorsement by the ALCO and liquidity reporting is provided to the MGL Board on a regular basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Co-Heads of Group Treasury and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on a contractual undiscounted repayment basis and hence would vary from the carrying value as reported in the Statement of financial position at the balance date. Repayments subject to notice are treated as if notice were given immediately. This does not reflect the behaviour of the expected cash flows as indicated by the Consolidated Entity's deposit retention history since the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 32

Financial risk management continued

Note 32.2 Liquidity risk continued

	Statement of financial position carrying value[1] $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
							2021
Trading liabilities[2]	71	–	71	–	–	–	71
Settlement and margin money liabilities	5,873	31	5,807	35	–	–	5,873
Derivative liabilities (trading)[2]	85	–	85	–	–	–	85
Derivative liabilities (hedge accounting relationships)[3]	17	–	–	–	–	–	–
Contractual amounts payable	–	–	2	4	9	(3)	12
Contractual amounts receivable	–	–	(2)	(1)	–	–	(3)
Held for sale liabilities	22	–	22	–	–	–	22
Other liabilities[4]	1,284	299	147	75	730	65	1,316
Borrowings	1,523	–	378	161	749	451	1,739
Due to related body corporate entities	21,719	4,578	1,909	1,237	11,446	4,080	23,250
Debt issued	2,712	–	59	152	815	3,065	4,091
Loan capital[5]	2,131	–	16	59	1,263	1,172	2,510
Total	35,437	4,908	8,494	1,722	15,012	8,830	38,966
Contingent liabilities[6]	–	–	3,921	–	–	–	3,921
Commitments	–	2,530	464	301	2,000	1,378	6,672
Total undiscounted contingent liabilities and commitments	–	2,530	4,385	301	2,000	1,378	10,593

(1) Represents carrying value of financial liabilities included in Statement of financial position.
(2) Derivative liabilities (trading) and Trading liabilities are included in 0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently settled in the short-term at fair value.
(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure's requirement.
(4) Excludes non-contractual accruals and provisions.
(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 22 *Loan capital*. Further, as explained in Note 22 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an exchange event, and this may impact their maturity profile.
(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 32

Financial risk management continued

Note 32.2 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
							2020
Cash collateral on securities lent	11	11	–	–	–	–	11
Trading liabilities[1]	181	–	181	–	–	–	181
Settlement and margin money liabilities	3,763	23	3,740	–	–	–	3,763
Derivative liabilities (trading)[1]	563	–	563	–	–	–	563
Derivative liabilities (hedge accounting relationships)[2]	11						
Contractual amounts payable		–	1	2	12	2	17
Held for sale liabilities	201	–	24	2	78	113	217
Other liabilities[3]	725	30	238	138	285	93	784
Borrowings	3,867	–	604	216	2,063	1,642	4,525
Due to related body corporate entities	42,438	6,005	6,534	540	21,991	10,674	45,744
Debt issued	3,470	–	83	205	1,115	4,136	5,539
Loan capital[4]	2,100	–	23	68	2,462	–	2,553
Total	57,330	6,069	11,991	1,171	28,006	16,660	63,897
Contingent liabilities[5]		–	4,369	–	–	–	4,369
Commitments		3,943	2,125	680	2,496	865	10,109
Total undiscounted contingent liabilities and commitments		3,943	6,494	680	2,496	865	14,478

(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) 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 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 22 *Loan capital*. Further, as explained in Note 22 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an exchange event, and this may impact their maturity profile.
(5) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 32

Financial risk management continued

Note 32.3 Market risk

Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading positions as a result of changes in market conditions. The Consolidated Entity is exposed to the following risks:

- **Price**: The risk of loss due to changes in price of a risk factor (interest rates, foreign exchange, commodities etc.)
- **Volatility**: The risk of loss due to changes in the volatility of a risk factor
- **Basis**: Risk of imperfect correlation between offsetting investments in a hedging strategy
- **Correlation**: Risk that the actual correlation between two assets or variables is different from the assumed correlation
- **Illiquid market**: Risk of inability to sell assets or close out positions in the thinly-traded markets at close to the last market prices
- **Concentration**: Risk of over concentration of trading exposures in certain markets and products
- **Valuation adjustments (XVA)**: Risk of actual valuation adjustments to derivative positions; specifically, Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA).

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate.

RMG sets three complementary limit structures:

- **contingent loss limits**: worst case scenarios that shock prices and volatilities by more than that which has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **position limits**: volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions;
- **Value-at-Risk (VaR) limits**: a statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

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.

	2021 Average $m	2021 Maximum $m	2021 Minimum $m	2020 Average $m	2020 Maximum $m	2020 Minimum $m
Equities	1.54	15.58	0.54	1.26	4.10	0.38
Interest rates	2.00	4.50	0.78	0.69	1.40	0.45
Foreign exchange and bullion	0.69	1.54	0.36	1.04	1.68	0.28
Commodities[1]	12.32	23.30	3.29	15.19	28.16	3.03
Aggregate	12.97	23.85	3.64	15.28	28.60	3.02

(1) Includes commodity contracts.

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.

Note 32

Financial risk management continued

Note 32.3 Market risk

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 42(ix) *Derivative instruments and hedging activities* and Note 31 *Hedge accounting*.

Foreign currency risk

The Consolidated Entity is active in various currencies globally. The net investment in foreign operations generates capital requirements in foreign currencies and results in sensitivity of the capital ratio to movements in the Australian dollar rate against various foreign currencies. The Consolidated Entity hedges this exposure by leaving specific investments in foreign operations exposed to foreign currency translation movements, which aligns the currency of capital supply with capital requirements. Refer to Note 42(ix) *Derivative instruments and hedging activities* and Note 31 *Hedge accounting* for details regarding the application of hedge accounting to the Consolidated Entity's net investment in foreign operations.

The sensitivity of the Consolidated Entity's net investment in foreign operations to the most material currencies after considering related hedges is presented in the table below.

	2021		2020	
Currency	Movement in exchange rates %	Sensitivity of equity after tax $m	Movement in exchange rates %	Sensitivity of equity after tax $m
United States dollar	+10	(283)	+10	(335)
Pound sterling	+10	(44)	+10	(49)
Euro	+10	(50)	+10	(58)
Canadian dollar	+10	(4)	+10	(5)
Total		(381)		(447)
United States dollar	–10	346	–10	410
Pound sterling	–10	53	–10	60
Euro	–10	61	–10	70
Canadian dollar	–10	6	–10	6
Total		466		546

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 32

Financial risk management continued

Note 32.3 Market risk continued

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:

	2021		2020	
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	–	+10	2
Americas	+10	10	+10	11
Europe, Middle East and Africa	+10	1	+10	3
Asia Pacific	+10	15	+10	15
Unlisted	+10	74	+10	64
Total		100		95
Listed				
Australia	–10	–	–10	(2)
Americas	–10	(10)	–10	(11)
Europe, Middle East and Africa	–10	(1)	–10	(3)
Asia Pacific	–10	(15)	–10	(15)
Unlisted	–10	(74)	–10	(64)
Total		(100)		(95)

Note 33

Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. HFT, FVTPL, DFVTPL, FVOCI or Amortised cost) of financial instruments, including commodities, of the Consolidated Entity. The descriptions of the measurement categories are included in Note 42(vi) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 34 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets									2021
Cash and bank balances	–	–	–	–	2,745	–	2,745	–	2,745
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	2,126	–	–	2,126	2,126	–
Trading assets(1)	534	–	–	–	–	–	534	534	–
Settlement and margin money assets	–	–	–	–	6,095	–	6,095	–	6,095
Derivative assets(2)	74	–	–	–	–	–	74	74	–
Financial investments									
Equity	–	–	1,236	–	–	–	1,236	1,236	–
Debt	–	–	280	9	–	–	289	289	–
Held for sale assets(3)	–	–	63	6	47	1,269	1,385	69	47
Other assets(3)	–	–	20	–	900	1,188	2,108	20	900
Loan assets	–	–	279	274	5,513	–	6,066	553	5,856
Due from related body corporate entities(4)	715	–	–	–	17,540	172	18,427	715	17,540
Property, plant and equipment and right-of-use assets	–	–	–	–	–	1,798	1,798	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	1,702	1,702	–	–
Loans to associates and joint ventures	–	–	36	60	536	–	632	96	538
Intangible assets	–	–	–	–	–	1,272	1,272	–	–
Deferred tax assets	–	–	–	–	–	478	478	–	–
Total assets	1,323	–	1,914	2,475	33,376	7,879	46,967	5,712	33,721
Liabilities									
Trading liabilities	71	–	–	–	–	–	71	71	–
Settlement and margin money liabilities	–	–	–	–	5,873	–	5,873	–	5,873
Derivative liabilities(2)	85	–	17	–	–	–	102	102	–
Held for sale liabilities(5)	–	–	–	–	22	687	709	–	22
Other liabilities(5)	–	–	–	–	1,284	1,899	2,687	–	983
Borrowings	–	–	–	–	1,523	–	1,523	–	1,526
Due to related body corporate entities(6)	404	–	404	–	20,911	131	21,850	808	20,911
Debt issued	–	16	–	–	2,696	–	2,712	16	3,373
Deferred tax liabilities	–	–	–	–	–	56	56	–	–
Loan capital	–	–	–	–	2,131	–	2,131	–	2,131
Total liabilities	560	16	421	–	34,440	2,773	37,714	997	34,819

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationship are presented as FVTPL. Further details regarding the carrying amount of hedging instruments is included in Note 31 *Hedge accounting*.
(3) Primarily represents non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale and other assets that include fee related contract assets, prepayments, tax receivables, inventory held for sale and investment properties.
(4) Due from related body corporate entities includes derivatives classified as HFT and internal prepayments classified as non-financial assets. All other intercompany receivables are carried at amortised cost.
(5) Primarily represents employee related provisions, accrued charges and tax payables. The fair value of other liabilities exclude the value of lease liabilities.
(6) Due to related body corporate entities includes derivatives classified as HFT and all other intercompany payables are carried at amortised cost.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 33

Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets									2020
Cash and bank balances	–	–	–	–	1,464	–	1,464	–	1,464
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	2	–	2	–	2
Trading assets[1]	603	–	–	–	–	–	603	603	–
Settlement and margin money assets	–	–	–	–	4,092	–	4,092	–	4,092
Derivative assets[2]	747	–	19	–	–	–	766	766	–
Financial investments									
Equity	–	–	1,207	–	–	–	1,207	1,207	–
Debt	–	–	192	81	–	–	273	273	–
Held for sale assets[3]	–	–	85	7	668	2,433	3,193	92	668
Other assets[3]	–	–	8	–	1,366	1,199	2,573	8	1,366
Loan assets	–	–	1,091	1,359	3,996	–	6,446	2,450	3,741
Due from related body corporate entities[4]	1,507	–	–	3,500	32,932	186	38,125	5,007	32,932
Property, plant and equipment and right-of-use assets	–	–	–	–	–	1,780	1,780	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	5,044	5,044	–	–
Loans to associates and joint ventures	–	–	185	56	658	–	899	241	703
Intangible assets	–	–	–	–	–	1,656	1,656	–	–
Deferred tax assets	–	–	–	–	–	510	510	–	–
Total assets	2,857	–	2,787	5,003	45,178	12,808	68,633	10,647	44,968
Liabilities									
Cash collateral on securities lent	–	–	–	–	11	–	11	–	11
Trading liabilities	181	–	–	–	–	–	181	181	–
Settlement and margin money liabilities	–	–	–	–	3,763	–	3,763	–	3,763
Derivative liabilities[2]	563	–	11	–	–	–	574	574	–
Held for sale liabilities[5]	–	–	–	–	201	801	1,002	–	173
Other liabilities[5]	–	–	–	–	725	1,424	2,149	–	311
Borrowings	–	–	–	–	3,867	–	3,867	–	3,754
Due to related body corporate entities[6]	613	–	–	–	41,825	5	42,443	613	41,825
Debt issued	–	16	–	–	3,454	–	3,470	16	3,900
Deferred tax liabilities	–	–	–	–	–	96	96	–	–
Loan capital	–	–	–	–	2,100	–	2,100	–	2,100
Total liabilities	1,357	16	11	–	55,946	2,326	59,656	1,384	55,837

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationship are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 31 *Hedge accounting*.
(3) Non-financial instruments primarily represents non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale and other assets that include fee related contract assets, prepayments, tax receivables, inventory held for sale and investment properties.
(4) Due from related body corporate entities includes derivatives classified as HFT, internal reverse repurchase transactions classified as FVOCI and internal prepayments classified as non-financial assets. All other intercompany receivables are carried at amortised cost.
(5) Non-financial liabilities primarily represents employee related provisions, accrued charges, maintenance liabilities and tax payables and income received in advance. The fair value of other liabilities exclude the value of lease liabilities.
(6) Due to related body corporate entities includes derivatives classified as HFT and all other intercompany payables are carried at amortised cost.

Note 34

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 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 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 entities 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 approximate their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities.
- the fair 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 and debt liabilities carried at amortised cost, is determined with reference to changes in interest rates as well as credit spreads.
- the fair value of fixed rate loan assets and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit-worthiness of the borrower.
- the fair value of issued debt and loan capital, where carried at amortised cost, is based on quoted prices in active markets where available. Where market 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.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 34

Fair value of financial assets and financial liabilities
continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments 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 market prices where available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
– 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 at FVOCI and FVTPL are measured at fair value by reference to active quoted market prices 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 variable rate loans classified at FVOCI is equal to its carrying value on the basis that the interest rates are reflective of market rates offered on similar loans
– fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt
– for financial assets carried at fair value, in order to measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures. For financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, an adjustment is incorporated into the valuations
– 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 for 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 34

Fair value of financial assets and financial liabilities continued

The following table summarises the fair value for financial instruments measured at amortised cost, including the level within the fair value hierarchy[(1)]:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				2021
Assets				
Loan assets	–	4	5,852	5,856
Loans to associates and joint ventures	–	–	538	538
Total assets	–	4	6,390	6,394
Liabilities				
Bank borrowings	–	406	1,120	1,526
Debt issued	–	3,373	–	3,373
Total liabilities	–	3,779	1,120	4,899
				2020
Assets				
Loan assets	–	26	3,715	3,741
Loans to associates and joint ventures	–	–	703	703
Total assets	–	26	4,418	4,444
Liabilities				
Bank borrowings	–	555	3,199	3,754
Debt issued	–	3,872	28	3,900
Total liabilities	–	4,427	3,227	7,654

(1) Fair value of financial instruments carried at amortised cost excludes financial assets and liabilities where the carrying value is a close approximation of fair value.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 34

Fair value of financial assets and financial liabilities continued

The following tables summarise 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
				2021
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	**–**	**2,126**	**–**	**2,126**
Trading assets[2]	**81**	**374**	**79**	**534**
Derivative assets	**2**	**63**	**9**	**74**
Financial investments	**310**	**273**	**942**	**1,525**
Held for sale assets	**–**	**6**	**63**	**69**
Other assets	**–**	**–**	**20**	**20**
Loan assets	**16**	**28**	**509**	**553**
Due from related body corporate entities	**–**	**715**	**–**	**715**
Loans to associates and joint ventures	**–**	**–**	**96**	**96**
Total assets	**409**	**3,585**	**1,718**	**5,712**
Liabilities				
Trading liabilities	**66**	**5**	**–**	**71**
Derivative liabilities	**–**	**78**	**24**	**102**
Due to related body corporate entities	**–**	**808**	**–**	**808**
Debt issued	**–**	**13**	**3**	**16**
Total liabilities	**66**	**904**	**27**	**997**
				2020
Assets				
Trading assets[2]	28	229	346	603
Derivative assets	53	654	59	766
Assets and disposal groups classified as held for sale	–	59	33	92
Financial investments	386	192	902	1,480
Other assets	–	–	8	8
Loan assets	–	–	2,450	2,450
Due from related body corporate entities	–	5,007	–	5,007
Loans to associates and joint ventures	–	–	241	241
Total assets	467	6,141	4,039	10,647
Liabilities				
Trading liabilities	176	5	–	181
Derivative liabilities	19	534	21	574
Due to related body corporate entities	–	613	–	613
Debt issued	–	16	–	16
Total liabilities	195	1,168	21	1,384

(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 for HFT purposes.

Note 34

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 movement in Level 3 of the fair value hierarchy for the financial instruments, measured at fair value.

	Trading assets $m	Financial investments $m	Held for sale assets $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Debt issued $m	Derivative financial instruments (net replacement values)[1] $m	Total $m
Balance as at 1 Apr 2019	53	890	116	30	572	184	–	10	1,855
Purchases and other additions	245	173	30	6	2,207	228	–	28	2,917
Sales, settlements and repayments	(27)	(280)	(141)	–	(208)	(115)	–	(3)	(774)
Transfer into Level 3[2]	64	63	30	–	–	–	–	4	161
Transfer out of Level 3[2]	(1)	(136)	–	(31)	–	(7)	–	(4)	(179)
Fair value movements recognised in the income statement									
Net trading income/(loss)[3],[4]	12	109	(2)	3	61	36	–	3	222
Other income/(loss)[5]	–	62	–	–	(3)	(66)	–	–	(7)
Fair value movements recognised in OCI[3]	–	21	–	–	(179)	(19)	–	–	(177)
Balance as at 31 Mar 2020	346	902	33	8	2,450	241	–	38	4,018
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]	12	155	–	–	43	(30)	–	2	182
Balance as at 1 Apr 2020	**346**	**902**	**33**	**8**	**2,450**	**241**	**–**	**38**	**4,018**
Purchases and other additions	**150**	**286**	**11**	**–**	**318**	**82**	**(3)**	**(7)**	**837**
Sales, settlements and repayments	**(212)**	**(273)**	**(3)**	**–**	**(2,000)**	**(19)**	**–**	**(9)**	**(2,516)**
Reclassification	**–**	**–**	**28**	**–**	**–**	**(28)**	**–**	**–**	**–**
Transfer into Level 3[2]	**25**	**186**	**–**	**–**	**–**	**5**	**–**	**(3)**	**213**
Transfer out of Level 3[2]	**(133)**	**(6)**	**–**	**–**	**–**	**(46)**	**–**	**(14)**	**(199)**
Fair value movements recognised in the income statement									
Net trading loss[3], [4]	**(97)**	**(174)**	**(6)**	**(2)**	**(344)**	**(36)**	**–**	**(20)**	**(679)**
Other income/(loss) [5]	**–**	**22**	**–**	**14**	**20**	**(27)**	**–**	**–**	**29**
Fair value movements recognised in OCI[3]	**–**	**(1)**	**–**	**–**	**65**	**(76)**	**–**	**–**	**(12)**

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	Trading assets $m	Financial investments $m	Held for sale assets $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Debt issued $m	Derivative financial instruments (net replacement values)[(1)] $m	Total $m
Balance as at 31 Mar 2021	79	942	63	20	509	96	(3)	(15)	1,691
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)]	(13)	(103)	(6)	12	(57)	(61)	–	(14)	(242)

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $9 million (2020: $59 million) and derivative liabilities are $24 million (2020: $21 million).
(2) Assets and liabilities transferred in or out of Level 3, or reclassifications within 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 foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, that may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency denominated financial instruments that are measured at amortised cost, are not presented in the table above.
(4) Net trading gain/(loss) for the year for trading assets and derivatives includes trading-related gains and losses and foreign exchange gains and losses. For all other Statement of financial position items, trading loss represents foreign exchange loss only.
(5) Includes investment income and impairment charges on financial investments, loan assets and loans to associates and joint ventures.

Note 34

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 did not have significant transfers between Level 1 and Level 2.

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

Unrecognised gains

The Consolidated Entity did not have any deferred day 1 profit or loss during the current or previous financial years.

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions, for Level 3 financial instruments whose fair values are determined in whole or in part using unobservable inputs, valuation techniques such as discounted cash flows based on assumptions by reference to historical company and industry experience. The impact of sensitivity of financial instruments which hedge the Level 3 positions but are classified as Level 1 and 2 is not included in the table below.

	Favourable changes		Unfavourable changes	
	Profit or loss $m	OCI $m	Profit or loss $m	OCI $m
Product type				**2021**
Equity and equity linked products	**108**	**–**	**(112)**	**–**
Interest rate, commodity and other products	**47**	**2**	**(58)**	**(4)**
Total	**155**	**2**	**(170)**	**(4)**
Product type				2020
Equity and equity linked products	108	–	(105)	–
Interest rate, commodity and other products	53	30	(194)	(48)
Total	161	30	(299)	(48)

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

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 34

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 the 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
						2021
Equity and equity-linked products	**815**	**11**	Net Asset Value (NAV)	Funds' NAV(1)		
			Discounted cash flows	Discount rate	**5.0%**	**18.9%**
			Pricing model	Earnings multiple	**1.1X**	**11.6X**
Interest rate, commodity and other products	**903**	**16**	Discounted cash flows	Discount rate	**2.5%**	**12.0%**
			Pricing model	Correlation	**0.0%**	**100.0%**
Total	**1,718**	**27**				
						2020
Equity and equity-linked products	765	5	Net Asset Value (NAV)	Funds' NAV(1)		
			Discounted cash flows	Discount rate	5%	10.2%
			Pricing model	Earnings multiple	2x	15x
Interest rate, commodity and other products	3,274	16	Discounted cash flows	Discount rate	2.0%	12.0%
			Pricing model	Correlation	0.0%	100.0%
Total	4,039	21				

(1) The range of inputs related to NAV is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

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.

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 NAV and 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 and the discounts to par on comparable secondary market debt trades.

Note 35

Offsetting of financial assets and financial liabilities

The Consolidated Entity presents financial assets and financial liabilities on a net basis on the Statement of financial position when they meet the criteria described in Note 40(vi) *Financial instruments*. The following tables provide information on the impact of offsetting of financial instruments 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'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 32.1 *Credit risk* for information on credit risk management.

	Amounts subject to enforceable netting arrangements							
	Subject to offsetting in the Statement of financial position			Related amounts 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	Amounts not subject to enforceable netting arrangements $m	Statement of financial position total $m
								2021
Reverse repurchase agreements and cash collateral on securities borrowed	**2,126**	**–**	**2,126**	**–**	**(2,126)**	**–**	**–**	**2,126**
Settlement assets[4]	**2,049**	**(1,541)**	**508**	**–**	**–**	**508**	**5,287**	**5,795**
Derivative assets	**79**	**(39)**	**40**	**(10)**	**(26)**	**4**	**34**	**74**
Due from related body corporate entities	**14,818**	**(3,083)**	**11,735**	**(592)**	**–**	**11,143**	**6,693**	**18,427**
Total assets	19,072	(4,663)	14,409	(602)	(2,152)	11,655	12,014	26,422
Settlement liabilities[4]	**(1,908)**	**1,541**	**(367)**			**(367)**	**(5,474)**	**(5,841)**
Derivative liabilities	**(58)**	**39**	**(19)**	**10**	**8**	**(1)**	**(83)**	**(102)**
Due to related body corporate entities	**(22,711)**	**3,083**	**(19,628)**	**592**	**–**	**(19,036)**	**(2,222)**	**(21,850)**
Total liabilities	(24,677)	4,663	(20,014)	602	8	(19,404)	(7,779)	(27,793)
								2020
Reverse repurchase agreements and cash collateral on securities borrowed	2	–	2	(2)	–	–	–	2
Settlement assets[4]	1,706	(1,515)	191	–	–	191	3,624	3,815
Derivative assets	2,104	(1,344)	760	–	(616)	144	6	766
Due from related body corporate entities	33,000	(7,096)	25,904	(12,449)	–	13,455	12,221	38,125
Total assets	36,812	(9,955)	26,857	(12,451)	(616)	13,790	15,851	42,708
Cash collateral on securities lent	(11)	–	(11)	2	9	–	–	(11)
Settlement liabilities[4]	(1,924)	1,515	(409)	–	–	(409)	(3,331)	(3,740)
Derivative liabilities	(1,684)	1,344	(340)	–	340	–	(234)	(574)
Due to related body corporate entities	(43,481)	7,096	(36,385)	12,449	–	(23,936)	(6,058)	(42,443)
Total liabilities	(47,100)	9,955	(37,145)	12,451	349	(24,345)	(9,623)	(46,768)

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting.
(4) Excludes margin money assets of $300 million (2020: $277 million) and liabilities of $31 million (2020: $23 million) presented under Note 6 *Settlement and margin money assets* and Note 17 *Settlement and margin money liabilities* respectively on the Statement of financial position.

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for the financial year ended 31 March 2021 continued

Note 36

Pledged assets and transfer of financial assets

Pledged assets

Assets pledged as security for liabilities include the following:

- securities and commodities included under trading assets pledged as collateral for stock lending arrangements and trading liabilities. These transactions are governed by standard industry agreements.
- cash and bank balances, trading assets, associate investments, property, plant and equipment, and other assets provided as collateral for borrowings.
- due from related body corporate entities balances provided as collateral against guarantees and asset development commitments.

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

	2021 $m	2020 $m
Cash and bank balances	115	7
Trading assets[(1)]	219	187
Settlement and margin money assets	92	95
Held for sale assets	–	144
Other assets	529	161
Loan assets	112	156
Due from related body corporate entities[(2)]	3,475	4,221
Interests in associates and joint ventures	–	2,853
Property, plant and equipment and right-of-use assets	411	217
Intangible assets	434	451
Total pledged assets[(3)]	5,387	8,492

Transfer of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer risks and rewards of financial assets recognised in the Consolidated Entity Statement of financial position to other entities. Depending on the criteria discussed in Note 42(vi) *Financial instruments*, the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of its continuing involvement.

Transferred financial assets that are derecognised

When financial assets are derecognised 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 ended 31 March 2021 and 31 March 2020, there were no transfers of financial assets where the Consolidated Entity has had continuing involvement.

Transferred financial assets that are not derecognised

The Consolidated Entity did not derecognise financial assets only to the extent of its continuing involvement in the years ended 31 March 2021 and 31 March 2020. The following transactions typically result in the transferred assets continuing to be recognised in full:

(1) For trading securities, the transferee has the right to sell or re-pledge the entire value of securities received. The balance does not include securities amounting to $5 million (2020: $Nil) transferred in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statement of financial position.

(2) Includes $2,884 million (2020: $3,458 million) of guarantees to MBL for its exposures with certain non-extended licensed Macquarie Group entities and $591 million (2020: $763 million) guarantee received for asset development commitments. The Consolidated Entity has placed cash collateral of a similar amount with MBL as per the terms of the guarantee arrangement.

(3) Includes $2,680 million (2020: $3,198 million) of collateral received against reverse repurchase and collateral arrangements (refer Note 32.1 Credit Risk), against which the Consolidated entity is permitted to sell or re-pledge the entire value of securities received. No collaterals been sold or repledged in the current and previous year.

Note 36

Pledged assets and transfer of financial assets continued

Transfer of financial assets continued

Repurchase and securities lending agreements

Securities and commodities sold under an agreement to repurchase and securities subject to lending agreements continue to be recognised in the Statement of financial position and an associated liability is recognised for the consideration received.

Where securities are transferred in return for loan of other securities, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The Consolidated entity is unable to use, sell or pledge the transferred assets for the duration of the transaction and remains exposed to interest rate risk and credit risk on these assets.

In certain arrangements the transferee cannot otherwise sell or pledge the transferred securities, however the assets may be substituted if the required collateral is maintained.

Other financial assets

Includes loans and leases sold or lent to an external funder but the Consolidated Entity still has full economic exposure to them. In such instances the Consolidated entity has a right to receive cash from the lessee and an obligations to pay those cash flows to the external funder.

The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity:

			For those liabilities that only have recourse to the transferred assets		
	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	Fair value of transferred assets $m	Fair value of associated liabilities $m	Net Fair value $m
					2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[(1)]	**25**	**(20)**	**–**	**–**	**–**
Other financial assets not derecognised:					
Loan assets	**112**	**(102)**	**114**	**(103)**	**11**
Total financial assets not derecognised	**137**	**(122)**	**114**	**(103)**	**11**
					2020
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[(1)]	2	(2)	–	–	–
Other financial assets not derecognised:					
Loan assets	156	(146)	155	(146)	9
Total financial assets not derecognised	158	(148)	155	(146)	9

(1) Includes securities amounting to $5 million (2020: $Nil) transferred under security swap arrangements.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 37

Audit and other services provided by PricewaterhouseCoopers

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

	2021[2] $'000	2020[1],[2] $'000
PwC – Australia		
Audit of the Group and controlled entities[3]	6,490	11,476
Total audit services	6,490	11,476
Other statutory assurance services[4]	–	283
Other assurance services[5]	580	966
Advisory services	23	55
Taxation	112	314
Total non-audit services	715	1,618
Total remuneration paid to PwC Australia	7,205	13,094
Network firms of PwC Australia		
Audit of the Controlled Entities[3]	1,900	4,841
Total audit services	1,900	4,841
Other statutory assurance services[4]	226	454
Other assurance services[5]	569	1,008
Advisory services	71	202
Taxation	1,340	1,195
Total non-audit services	2,206	2,859
Total remuneration paid to network firms of PwC Australia	4,106	7,700
Total audit services remuneration paid to PwC	8,390	16,317
Total non-audit services remuneration paid to PwC	2,921	4,477
Total remuneration paid to PwC	11,311	20,794

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 project and all non-audit services provided by PwC have been approved in accordance with its *Auditor Independence Policy*.

(1) Comparative information has been restated to conform to the presentation in the current year.
(2) Include fees relating to the discontinued operations presented as part of 'Profit from discontinued operations after income tax' under Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.
(3) Prior period includes additional fees of $3,075 thousand for PwC Australia ($1,341 thousand for network firms of PwC Australia) that related to the year ended 31 March 2020 but were incurred during the 2021 financial year.
(4) Other statutory assurance services include audit of Australian Financial Services license requirements and other assurance services required by legislation.
(5) 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 accounting advice, certifications, due diligence and reviews of controls and other agreed upon procedures.

Note 38

Assets, liabilities and disposal groups classified as held for sale and discontinued operations

(i) Description of significant transactions

1. Restructure of certain Macquarie Asset Management businesses

Based on the MGL Board's decision during 2018 to restructure the Non-Bank Group and separate certain Macquarie Asset Management (MAM) businesses from the remainder of the Non-Bank Group (the restructure) the Consolidated Entity classified the Macquarie Asset Management (MAM) business (excluding Transportation Finance) as held for sale in the Statement of financial position and its operations were presented as discontinued operations in the income statement.

A substantial portion of the restructure was completed during the previous year and resulted in the Consolidated Entity deconsolidating and derecognising relevant assets disposed of and recognising a pre-tax gain of $7,221 million. The Consolidated Entity utilised the sale proceeds to repay capital of $5,767 million and pay a dividend of $795 million to MGL. The operations relating to assets disposed of have been presented as part of discontinued operations up to 6 December 2019. It is expected that the remainder of the restructure will be completed in future reporting periods and accordingly continues to be disclosed as held for sale and its operations presented as discontinued operations by the Consolidated Entity.

Certain assets and liabilities, which were earlier proposed for transfer under the restructure and were classified as held for sale as at 31 March 2020, have now been excluded and are no longer recognised as held for sale at 31 March 2021. The profit and loss attributable to such assets and liabilities has been presented as a part of the Consolidated Entity’s continuing operations. The comparative financial year’s income statement has been re-presented to align with the disclosures that relate to the MAM operations that have either been disposed of during the current financial year or continue to be recognised as held for sale at the end of the current financial year.

2. Other

In addition to the above-mentioned significant transaction, the assets and liabilities of disposal groups that have been classified as held for sale include investments in associates and joint ventures and the assets and liabilities of other disposal groups which, individually or as a disposal group, do not meet the criteria for classification as discontinued operations under Australian Accounting Standards.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 38

Assets, liabilities and disposal groups classified as held for sale and discontinued operations continued

(ii) Assets and liabilities classified as held for sale

	2021 $m	2020 $m
Assets classified as held for sale		
Cash and bank balances	–	52
Financial investments	36	40
Other assets(1)	133	335
Loan assets	6	620
Property, plant and equipment	77	815
Interests in associates and joint ventures(2)	929	1,014
Intangible assets	16	66
Deferred tax assets(3)	188	251
Total assets classified as held for sale	**1,385**	3,193
Liabilities classified as held for sale		
Other liabilities(4)	592	694
Borrowings	12	160
Deferred tax liabilities(3)	105	148
Total liabilities classified as held for sale	**709**	1,002

(1) Included Fee and commission receivables of $9 million (2020: $6 million), fee related contract assets of $12 million (2020: $12 million).
(2) Includes a 16.1% interest in Macquarie Infrastructure Corporation (MIC) of $665 million (2020: $554 million) which is accounted as 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. Since the investment is classified as held for sale and that its carrying value will be recovered through a sale transaction, the carrying value of the investment is required to be carried at the lower of carrying value and fair value less costs to sell. During the previous year, the Consolidated Entity recognised an impairment charge of $303 million in line with the impact of COVID-19. During the current year, indicators of impairment reversal were identified which resulted in the Consolidated Entity calculating the investment's fair value reflecting the impact of sales agreements MIC entered subsequent to the balance sheet date for its remaining investments. The fair value less costs to sell, which is based on the Consolidated Entity's share of net realisation proceeds, is $763 million. These sales agreements are expected to result in disposition fee income to the Consolidated Entity of $374- $407 million, with the final amount subject to the timing of the transaction close date. The cumulative impairment of $392 million that the Consolidated Entity had recognised to date in MIC was reversed, resulting in a carrying value of at the reporting date of $665 million.
(3) Deferred tax assets (DTA) and Deferred tax liabilities (DTL) which were classified as assets and liabilities of disposal groups as held for sale as at 31 March 2020 in relation to the MAM business are as follows: Tax losses $5 million DTA (2020: $15 million DTA), Other assets and liabilities $94 million DTA (2020: $78 million DTA), Loan assets and derivatives $Nil (2020: $4 million DTL), Financial investments and interests in associates and joint ventures $18 million DTA (2020: $20 million DTA).
(4) Includes employee related payables of $451 million (2020: $414 million).

Note 38

Assets, liabilities and disposal groups classified as held for sale and discontinued operations continued

(iii) Income Statement

The financial results of the MAM business comprising of the Consolidated Entity's discontinued operations are presented below:

	2021 $m	2020[1] $m
Net interest income	–	46
Fee and commission income[2]	587	1,893
Net trading income/(expense)	3	(27)
Gain on sale (Note 38(iv))	–	7,221
Other operating income and charges[3],[4]	667	(4)
Net operating income	1,257	9,129
Operating expenses	(692)	(1,334)
Operating profit from discontinued operations before income tax	565	7,795
Income tax expense	(93)	(347)
Profit/(loss) from discontinued operations after income tax	472	7,448
Other comprehensive (loss)/income:		
Net movement for the year		
Share of other comprehensive gain of associates and joint ventures	–	7
Cash flow hedges, net movements recognised in OCI	(15)	26
Other comprehensive (loss)/income from discontinued operations	(15)	33
Total comprehensive income from discontinued operations	457	7,481
Total comprehensive income from discontinued operations attributable to non-controlling interests	–	(9)
Total comprehensive income from discontinued operations attributable to the equity holder of the Consolidated Entity	457	7,472

(1) Certain assets and liabilities, which were earlier proposed for transfer under the restructure and were classified as held for sale as at 31 March 2020, have now been excluded and, are no longer recognised as held for sale at 31 March 2021. The profit and loss attributable to such assets and liabilities is also presented as a part of the Consolidated Entity's continuing operations.
(2) Includes $189 million (2020: $1,652 million) of base fees and performance fees.
(3) Includes reversal of impairment $392 million (2020: $328 million impairment charge) of interests in associates and joint ventures, $94 million (2019: $23 million) of net gain on sale of associates and joint ventures and $Nil million (2020: 26 million) of net gain on reclassification to associates and joint ventures.
(4) Includes dividend of $11 million (2020: $125 million) received from associates and joint venture investments during the current financial year.

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Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 38

Assets, liabilities and disposal groups classified as held for sale and discontinued operations continued

(iv) Gain on disposal included in profit from discontinued operations

There was no disposal of businesses in the current financial year. Prior year represents the gain on disposal of certain parts of MAM business disposed of on 6 December 2019.

	2020 $m
Consideration received or receivable:	
Cash consideration received	3,240
Consideration receivable	5,743
Consideration	**8,983**
Carrying value of net assets and liabilities disposed of or deconsolidated (Note 38(v))	1,765
Gain on disposal before transfer of OCI to the income statement	7,218
Items reclassified from OCI to the income statement:	
Exchange differences on translation and hedge of foreign operations (Note 38(vii))	3
Total gain on disposal	**7,221**

(v) Carrying value of net assets and liabilities disposed of

	2020 $m
Assets	
Cash and bank balances	285
Other assets	894
Held for sale assets	445
Investment in associates and joint ventures	730
Property, plant and equipment	21
Due from related body corporate entities	200
Intangible assets	1,354
Financial investments	365
Deferred tax assets	263
Total assets	**4,557**
Liabilities	
Other liabilities	556
Due to related body corporate entities[(1)]	1,286
Held for sale liabilities	291
Debt issued	66
Deferred tax liabilities	378
Total liabilities	**2,577**
Non-controlling interests	215
Net assets	**1,765**

(1) Represents $1,286 million funding provided by the Consolidated Entity to the MAM businesses transferred as part of the group restructure.

Note 38

Assets, liabilities and disposal groups classified as held for sale and discontinued operations continued

(vi) Cash flow information

The cash flow information comprising of the Consolidated Entity's discontinued operations of certain of the MAM businesses are presented below:

	2021 $m	2020 $m
Net cash flows		
Net cash flows utilised in operating activities[1]	**(424)**	(3,131)
Net cash flows generated from investing activities	**411**	2,848
Net decrease in cash and cash equivalents from discontinued operations	**(13)**	(283)
Cash and cash equivalents at the beginning of the financial year	**13**	296
Cash and cash equivalents at the end of the financial year	**–**	13

(vii) Cumulative other comprehensive income

The equity reserves, representing the cumulative other comprehensive income of the Consolidated Entity's discontinued operations of certain MAM businesses are presented below:

	2021 $m	2020 $m
Cash flow hedge reserve[2]	**(33)**	(18)
Share of other comprehensive income of associates and joint ventures[2]	**11**	11
Total cumulative other comprehensive income relating to assets and disposal groups classified as held for sale	**(22)**	(7)

(1) Previous year represents internal funding returned by MAM businesses (which are presented in discontinued operations) to Group treasury in continuing operations, which manages the funding of the businesses within the Consolidated Entity.
(2) All items are net of tax, where applicable.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 39

Acquisitions and disposals of subsidiaries and businesses

Significant acquisition of subsidiaries or businesses:

There were no individually significant subsidiaries or businesses where control was gained during the current and previous financial years.

Other subsidiaries and businesses acquired:

During the year ended 31 March 2021, businesses acquired or consolidated due to the acquisition of control were:

Alira Energy, LLC, Woodway Holdings LLC, Future Energy sp.z.o.o, Aragorn Holdco 2 Pte Limited and Elwiatr Pruszynski sp.z.o.o.

The purchase price allocations for the business combinations are provisional as at 31 March 2021. The incremental impact of the acquisitions on the Consolidated Entity's revenue and earnings was not material.

During the year ended 31 March 2020, subsidiaries or businesses acquired or consolidated due to the acquisition of control were:

Premier Technical Services Group, The Dovel Group, LLC, Ace Info Solutions LLC, Kisielice Wind Limited, Lake Wind AB, Biocow Limited, Zajączkowo Windfarm Sp. z o.o., Business Keeper AG, Macquarie Private Debt Asset Management, LLC., 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 was not material.

Aggregate provisional details of the above-mentioned entities and businesses acquired are as follows:

	2021 $m	2020 $m
Fair value of net assets acquired		
Cash and bank balances	10	44
Other assets	22	212
Property, plant and equipment and right-of-use assets	192	194
Intangible assets	57	244
Payables, provisions, borrowings and other liabilities	(53)	(525)
Non-controlling interests	(19)	(36)
Total fair value of net assets acquired	209	133
Consideration		
Cash consideration	205	849
Deferred consideration	6	6
Total consideration	211	855
Goodwill recognised on acquisition	2	722
Net cash flow		
Cash consideration	205	849
Less: Cash and cash equivalents acquired	(10)	(44)
Net cash inflow	195	805

Note 39

Acquisitions and disposals of subsidiaries and businesses continued

Significant disposal of subsidiaries or businesses:

There were no individually significant businesses where control was lost during the current financial year. The disposal of MAM businesses relating to the group restructure that occurred during the previous financial year is disclosed under Note 38 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.

Other disposal of entities:

During the year ended 31 March 2021 the MBL and MGL Boards approved the transfer of Macquarie's service entities from MGL and its subsidiaries to MBL and was executed in November 2020. A part of this transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity disposed of its 100% interest in Macquarie Global Services Private Limited.

Other entities or businesses disposed of or deconsolidated due to the loss of control were: VeenIX BaHo B.V, Acacia Renewables K.K, Macquarie European Rail, Hamel Renewables LLC, Hamel Renewables HoldCo LLC and Showa Planning K.K.

During the financial year ended 31 March 2020, the Consolidated Entity disposed of its Macquarie AirFinance Limited (MAF) business to a newly formed joint venture of which the Consolidated Entity held a 75% interest.

In addition, other subsidiaries or businesses disposed of or deconsolidated due to 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, Godo Kaisha Alpha Mega Solar Project No. 1, Godo Kaisha Alpha Mega Solar Project No. 2, Dalmatia WtE EUR Holdings Limited, Dalmatia WtE EUR Topco Limited, LPC Venture I, LLC, American Alpha Master Fund, 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 ograniczonąodpowiedzialnoscia.

Aggregate details of the businesses disposed of are as follows:

	2021 $m	2020 $m
Carrying value of net assets		
Cash and bank balances	401	78
Financial Investments	14	–
Held for sale assets[1]	727	8,958
Other assets	24	810
Deferred tax assets	18	–
Property, plant and equipment and right-of-use assets	14	92
Intangible assets	5	452
Interests in associates and joint ventures	–	44
Held for sale and other liabilities[1]	(634)	(7,283)
Deferred tax liabilities	(8)	–
Non-controlling interests	–	(137)
Total carrying value of net assets[2]	561	3,014
Consideration		
Cash consideration	1,079	1,151
Consideration receivable	36	17
Fair value of investment retained	3	672
Interest acquired through contribution to the joint venture[3]	–	1,558
Total consideration	1,118	3,398
Direct costs relating to disposal	(2)	(8)
Net cash flow		
Cash consideration	1,079	1,151
Less: cash and cash equivalents disposed of or deconsolidated[4]	(401)	(1,160)
Net cash (outflow)/ inflow	678	(9)

(1) The March 2021 held for sale assets primarily includes assets and liabilities relating to the Consolidated entity's rail business.
(2) The March 2020 net assets includes $2,120 million relating to the Consolidated entity's MAF business.
(3) Interest acquired as a result of the contribution of MAF net assets to a newly formed joint venture. The Consolidated Entity thereafter 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.
(4) Includes $39 million (31 March 2020: $1,082 million) of cash and bank balances included under held for sale and other assets above.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 40

Company financial information

As at, and throughout the financial year ended 31 March 2021 the parent entity of the Consolidated Entity was MFHPL. Summary financial information for the Company is as follows:

	2021 $m	2020 $m
Statement of financial position		
Assets		
Current assets	15,773	15,605
Non-current assets[(1), (2)]	24,656	42,283
Total assets	40,429	57,888
Liabilities		
Current liabilities	11,964	12,890
Non-current liabilities[(3)]	16,589	33,019
Total liabilities	28,553	45,909
Equity		
Contributed equity	14,252	14,249
Foreign currency translation reserve	3	6
Accumulated losses	(2,379)	(2,276)
Total equity	11,876	11,979
Statement of comprehensive income		
(Loss)/Profit after income tax for the financial year[(4)]	(103)	649
Total comprehensive income for the financial year	(103)	649
Contingent liabilities		
Contingent liabilities exist in respect of:		
Guarantees[(5),(6)]	6,937	8,199
Indemnities	190	208
Letters of credit	123	436
Total contingent liabilities[(7)]	7,250	8,843

(1) Non-current assets primarily comprise of investments in and long-term loans to subsidiaries and related body corporates.
(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.
(3) Non-current liabilities primarily comprise of long-term borrowings from MGL.
(4) Includes dividends of $5,335 million (2020: $967 million) from subsidiaries. During the year, the Company recognised an impairment charge of $5,501 million (2020: impairment reversal of $10 million) for its investment in subsidiaries.
(5) Guarantees issued by the Company predominantly relate to its subsidiaries for trading and settlement obligations.
(6) Includes guarantees of $2,884 million (2020: $3,458 million) in favour of MBL for certain exposures with Non- Extended Licenced Macquarie Group Entities. The Company has placed cash collateral of a similar amount as per the terms of the guarantee arrangement.
(7) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

Note 41

Events after the reporting date

There were no material events subsequent to 31 March 2021 that have not been disclosed elsewhere in the financial statements.

Note 42

Summary of significant accounting policies

(i) Principles of consolidation

Subsidiaries

The consolidated Financial Report reflects the financial performance and financial position of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) which the Consolidated Entity controls. The Consolidated Entity controls an entity where it has:

- power to direct the relevant activities
- exposure, or rights, to variable returns, and
- the ability to utilise power to affect the entity's returns.

The determination of control is based on current facts and circumstances and is continuously assessed. The Consolidated Entity has power over an entity when it has existing substantive rights that provide it with the current ability to direct the entity's relevant activities, being those activities that significantly affect the entity's returns. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates its exposure, or rights, to variable returns by considering the magnitude and variability associated with its economic interests.

All variable returns are considered in making that assessment including, but not limited to, returns from debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts. In certain instances the Consolidated Entity has determined that it controls entities that it has less than half of the voting rights on the basis of its control over the relevant activities of those entities.

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 variable returns of the SE.

Where the Consolidated Entity has power over the SE's relevant activities, has assessed that its exposure to variable returns (through the residual risk associated with its involvement in SEs) is sufficient, and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements.

Consolidation

The effects of all transactions between subsidiaries in the Consolidated Entity are eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (NCI) in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated Statement of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

Where control of an entity was obtained during the financial year, its results are included in the consolidated income statement from the date on which control was obtained. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The Consolidated Entity determines the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities and the extent of the Consolidated Entity's exposure to the entity's variable returns.

Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its financial statements at cost less accumulated impairment.

Interests in associates and joint ventures

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control. Existing ownership interests (including in substance ownership interests) in associates and joint ventures are accounted for under the equity method. In-substance ownership interests are interests that are substantially similar to an investee's ordinary shares. Equity accounting of the ownership interests is applied from the date that the Consolidated Entity has significant influence or joint control and ceases when the Consolidated Entity no longer has significant influence or joint control.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence the financial and operating policies or jointly control the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies continued

practice, and whether regulatory approval is required (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

The equity method of accounting is applied in the consolidated Financial Report and requires the recognition of the Consolidated Entity's share of its associates' and joint ventures' post acquisition profits or loss (including impairments of the associates' or joint ventures' assets) in the consolidated income statement, and the share of the post-acquisition movements in other comprehensive income in the consolidated statement of comprehensive income.

Transactions reported directly in equity (besides those reflected in other comprehensive income) are accounted for by the Consolidated Entity in accordance with the substance of the transaction and whether the transaction is dilutive to the Consolidated Entity's ownership interest. Where the transaction is dilutive, the impact is recorded as part of the Consolidated Entity's share of profits or losses of associates and joint ventures.

Equity accounting of losses is restricted to the Consolidated Entity's interests in its associate or joint venture, unless the Consolidated Entity has an obligation or has made payment on behalf of the entity.

Long-term interests in an associate or joint venture, to which the equity method is not applied but in-substance form part of the net investment in the associate or joint venture, are accounted for in accordance with the Consolidated Entity's financial instruments' accounting policies, which includes accounting for expected credit losses, where applicable. Subsequently, the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures* are applied to long-term interests.

At the end of each reporting period, management reviews the Consolidated Entity's investments in associates and joint ventures for indicators of impairment. Where there is an indicator of impairment, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Impairment losses are recognised in other impairment charges/reversal.

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
- in an investment in an associate or joint venture (such that it becomes a subsidiary), where the underlying entity constitutes a business,

previously held interests are revalued to their fair value and any gain or loss is recognised in investment income as part other operating income and charges.

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in an associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their fair value and any gain or loss is recognised in investment income as part of other operating income and charges. Retained ownership interests are not revalued where the sale represents a contribution to an associate or joint venture.

Increases and decreases in the Consolidated Entity's interest in a subsidiary (that do not result in the loss of control) are accounted for directly within equity. Increases in the Consolidated Entity's ownership interest in an associate or joint venture are accounted for as an increase in the carrying value of the interest in associate or joint venture. The difference between the reduction in the Consolidated Entity's interest in an associate or joint venture that remains an associate or joint venture and the fair value of consideration received is accounted for as a gain or loss within investment income as part of other operating income and charges. A proportionate amount of associated OCI is reclassified to profit or loss, or reclassified within equity, as would otherwise be required on disposal of the underlying position.

(ii) Business combinations

Distinguishing between whether assets or a business is acquired involves judgement. The Consolidated Entity identifies a business where an acquired integrated set of activities and assets includes an economic resource (input) and a substantive process that together significantly contribute to the ability to provide goods or services to customers, generate investment income or other income from ordinary activities (outputs).

On a transaction-by-transaction basis, the Consolidated Entity may use a practical expedient to determine that an acquired set of activities is not a business. Under this assessment, the transaction is accounted for as an asset acquisition if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Note 42

Summary of significant accounting policies continued

Business combinations are accounted for using the acquisition method. The consideration exchanged is measured as the aggregate of the acquisition-date fair values of assets transferred, equity instruments issued, and liabilities incurred. Transaction costs of a business combination are recognised directly in the consolidated income statement as part of other operating expenses.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. The Consolidated Entity elects, on a transaction-by-transaction basis, to initially measure NCI either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities.

Goodwill is measured as the excess of the consideration exchanged, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the business acquired and is recognised as part of intangible assets in the Statement of financial position. Goodwill is subsequently measured at cost less accumulated impairment.

If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised in investment income as part of other operating income and charges, but only after a reassessment of the identification and measurement of the net assets acquired.

Contingent consideration that is dependent on any subsequent event is measured at fair value with changes in its fair value recognised in investment income as part of other operating income and charges.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the acquisition date. The discount rate used is the Consolidated Entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Combinations between entities or businesses under common control

Common control transactions which are business combinations involving entities or businesses that are ultimately controlled by the same parent entity are accounted for at book value.

Where the Consolidated Entity acquires, as part of a common control transaction, assets that meet the definition of a business, the assets and liabilities acquired are recorded using the book values included in the consolidated financial statements of the entity having the highest level within the common control group and, where applicable, are presented gross of any accumulated amortisation, depreciation and Impairment. The Consolidated Entity accounts for the difference between the consideration paid (including any contingent consideration) and the book value of the assets and liabilities acquired as a restructure reserve in equity. To the extent the restructure reserve is recognised against contributed equity, subsequent disposals or realisations of those assets may result in reclassification of the restructure reserve to retained earnings to reflect the realisation of the restructure reserve.

In the Consolidated Entity's financial statements, to the extent the common control transaction occurred between entities ultimately controlled by MFHPL, gains and losses relating to a common control transaction are eliminated against the amount recorded in the acquirer's equity relating to the common control transaction.

(iii) Foreign currency translation

Functional and presentation currency

The functional currency of each entity in the Consolidated Entity is determined as the currency of the primary economic environment in which the entity operates. The Consolidated Entity and the Company's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

Transactions and balances

At initial recognition, a foreign currency transaction is translated into the entity's functional currency using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:
- foreign currency monetary assets and liabilities are translated using the closing exchange rate
- non-monetary items (including equity) measured in terms of historical cost in a foreign currency remain translated using the spot exchange rate at the date of the transaction, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date that the fair value was measured.

Foreign exchange gains and losses arising from the settlement or translation of monetary items, or non-monetary items measured at fair value are recognised in net trading income, with one exception. Where such monetary items are designated as hedging instruments in qualifying cash flow hedge or net investment hedge relationships, the foreign exchange gains and losses may be deferred in OCI to the extent the hedge is effective (refer to Note 31 *Hedge accounting* and Note 42(ix) *Derivative instruments and hedging activities*).

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies continued

Subsidiaries and other entities

The results and financial position of all entities that have a functional currency other than Australian dollars are translated into Australian dollars as follows:

- assets and liabilities for each Statement of financial position presented are translated at the closing exchange rate at the date of that Statement of financial position. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate
- income and expenses for each income statement are translated at actual or average exchange rates at the dates of the transactions
- all resulting exchange differences are recognised in OCI within a separate component of reserves, being the foreign currency translation reserve (FCTR).

Foreign currency gains and losses on intragroup loans are recognised in the income statement except where the loan is in substance part of the Consolidated Entity's net investment in the foreign operation, in which case the foreign currency gains and losses are recognised in the Consolidated Entity's FCTR.

The exchange gains or losses recognised in FCTR are reclassified to the income statement or reattributed within equity as follows:

- if there is a disposal of a foreign operation, then the accumulated FCTR is reclassified from OCI to investment income within other operating income and charges
- if there is a partial disposal of a foreign operation that is an associate or joint arrangement, without loss of significant influence or joint control, then a proportionate share of the accumulated FCTR is reclassified to investment income
- if there is a partial disposal of a foreign operation that is a subsidiary, without loss of control, then a proportionate share of the accumulated FCTR is reattributed within equity to non-controlling interests.

(iv) Revenue and expense recognition

Net interest income

Interest income and interest expense (with the exception of borrowing costs that are capitalised on a qualifying asset which is not measured at fair value) are recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost, and debt financial assets classified as at fair value through OCI. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in interest income or interest expense, as applicable, over the expected life (or, when appropriate, a shorter period) of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the remeasurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

Interest income on financial assets that are not credit impaired is determined by applying the financial asset's EIR to the financial asset's gross carrying amount. Interest income on financial assets that are subsequently classified as credit-impaired (stage III), is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying value after deducting the impairment loss).

Interest income and expense on financial assets and liabilities that are classified as FVTPL is accounted for on a contractual rate basis.

Fee and commission income

Revenue earned by the Consolidated Entity from its contracts with customers primarily consists of the following categories of fee and commission income:

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), such as:

- 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 the remaining underlying funds or managed account's 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.

Note 42

Summary of significant accounting policies continued

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. The brokerage and commission income related to this service is recognised on trade date and is presented net of any rebates.

Other fee and commission income

Other fee and commission income includes fees earned from lending services and account servicing which are recognised when the performance obligation is satisfied.

The revenue recognition policies above are also applied to internal fee sharing arrangements between entities within the Macquarie Group. Management fees and other cost recoveries are recognised in Other income or Other operating expense, as and when the Consolidated Entity performs a service to or receives a service from other entities within the Macquarie Group as per the agreed cost or profit sharing arrangements.

Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term and is presented net of the related depreciation expense.

Other operating income and charges

Other operating income and charges includes investment income, and other income.

Investment income includes gains and losses arising from subsequent changes in the fair values of equity and debt investment securities that are classified as FVTPL and dividends or distributions on these securities which represent the return on such investments. Impairment losses/reversal of impairment losses on these financial assets are not reported separately.

Gains or losses on the change of control, joint control and/or significant influence and reclassifications to/from held for sale also forms part of investment income.

Refer to Note 42(i) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

Dividends

Dividends or distributions are recognised when the right to receive a dividend or distribution is established, it is probable the economic benefits associated with the dividend will flow to the Consolidated Entity and the dividend can be measured reliably.

Dividends or distributions from HFT assets are recognised in net trading income, as investment income as part of other operating income and charges for other financial assets measured at FVTPL or FVOCI, or as a reduction to the carrying amount of the investment in associates and joint ventures in the Consolidated Entity's Statement of financial position. Where associates and joint ventures are classified as held for sale, dividends or distributions are recognised within other income as part of other operating income and charges.

Judgement is applied in determining whether distributions from subsidiaries, associates and joint ventures are to be recognised as dividend income or as a return of capital.

Distributions that represent a return of capital are accounted for by the Company as a reduction to the cost of its investment and are otherwise recognised by the Company within investment income as part of other operating income and charges when the recognition criteria are met.

Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

(v) 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.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to either settle on a net basis or realise the asset and settle the liability simultaneously.

Current and deferred taxes attributable to amounts recognised in OCI are also recognised in OCI.

The Consolidated Entity exercises judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery.

Factors considered include the ability to offset tax losses within the tax consolidated group in Australia or groups of entities in overseas jurisdictions, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

The Consolidated Entity undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Consolidated Entity estimates the amount expected to be paid to/ (recovered from) tax authorities based on its understanding and interpretation of the law. Uncertain tax positions are presented as current or deferred tax assets or liabilities with reference to the nature of the underlying uncertainty.

Tax consolidation

All eligible Australian resident wholly owned subsidiaries of Macquarie Group Limited ("MGL", the Company's ultimate parent entity) comprise a tax consolidated group with MGL as the head entity. As a consequence, the Company and its relevant subsidiaries are not liable to make income tax payments and does not recognise any current tax balances or any deferred tax assets arising from unused tax losses or credits.

The tax consolidated group recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB Interpretation 1052 *Tax Consolidation Accounting* (AASB Interpretation 1052). Under the terms and conditions of a tax funding agreement, MGL charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses. The tax funding agreement also allows for the transfer of tax balances between group entities as required. Where the recognition of a deferred tax balance in the transferee is precluded under AASB 112 *Income taxes*, the funding paid or received is accounted for in equity.

MGL's group allocation approach is based on a 'standalone taxpayer' approach as defined in AASB Interpretation 1052 which requires each subsidiary member to record income taxes as though they each continued to be a taxable entity in their own right. Modifications, such as the removal of the standalone tax effect of intra-group dividend income, are then made to this approach wherever it does not appropriately reflect the tax outcome to the tax consolidated group.

Should MGL be in default of its tax payment obligations, or a default is probable, the current tax balances of its subsidiaries will be determined in accordance with the terms and conditions of a tax sharing agreement between MGL and entities in the tax consolidated group.

Goods and services tax (GST)

Where GST (or other value added tax) is not recoverable from global tax authorities, it is either capitalised to the Statement of financial position as part of the cost of the related asset or is recognised 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.

(vi) Financial instruments

Recognition of financial instruments

Financial instruments are recognised when the Consolidated Entity becomes a party to the contractual provisions of the instrument.

A financial instrument is initially recognised at fair value and is adjusted (in the case of instruments not classified at FVTPL) for transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument, and fees that are an integral part of the effective interest rate. Transaction costs and fees paid or received relating to financial instruments carried at FVTPL are recorded in the income statement.

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

Note 42

Summary of significant accounting policies continued

Financial instruments arising in multiple transactions are accounted for as a single arrangement if this best reflects the substance of the arrangement. Factors considered in this assessment include whether the financial instruments:

- are entered into at the same time and in contemplation of one another
- have the same counterparty
- relate to the same risk
- there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction, or
- whether each of the financial instruments has its own terms and conditions and may be transferred or settled separately.

Derecognition of financial instruments

Financial assets

Financial assets are derecognised from the Statement of financial position when:

- the rights to cash flows have expired, or
- the Consolidated Entity has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

A financial asset is transferred if, and only if, the Consolidated Entity i) transfers the contractual rights to receive the cash flows of the financial asset, or ii) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement where:

- the Consolidated Entity is not obligated to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- the Consolidated Entity is prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
- the Consolidated Entity is obligated to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Consolidated Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. Any interest in the transferred and derecognised financial asset that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

In transfers where control over the asset is retained, the Consolidated Entity continues to recognise the asset to the extent of its continuing involvement as determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

Financial liabilities are derecognised from the Statement of financial position when the Consolidated Entity's obligation has been discharged, cancelled or has expired.

Gains and losses on the derecognition of debt financial assets and liabilities

Gains and losses arising from the derecognition of debt financial assets or financial liabilities are recognised in:

- net trading income in respect of trading-related balances that are subsequently measured at amortised cost
- investment income within other operating income and charges in respect of financial investments and loans to associates, and
- other income and charges as part of other operating income and charges for all other financial assets and financial liabilities.

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, and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15 *Revenue from Contracts with Customers*.

Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial asset that is renegotiated is derecognised if the rights to receive cash flows from the existing agreement have expired, either through replacement by a new agreement or the existing terms are modified to that effect. A financial liability that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated financial instrument is a substantially different financial instrument. Where the modification results in derecognition of the original financial instrument, the new financial instrument is recorded initially at its fair value and the resulting difference is recognised in the income statement in accordance with the nature of the financial instrument as described in the derecognition of financial instruments policy.

For financial instruments measured at amortised cost, and for debt financial assets measured at FVOCI, when the modification does not result in derecognition, a gain or loss is recognised in the income statement in accordance with the nature of the financial instrument as described in the derecognition of financial instruments policy. The gain or loss is measured as the adjustment of the gross carrying amount to reflect the renegotiated or modified contractual cash flows, discounted at the instrument's original EIR.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies continued

Classification and subsequent measurement

Financial assets

Financial assets are classified based on the business model within which the asset is held and on the basis of the financial asset's contractual cash flow characteristics.

Business model assessment

The Consolidated Entity uses judgement in determining the business model at the level that reflects how groups of financial assets are managed and its intention with respect to its financial assets. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- how the performance of the financial assets held within that business model is evaluated and reported to the Consolidated Entity's Senior Management personnel and senior executives
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed, and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Solely payment of principal and interest (SPPI)

The contractual cash flows of a financial asset are assessed to determine whether these represent SPPI on the principal amount outstanding. This includes an assessment of whether the cash flows primarily reflect consideration for the time value of money and credit risk of the principal outstanding. Interest may also include consideration for other basic lending risks and costs.

Amortised cost

A financial asset is subsequently measured at amortised cost using the EIR method where:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements, and
- the financial asset has not been classified as DFVTPL

Interest income is determined in accordance with the EIR method and recognised as part of interest and similar income.

Fair value through other comprehensive income (FVOCI)

A financial asset is subsequently measured at FVOCI if the following conditions are met:

- the financial asset is held within a business model whose objective is to both collect contractual cash flows and to sell the financial asset,
- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements, and
- the financial asset has not been classified as DFVTPL.

Subsequent changes in fair value are recognised in OCI, with the exception of interest (which is recognised as part of interest income), ECL (which is recognised in credit and other impairment charges/reversal) and foreign exchange gains and losses (which are recognised in net trading income) and is net of any related hedge accounting adjustments. When debt financial assets classified as at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to investment income in respect of debt financial investments and loans to associates, or to other income and charges as part of other operating income and charges for all other financial assets.

Fair value through profit or loss

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are subsequently measured at FVTPL.

For the purposes of the Consolidated Entity's financial statements, the FVTPL classification consists of the following:

- financial assets that are held for active trading (held for trading (HFT)). This classification includes all derivative financial assets, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL
- financial assets in a business model whose objective is achieved by managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows (FVTPL)
- financial assets that fail the SPPI test (FVTPL), and
- financial assets that have been designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (DFVTPL).

Equity financial assets that are not held for active trading are measured at FVTPL. Subsequent changes in fair value are recognised as investment income within other operating income and charges.

Subsequent changes in the fair value of debt financial assets measured at FVTPL are presented as follows:

- changes in the fair value of financial assets that are classified as HFT and financial assets managed on a fair value basis are recognised in net trading income
- changes in the fair value of debt financial investments and loans to associates and joint ventures that fail SPPI are recognised in investment income as part of other operating income and charges
- changes in the fair value of all other FVTPL and DFVTPL financial assets are recognised as part of other income and charges within other operating income and charges.

Note 42

Summary of significant accounting policies continued

Where applicable, the interest component of these financial assets is recognised as interest and similar income.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, unless they are either HFT, or have been designated to be measured at FVTPL (DFVTPL). A financial liability may be DFVTPL if:

- such a designation eliminates or significantly reduces an accounting mismatch that would otherwise have arisen
- a group of financial liabilities, or financial assets and financial liabilities, is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- the liability contains embedded derivatives which must otherwise be separated and carried at fair value.

All derivative financial liabilities are classified as HFT, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL. Refer to Note 42(ix) *Derivative instruments and hedging activities* for the detailed hedge accounting policy.

Changes in the fair value of financial liabilities that are not classified as HFT are, with the exception of changes in fair value relating to changes in the Consolidated Entity's own credit risk, that are presented separately in OCI and are not subsequently reclassified to profit or loss, recognised in other income and charges as part of other operating income and charges.

Where applicable, the interest component of these financial liabilities is recognised as interest and similar expense.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported on the Statement of financial position, when there is a current legally enforceable right to offset the amounts and there is either an intention to settle on a net basis or realise the financial asset and settle the financial liability simultaneously.

(vii) Reverse repurchase agreements and cash collateral on securities borrowed and lent

As part of its trading and financing activities, the Consolidated Entity borrows and lends securities 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 an underlying under an agreement to resell.

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 at FVOCI as they are held in a business model to both collect contractual cash flows and with the intention to sell.

Similar transactions with related body corporates are reported as part of '*Due to/from related body corporate entities.*' Refer Note 42(xvii).

(viii) Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets and liabilities that are classified as HFT. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised gain or loss arising from revaluing that contract to fair value as part of net trading income, except for interest income on HFT debt financial assets which is recognised in interest income. Refer to Note 42(vi) *Financial instruments*.

Trading assets (long positions) comprise financial instruments such as debt and equity securities, and commodities purchased with the intent of being actively traded either individually or as part of a portfolio.

Trading liabilities comprise obligations to deliver assets (short positions) across the same trading categories and which the Consolidated Entity intends to actively trade.

Commodity inventory is recognised when the Consolidated Entity controls the commodity, the determination of which includes consideration of price risk, and is measured at fair value less costs to sell in accordance with the broker-trader exemption, on the basis that such assets are acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker traders' margin.

When the Consolidated Entity becomes party to a sale contract, and the derecognition criteria are met (refer to Note 42(vi) *Financial instruments*), it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

(ix) Derivative instruments and hedging activities

Derivative instruments entered into by the Consolidated Entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity, credit and equity markets. These derivative instruments are principally used by the Consolidated Entity for the purposes of risk management of existing financial assets and liabilities and forecast transactions and are also entered into for client trading purposes.

Derivatives are recognised in the Statement of financial position as an asset where they have a positive fair value at the reporting date or as a liability where they have a negative fair value at the reporting date.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies continued

Derivatives that may have both positive or negative values must meet both the asset and liability derecognition tests before being derecognised from the Statement of financial position.

Fair values are obtained from quoted prices in active markets where available, or valuation techniques including discounted cash flow models and option pricing models, as appropriate. The accounting for derivatives is subject to the application of the day 1 profit or loss policy as described in Note 42(vi) *Financial instruments.*

The Consolidated Entity applies trade date accounting to the recognition and derecognition of derivative financial instruments.

Hedge accounting

As part of its ongoing business, the Consolidated Entity is exposed to several financial risks, principally that of interest rate, foreign exchange rate and commodity price risk (collectively referred to as the hedged risk or exposure). The Consolidated Entity has limited appetite for such risks and has policies and practices in place to ensure that these risks are effectively managed. The Consolidated Entity mitigates these risks through the use of derivative financial instruments, and, in the case of foreign currency risk, foreign-denominated debt issued (collectively referred to as hedging instruments). The Consolidated Entity applies hedge accounting to manage accounting mismatches arising from the difference in measurement bases or location of the gains and losses recognised between the exposure that is being hedged and the hedging instrument. Refer to details provided in the table on the following page.

Note 42

Summary of significant accounting policies continued

	Fair value hedge	Cash flow hedge	Net investment hedge
Nature of hedge	The hedge of the fair value risk of a financial liability.	The hedge of the change in cash flows of a financial 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	• Interest rate risk • Foreign exchange risk • Commodity price risk	• Foreign exchange risk
Hedged item	• Fixed interest rate financial liabilities	• Floating interest rate financial liabilities • Highly probable forecast foreign currency payments • Highly probable forecast commodity sales	• Net investment in foreign operations
Hedging instruments	• Interest rate swaps	• Interest rate swaps and options • Foreign exchange contracts • Commodity swaps and futures	• Foreign exchange contracts • Foreign currency denominated borrowings
Designation and documentation	At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that: • an economic relationship exists between the hedged item and the hedging instrument • credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and • the hedge ratio is reflective of the Consolidated Entity's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument.		
Accounting treatment for the hedging instrument	Fair value through the income statement, aligned to the presentation of the hedged item.	Fair value through the cash flow hedge reserve as part of OCI, and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Foreign exchange gains and losses are recognised in the Net Investment Hedge Reserve (NIHR), a separate component of FCTR in OCI.
Accounting treatment for the hedged item	Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis or under other accounting standards as appropriate (such as executory contracts for the sale of commodities).	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI.
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 exchange gains or losses recognised in the NIHR within FCTR are reclassified to the income statement or reattributed within equity as follows: • if the hedge is discontinued due to a disposal of the hedged foreign operation, then the accumulated NIHR is reclassified from OCI to investment income within other operating income and charges • if there is a partial disposal of a foreign operation that is an associate or joint arrangement, without loss of significant influence or joint control, then a proportionate share of the accumulated NIHR is reclassified to investment income • if there is a partial disposal of a foreign operation that is a subsidiary, without loss of control, then a proportionate share of the accumulated NIHR is reattributed within equity to non-controlling interests.
Other accounting policies	None	The foreign currency basis spread of the hedging instrument, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the cost of hedging reserve and released to the income statement at the time at which the hedged exposure affects the income statement.	

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies continued

(x) Settlement and margin money assets and liabilities

Settlement and margin money assets and liabilities includes trade settlement balances, margin monies and balances with clearing houses. Margin monies primarily represent deposits placed with clearing houses in relation to futures trading and other derivatives transactions. The balance includes both initial and variance margin which varies based on trading activities. The balance also includes client margin calls which are funded by the Consolidated Entity. Settlement balances represent outstanding trade timing balances as at the reporting date due to the timing difference between trade and settlement date. Balances are carried at amortised cost except for certain margin money balances that are held in money market funds and certain settlement balances which are carried at FVTPL.

(xi) Financial investments

Investment securities in this category include investments in equity or debt securities which are not actively traded by the Consolidated Entity.

Debt investment securities in this category comprise of bonds, and other debt securities.

Financial investments are initially recognised on trade date at fair value (adjusted for directly attributable transaction costs for debt investments subsequently measured at FVOCI) and subsequently measured in accordance with Note 42(vi) *Financial instruments*.

(xii) Loan assets

This category includes loans that are not held for trading purposes and typically includes the Consolidated Entity's lending activities to its customers.

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 42(vi) *Financial instruments.*

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 42(vi) *Financial instruments.*

(xiii) Property, plant & equipment and right-of-use assets

Property, plant and equipment are stated at historical cost (which includes, where applicable, directly attributable borrowing costs and expenditure directly attributable to the acquisition of the asset) less, accumulated depreciation and, where applicable, accumulated impairment losses.

Right-of-use (ROU) assets are measured at cost and comprise of the amount that corresponds to the amount recognised for the lease liability on initial recognition together with any lease payments made at or before the commencement date (less any lease incentives received), initial direct costs and restoration-related costs.

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

Depreciation to allocate the difference between cost and residual values over the estimated useful life is calculated on the following bases:

- diminishing balance method for aviation assets
- unit of production method for certain infrastructure assets
- straight-line basis for all other assets.

A ROU asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Annual depreciation rates are summarised below:

Property, plant and equipment	Depreciation rates
Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements[(1)]	10 to 20%
Equipment	33 to 50%
Infrastructure assets	2 to 12%
Aviation[(2)]	2 to 8%
Rail cars	3 to 5%
Other operating lease assets	2 to 5%

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.
(2) 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 or assets held by trading-related businesses for the purpose of facilitating trading activities is presented as part of Net trading income. All other depreciation is presented as part of Other operating expenses. The Consolidated Entity does not recognise a ROU asset for short-term or low value leases, instead the expense is recognised over the lease term as appropriate as part of operating expenses.

Note 42

Summary of significant accounting policies continued

(xiv)Goodwill and other identifiable Intangible assets

Goodwill

Goodwill is measured as the excess of consideration, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the business acquired. Goodwill arising from business combinations is included in intangible assets in the 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, which 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, are not amortised. 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.

Certain other intangible assets held for trading are measured at fair value less costs to sell in accordance with the broker-trader exemption (on the basis that such assets are acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker traders' margin).

Amortisation of intangible assets held by trading related business is recorded in net trading income and for others is recognised in other operating expenses. Impairments (reversal of impairments) of intangible assets are recognised in other impairment charges/reversal.

Software

Certain internal and external costs directly incurred in acquiring and developing certain computer software programmes are capitalised and amortised over the estimated useful life, usually a period of three to seven years on a straight-line basis. The capitalised software asset is subject to impairment testing on an annual basis.

Costs incurred on the maintenance of software is expensed as incurred and recognised in other operating expenses.

(xv) 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 assets and disposal groups (groups of assets to be disposed in a single transaction and directly attributable liabilities) for which the carrying amount will be recovered principally through a sale or distribution transaction rather than continuing use. This includes assets and liabilities of businesses and subsidiaries, associates and joint ventures, other assets and liabilities, and subsidiaries that are acquired exclusively with a view to sell or distribute.

These assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and the sale or distribution is highly probable, including that the sale or distribution is expected to occur within 12 months. Where there is a planned partial disposal of a subsidiary resulting in loss of control, but the Consolidated Entity retains an interest in the disposed subsidiary, the entire carrying value of the subsidiary's assets and liabilities is classified as held for sale.

Non-current assets and liabilities of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Equity accounting, depreciation and amortisation is suspended when the held for sale criteria are met.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies continued

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell and is recognised in other impairment charges/reversal. A gain is recognised for any subsequent increase in fair value less costs to sell, limited to the cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of sale.

Financial assets and liabilities that are classified as held for sale are measured in accordance with the Consolidated Entity's financial instruments' policies.

Provisions and contingent liabilities

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, which generally include letters of credit, indemnities, performance-related contingents and guarantees (other than financial guarantees) are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are considered remote.

Employee benefit provisions

Employee benefit provisions are recognised by the Consolidated Entity as and when the service has been rendered after deducting amounts already paid. Liabilities for unpaid salaries, salary-related costs and provisions for annual leave are recorded in the 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 Consolidated Entity, the dividend liability and the corresponding reduction in retained earnings is recognised on the payment date.

(xvi) Borrowings

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

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

Transactions between the Consolidated Entity and other related body corporate entities under common control of MGL, the ultimate parent entity, and between the Company and its subsidiaries, principally arise from the provision of lending arrangements and other financial services, the provision of management and administration services, facilities and accommodation and the provision of financial guarantees. Refer to Note 42(iv) *Revenue and expense recognition* and Note 42(vi) *Financial instruments.*

Financial assets and financial liabilities are presented net where the offsetting requirements are met in accordance with Note 42(vi), such that the net amount is reported in the Statement of financial position.

(xviii) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at either amortised cost or are DFVTPL and measured at fair value in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 42(vi) *financial instruments*.

(xix) Loan capital

Loan capital includes non-cumulative, unsecured debt issued by the Consolidated Entity to MGL, the ultimate parent entity, and that is mandatorily convertible into a variable number of the Company's ordinary shares, if not redeemed before the mandatory exchange date. Refer to Note 22 *Loan capital*.

Capital instruments are first assessed to determine whether the Consolidated Entity is required to deliver cash or another financial asset on the occurrence of a contingent event that is considered genuine and is beyond the control of both the issuer and the holder. Where such a contingent event exists, the Consolidated Entity does not have the unconditional right to avoid delivering cash or another financial asset and the capital instrument is classified as a financial liability. The financial liability is initially measured at fair value plus directly attributable transaction costs and is subsequently measured at amortised cost.

For compound instruments that have both equity and liability features, the liability component is initially measured at fair value plus directly attributable transaction costs (and is thereafter measured at amortised cost using the EIR method), with the residual being accounted for within the Consolidated Entity's equity.

Note 42

Summary of significant accounting policies continued

(xx) Impairment

Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost or FVOCI, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts issued that are not DFVTPL. The Consolidated Entity applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward looking and macroeconomic information (FLI).

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 11*Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage I – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition, ECL is determined based on the probability of default (PD) over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

(ii) Stage II – Not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for FLI. The Consolidated Entity exercises judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Consolidated Entity's process to determine whether there has been a SICR is provided in Note 11 *Expected credit losses*.

Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based upon the contractual maturity adjusted, where appropriate, for prepayments, extension, call and similar options, of the financial asset. For revolving facilities, the Consolidated Entity exercises judgement based on the behavioural, rather than contractual characteristics of the facility type.

(iii) Stage III – Credit-impaired

Financial assets are classified as stage III where they are determined to be credit impaired, which generally matches the APRA definition of default. This includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. For credit-impaired exposures that are modelled collectively for portfolios of exposures, ECL is measured as the product of the lifetime PD, the loss given default (LGD) and the exposure at default (EAD), adjusted for FLI.

Presentation of 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 FVOCI – as a reduction in the FVOCI reserve within equity. The carrying amount of the asset is not adjusted as it is measured at fair value
- lease receivables, contract receivables and other assets measured at amortised cost – as a deduction to the gross carrying amount
- undrawn credit commitments and financial guarantees (not measured at FVTPL) – as a provision included in other liabilities.

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from the financial asset, and all possible collateral has been realised, the financial asset is written off, either partially or in full, against the related provision. Recoveries of loans previously written off are recorded based on the cash received.

Impairment of interests in associates and joint ventures

The Consolidated Entity performs an assessment at each reporting date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The main indicators of impairment are significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost.

In making this judgement, the Consolidated Entity evaluates, among other factors, the normal volatility in share price and the period of time for which fair value has been below cost. If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in the associate or joint venture is tested for impairment by comparing the recoverable amount, being the higher of fair value less costs to sell and value-in-use, with its carrying amount.

Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the income statement if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised. The impairment losses (reversal of impairments) on investments in associates and joint ventures are recognised in the income statement as part of other impairment charges/reversal.

Fair value less costs to sell is estimated using market-based approaches using revenues, earnings and assets under management and multiples based on companies deemed comparable as well as other publicly available information relevant to the business.

Notes to the financial statements
for the financial year ended 31 March 2021 continued

Note 42

Summary of significant accounting policies 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 in other impairment charges/reversal, for the amount by which the investment's carrying amount exceeds its recoverable amount, being the higher of fair value less costs to sell and value-in-use. At each reporting date, investments in subsidiaries that have been impaired are reviewed for possible reversal of impairment. The amount of any reversal of impairment recognised must not cause the investment's carrying value to exceed its original cost.

Impairment of goodwill and other intangible assets and property, plant and equipment and right-of-use assets

Intangible assets with indefinite lives (goodwill and certain intangible assets) are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable.

For intangible assets that have a finite useful life and property, plant and equipment and ROU assets, an assessment is made at each reporting date for indications of impairment.

Impairment losses are recognised in other impairment charges as part of other operating income and charges for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date. A reversal is recognised only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments and assessed for impairment.

(xxi) Performance based remuneration

Share-based payments

The ultimate parent company, MGL, operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 28 *Employee equity participation*.

The Consolidated Entity accounts for its share-based payments as follows:

Equity settled awards: The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. To the extent that the Consolidated Entity or Company does not compensate the ultimate parent for MEREP awards offered to its employees, a corresponding credit is recognised in contributed equity. To the extent that the Consolidated Entity or Company pays the ultimate parent for MEREP awards offered to its employees, a corresponding debit is recognised in contributed equity. To the extent the amount is paid in advance, a receivable due from the ultimate parent is recognised. The receivable is amortised to the income statement as share based payment expense over the vesting period. MEREP receivable amounts are recognised and disclosed in Note 26 *Related party information*.

Performance hurdles attached to Performance Share Units (PSUs) under the MEREP are not taken into account when determining the fair value of the PSUs at the grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

Cash settled awards: The award liability is measured with reference to the number of awards and the fair value of those awards at each reporting date. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. Changes in the value of the liability are recognised in employment expenses.

Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash with reference to the performance period to which the profit share relates.

Note 42

Summary of significant accounting policies continued

(xxii) Leases

At the inception of a contract, the Consolidated Entity assesses whether a contract is, or contains, a lease. At inception, or on reassessment of a contract that contains a lease component, the Consolidated Entity allocates the consideration in the contract to each lease component unless an election is made to account for the lease and non-lease components as a single lease component.

(i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods of 12 months to 33 years and may include extension options. Leases are recognised as an ROU asset (as explained in Note 42(xiii) *Property, plant and equipment and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

Lease liabilities are initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Lease payments are allocated between principal and interest expense. Interest expense is, unless capitalised on a qualifying asset which is not measured at fair value, recognised as part of interest and similar expense over the lease period on the remaining lease liability balance for each period. Any variable lease payments not included in the measurement of the lease liability are also recognised as net operating lease income in the period in which the event or condition that triggers those payments occurs.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in lease term, an assessment of an option to purchase the underlying asset, an index or rate, or a change in the estimated amount payable under a residual value guarantee.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the ROU asset, or, as net operating lease income, where the carrying value of the ROU asset has been reduced to zero.

Presentation

The Consolidated Entity presents ROU assets in Property, plant and equipment and right-of-use assets (refer to Note 13) and lease liabilities in Other liabilities (refer to Note 19) in the Statement of financial position.

(ii) Accounting where the Consolidated Entity is a lessor

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are classified as operating leases.

Finance lease

Where finance leases are granted to third parties, the present value of the minimum lease payments plus an estimate of the value of any unguaranteed residual value is recognised as a receivable and included in loan assets.

The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Interest income is recognised over the term of the lease using the EIR method, which reflects a constant rate of return. Finance lease income is presented within interest and similar income in the income statement.

Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over its useful life in accordance with the rates specified in Note 42(xiii) *Property, plant and equipment and right-of-use assets.* Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment and right of-use assets.

When the Consolidated Entity is an intermediate lessor, it accounts for its interests in the head lease and the sub lease separately. The lease classification of the sublease is determined with reference to the ROU asset arising from the head lease.

(xxiii) Contributed equity

Ordinary shares and other similar instruments are classified as equity. Incremental costs directly attributable to the issue of new shares are recorded in equity as a deduction, net of tax, from the issue proceeds.

(xxiv) Fiduciary assets and Client money

The Consolidated Entity engages in trust, fund or other fiduciary activities as well as certain brokerage and other trading-related activities that result in the holding or placing of assets on behalf of third parties. Where such assets are controlled, and future economic benefits are expected to be realised by the Consolidated Entity, such assets and the income thereon are reflected in the Statement of financial position and income statement respectively. Where this is not the case, these assets and the income thereon are excluded from the Consolidated Entity's financial statements as they are not the assets of the Consolidated Entity. Fee income earned by the Consolidated Entity relating to its responsibilities from fiduciary and brokerage and other trading-related activities is included as part of fee and commission income.

(xxv) Cash and bank balances

Cash and bank balances includes currency on hand, demand deposits and short-term balances with banks. These balances are subsequently measured at amortised cost.

Notes to the financial statements
for the financial year ended 31 March 2021
continued

Note 42

Summary of significant accounting policies continued

(xxvi) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank balances as well as certain liquid financial investments and receivables from related body corporates, 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.

(xxvii) Investment property

Investment properties are initially recognised at cost and subsequently stated at fair value at each reporting date.

Any change in fair value, in addition to any lease income generated, is recognised in other income as part of other operating income and charges.

(xxviii) Discontinued operations

A discontinued operation is a component of the entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. The classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operation are presented separately on the face of the income statements. Transactions between continuing operations and the discontinued operation are presented on a gross basis.

The assets and liabilities of the discontinued operations are derecognised on the date of disposal and a realised gain or loss is presented separately in the income statement.

Cash flows generated from the discontinued operation are separately presented in the statement of cash flows.

(xxix) Comparatives

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

(xxx) 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.

(xxxi) New Australian Accounting Standards and amendments to Australian Accounting Standards and Interpretations that are not yet effective for the financial year

(i) AASB 17 *Insurance Contracts*

AASB 17 *Insurance Contracts*, amends the accounting for insurance contracts and will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The standard is mandatorily effective for the Consolidated Entity's annual reporting period beginning on 1 April 2023. The Consolidated Entity is assessing the impact of the revised standard.

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

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

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

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

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

As a diversified financial services group with a variety of global products and services, IBOR reforms, including the

Note 42

Summary of significant accounting policies continued

transition from LIBOR to ARRs, are important changes for the Consolidated Entity.

Macquarie Group's IBOR project

During 2018, MGL, the ultimate parent of the Company, initiated a project, which is sponsored by its Chief Financial Officer (CFO), to manage the impacts of IBOR reform on MGL and its subsidiaries (Macquarie Group), 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. The Consolidated Entity's IBOR transition is being managed as part of this IBOR program of Macquarie Group.

In addition to the project's scoping and assessments outlined in the Consolidated Entity's annual financial report for the year ended 31 March 2020, the project achieved several important milestones in line with recommendations from industry working groups that included:

- Macquarie Group's successful transition of its internal funding from GBP LIBOR to SONIA
- an increasing range of ARR products becoming available to offer clients, supported by changes to key systems and processes
- several Macquarie Group entities have adhered to the ISDA Fallbacks Protocol which introduce robust fallbacks for legacy derivatives, and work has progressed on the development of a transition framework for managing client transitions.

Macquarie Group has identified the following four inherent risks arising from IBOR transitions:

- Financial Risk: This includes (i) value transfers during transition to ARRs, or triggering of fallback terms and default interest payment terms, (ii) basis risk from products and currencies moving at different times, (iii) change in accounting treatment consequential impacts including hedge accounting, capital, tax and reported earnings, and (iv) loss in revenue / market share from not being ready to participate in ARR markets.
- Conduct Risk: This includes (i) real or perceived benefit of information asymmetry between financial institutions and clients during transition, (ii) clients being sold LIBOR contracts today who are unaware of the impending transition or inappropriate advice given to clients, (iii) real or perceived unfair treatment of clients during transition, and (iv) market participants attempt to influence ARRs during transition or misconduct in markets where there is insufficient liquidity.
- Legal Risk: This includes (i) client disputes over amendment terms, (ii) litigation from clients and counterparties (including potential class actions) due to inappropriate/unenforceable contractual terms or losses from transition.
- Operational Risk: This includes (i) infrastructure and processes not ready to support ARR products, (ii) infrastructure and processes that result in errors upon transition, and (iii) reduced model accuracy due to lack of historical data.

Whilst IBOR reforms, including the transition from LIBOR to ARRs, are important changes for the Consolidated Entity, they have not resulted in changes to the Consolidated Entity's risk management strategy and these risks are managed within the existing risk management framework.

Impacts on financial reporting

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

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

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

The amendments, which are mandatorily effective for the Consolidated Entity's annual reporting periods beginning on 1 April 2021, have not been early adopted by the Consolidated Entity. The amendments, when effective will require additional quantitative and qualitative disclosures.

(iii) Other amendments made to existing standards

Other amendments to existing standards that are not mandatorily effective for the annual reporting period beginning on 1 April 2020 and have not been early adopted, are not likely to result in a material impact on the Consolidated Entity's financial statements.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 5 to 119 are in accordance with the *Corporations Act 2001* (Cth), including:
  (i) complying with Australian Accounting Standards and regulations, and
  (ii) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2021 and of its performance, for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the Financial Report also complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

S. Dyson
Director

Sydney

12 July 2021

Independent auditor's report

To the members of Macquarie Financial Holdings Pty Limited

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Consolidated Entity's financial report comprises:

- the consolidated statement of financial position as at 31 March 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
12 July 2021