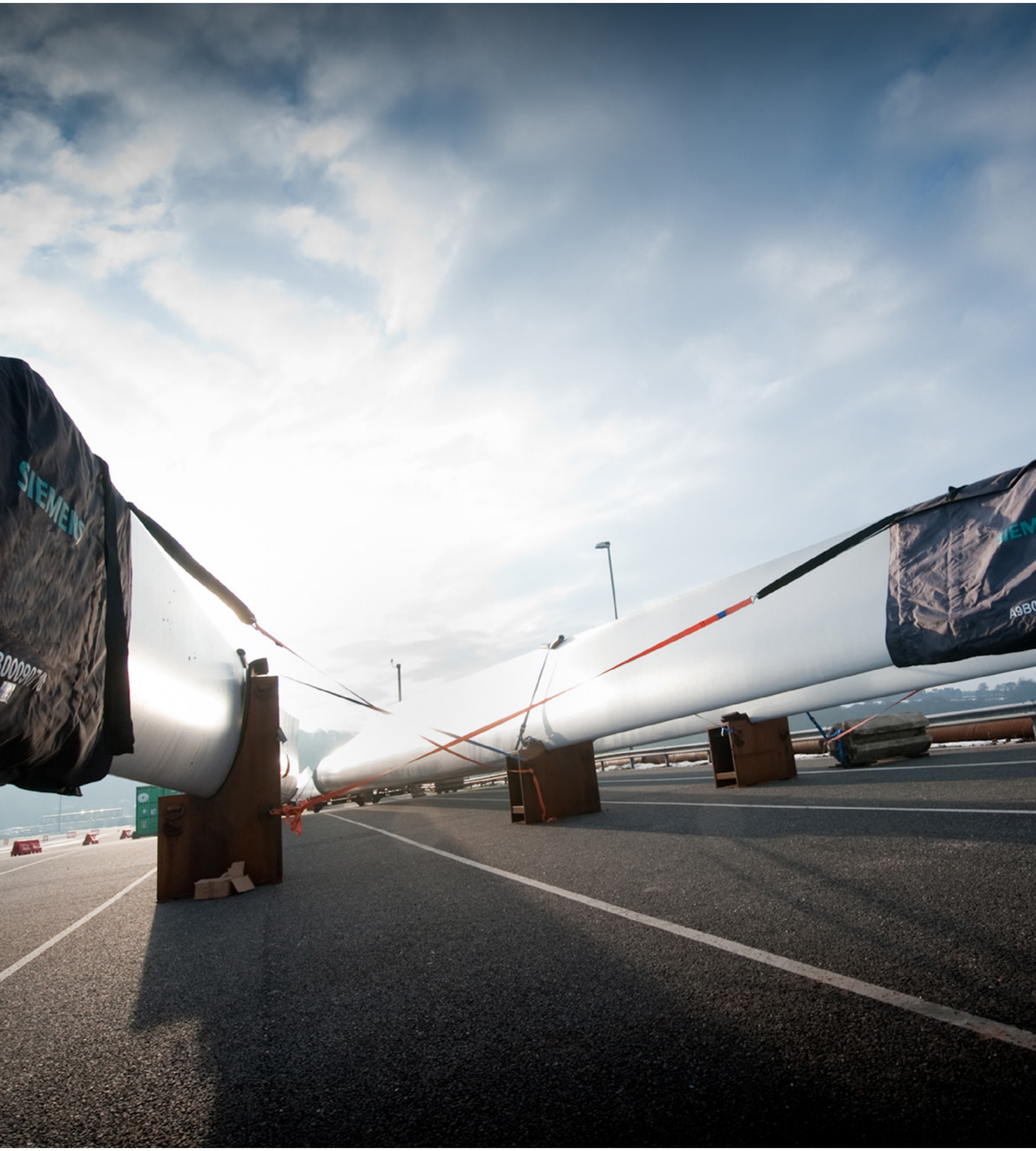
SIEMENS

04 Financial Report

Gwynt y Môr Offshore Wind Farm, United Kingdom

Macquarie-managed funds have been invested in Gwynt y Môr Offshore Wind Farm since 2017. The 576 MW project, located off the coast of North Wales in the United Kingdom, has capacity to power the equivalent of 430,000 homes each year.

Contents

For the financial year ended 31 March 2021

The Financial Report was authorised for issue by the Board of Directors on 7 May 2021.

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

Income statements

For the financial year ended 31 March 2021

		CONSOLIDATED		COMPANY	
	Notes	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Interest and similar income					
Effective interest rate method	2	**3,632**	4,411	**554**	828
Other	2	**333**	745	**–**	–
Interest and similar expense	2	**(1,770)**	(3,297)	**(602)**	(893)
Net interest income/(expense)		**2,195**	1,859	**(48)**	(65)
Fee and commission income	2	**5,176**	5,837	**14**	14
Net trading income/(loss)	2	**3,482**	2,861	**(3)**	296
Net operating lease income	2	**466**	745	**–**	–
Share of net (losses)/profit from associates and joint ventures	2	**(3)**	95	**–**	–
Net credit impairment (charges)/reversal	2	**(434)**	(805)	**18**	(2)
Other impairment charges	2	**(90)**	(235)	**–**	–
Other operating income and charges	2	**1,982**	1,968	**761**	859
Net operating income		**12,774**	12,325	**742**	1,102
Employment expenses	2	**(5,517)**	(5,323)	**(4)**	(5)
Brokerage, commission and trading-related fee expenses	2	**(879)**	(964)	**–**	–
Occupancy expenses	2	**(382)**	(400)	**–**	–
Non-salary technology expenses	2	**(781)**	(749)	**–**	–
Other operating expenses	2	**(1,308)**	(1,435)	**(4)**	(5)
Total operating expenses		**(8,867)**	(8,871)	**(8)**	(10)
Operating profit before income tax		**3,907**	3,454	**734**	1,092
Income tax expense	4	**(899)**	(728)	**21**	(104)
Profit after income tax		**3,008**	2,726	**755**	988
Loss/(profit) attributable to non-controlling interests:					
Macquarie Income Securities	28	**–**	(12)	**–**	–
Other non-controlling interests		**7**	17	**–**	–
Total loss attributable to non-controlling interest		**7**	5	**–**	–
Profit attributable to the ordinary equity holders of Macquarie Group Limited		**3,015**	2,731	**755**	988
		Cents per share	Cents per share		
Basic earnings per share	6	**842.9**	791.0		
Diluted earnings per share	6	**824.6**	764.5		

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

Statements of comprehensive income

For the financial year ended 31 March 2021

		CONSOLIDATED		COMPANY	
	Notes	2021 $m	2020 $m	2021 $m	2020 $m
Profit after income tax		**3,008**	2,726	**755**	988
Other comprehensive (loss)/income[(1)]					
Movements in items that may be subsequently reclassified to the income statement:					
Fair value through other comprehensive income (FVOCI) reserve:					
Revaluation movement	28	**233**	(108)	**–**	–
Changes in allowance for expected credit losses	28	**(127)**	27	**–**	–
Cash flow hedges:					
Revaluation movement	28	**(13)**	(29)	**–**	–
Transferred to income statement	28	**8**	42	**–**	–
Transferred to share of reserves in associates and joint ventures	28	**–**	(6)	**–**	–
Share of other comprehensive losses of associates and joint ventures	28	**(22)**	(101)	**–**	–
Foreign exchange movements on translation and hedge accounting of foreign operations		**(1,761)**	1,230	**–**	–
Movements in item that will not be subsequently reclassified to the income statement:					
Fair value (loss)/gain attributable to own credit risk on debt that is designated at fair value through profit or loss (DFVTPL)	28	**(107)**	61	**(28)**	11
Total other comprehensive (loss)/income		**(1,789)**	1,116	**(28)**	11
Total comprehensive income		**1,219**	3,842	**727**	999
Total comprehensive loss/(income) attributable to non-controlling interests:					
Macquarie Income Securities		**–**	(12)	**–**	–
Other non-controlling interests		**58**	(21)	**–**	–
Total comprehensive loss/(income) attributable to non-controlling interests		**58**	(33)	**–**	–
Total comprehensive income attributable to the ordinary equity holders of Macquarie Group Limited		**1,277**	3,809	**727**	999

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

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

Statements of financial position

As at 31 March 2021

		CONSOLIDATED		COMPANY	
	Notes	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Assets					
Cash and bank balances		**18,425**	9,717	**–**	–
Cash collateral on securities borrowed and reverse repurchase agreements		**36,681**	37,710	**–**	–
Trading assets	7	**21,746**	16,855	**–**	–
Margin money and settlement assets	8	**14,397**	16,393	**–**	–
Derivative assets	9	**20,642**	45,607	**2**	–
Financial investments	10	**9,566**	8,930	**–**	–
Held for sale assets	11	**279**	1,634	**–**	–
Other assets	11	**6,006**	6,868	**54**	18
Loan assets	12	**105,026**	94,117	**–**	–
Due from subsidiaries	30	**–**	–	**22,227**	32,334
Interests in associates and joint ventures	14	**4,194**	8,319	**–**	–
Property, plant and equipment and right-of-use assets	15	**4,676**	5,044	**–**	
Intangible assets	16	**2,543**	3,268	**–**	–
Investments in subsidiaries	17	**–**	–	**31,429**	31,816
Deferred tax assets	18	**1,472**	1,340	**–**	–
Total assets		**245,653**	255,802	**53,712**	64,168
Liabilities					
Cash collateral on securities lent and repurchase agreements		**4,542**	2,334	**–**	–
Trading liabilities	19	**6,205**	5,544	**–**	–
Margin money and settlement liabilities	20	**22,124**	22,815	**–**	–
Derivative liabilities	21	**17,579**	38,399	**1**	2
Deposits	22	**84,199**	67,342	**46**	51
Held for sale liabilities	23	**18**	260	**–**	–
Other liabilities	23	**8,211**	8,027	**423**	460
Borrowings		**9,817**	17,093	**5,821**	10,114
Due to subsidiaries	30	**–**	–	**2,204**	8,901
Debt issued	24	**60,980**	64,556	**13,232**	13,253
Deferred tax liabilities	18	**204**	234	**4**	–
Total liabilities excluding loan capital		**213,879**	226,604	**21,731**	32,781
Loan capital	26	**9,423**	7,414	**2,606**	2,416
Total liabilities		**223,302**	234,018	**24,337**	35,197
Net assets		**22,351**	21,784	**29,375**	28,971
Equity					
Contributed equity	27	**8,531**	7,851	**11,063**	10,380
Reserves	28	**1,286**	2,773	**1,158**	1,056
Retained earnings	28	**12,231**	10,439	**17,154**	17,535
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**22,048**	21,063	**29,375**	28,971
Non-controlling interests	28	**303**	721	**–**	–
Total equity		**22,351**	21,784	**29,375**	28,971

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

Statements 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
							CONSOLIDATED
Balance as at 1 Apr 2019		6,181	1,773	9,758	17,712	603	18,315
Profit after income tax		–	–	2,731	2,731	(5)	2,726
Other comprehensive income, net of tax		–	1,017	61	1,078	38	1,116
Total comprehensive income		–	1,017	2,792	3,809	33	3,842
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	27	1,670	–	–	1,670	–	1,670
Dividends paid	5, 28	–	–	(2,108)	(2,108)	–	(2,108)
Purchase of shares by Macquarie Group Employee Retained Equity Plan (MEREP) Trust	27	(607)	–	–	(607)	–	(607)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(3)	(3)	98	95
Dividends and distributions paid or provided for		–	–	–	–	(13)	(13)
Other equity movements:							
MEREP share-based payment arrangements	28	–	586	–	586	–	586
Deferred tax benefit on MEREP share-based payment arrangements	28	–	4	–	4	–	4
Transfer from share-based payments reserve on vesting of MEREP awards	27, 28	557	(557)	–	–	–	–
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	27, 28	52	(52)	–	–	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	27, 28	(2)	2	–	–	–	–
		1,670	(17)	(2,111)	(458)	85	(373)
Balance as at 31 Mar 2020		7,851	2,773	10,439	21,063	721	21,784
Profit after income tax		**–**	**–**	**3,015**	**3,015**	**(7)**	**3,008**
Other comprehensive loss, net of tax		**–**	**(1,631)**	**(107)**	**(1,738)**	**(51)**	**(1,789)**
Total comprehensive (loss)/income		**–**	**(1,631)**	**2,908**	**1,277**	**(58)**	**1,219**
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	27	**262**	**–**	**–**	**262**	**–**	**262**
Dividends paid	5, 28	**–**	**–**	**(1,123)**	**(1,123)**	**–**	**(1,123)**
Non-controlling interests:							
Change in non-controlling ownership interests		**–**	**–**	**(1)**	**(1)**	**31**	**30**
Redemption of Macquarie Income Securities		**(9)**	**–**	**–**	**(9)**	**(391)**	**(400)**
Other equity movements:							
MEREP share-based payment arrangements	28	**–**	**529**	**–**	**529**	**–**	**529**
Deferred tax benefit on MEREP share-based payment arrangements	28	**–**	**50**	**–**	**50**	**–**	**50**
Transfer from share based payment reserve for awards for which the performance condition was not met following the vesting period	28	**–**	**(8)**	**8**	**–**	**–**	**–**
Transfer from share-based payments reserve on vesting of MEREP awards	27, 28	**419**	**(419)**	**–**	**–**	**–**	**–**
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	27, 28	**8**	**(8)**	**–**	**–**	**–**	**–**
		680	**144**	**(1,116)**	**(292)**	**(360)**	**(652)**
Balance as at 31 Mar 2021		**8,531**	**1,286**	**12,231**	**22,048**	**303**	**22,351**

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
					COMPANY
Balance as at 1 Apr 2019		8,767	1,026	18,629	28,422
Profit after income tax		–	–	988	988
Other comprehensive income, net of tax		–	–	11	11
Total comprehensive income		–	–	999	999
Transactions with equity holders in their capacity as ordinary equity holders:					
Issue of shares	27	1,661	–	–	1,661
Dividends paid	5, 28	–	–	(2,093)	(2,093)
Purchase of shares by MEREP Trust	27	(607)	–	–	(607)
Other equity movements:					
MEREP share-based payment arrangements	28	–	586	–	586
Deferred tax benefit on MEREP share-based payment arrangements	28	–	3	–	3
Transfer from share-based payments reserve on vesting of MEREP awards	27, 28	557	(557)	–	–
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	27, 28	4	(4)	–	–
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	27, 28	(2)	2	–	–
		1,613	30	(2,093)	(450)
Balance as at 31 Mar 2020		10,380	1,056	17,535	28,971
Profit after income tax		**–**	**–**	**755**	**755**
Other comprehensive loss, net of tax		**–**	**–**	**(28)**	**(28)**
Total comprehensive income		**–**	**–**	**727**	**727**
Transactions with equity holders in their capacity as ordinary equity holders:					
Issue of shares	27	**262**	**–**	**–**	**262**
Dividends paid	5, 28	**–**	**–**	**(1,116)**	**(1,116)**
Other equity movements:					
MEREP share-based payment arrangements	28	**–**	**529**	**–**	**529**
Deferred tax benefit on MEREP share-based payment arrangements	28	**–**	**2**	**–**	**2**
Transfer from share-based payments reserve on unexercised awards	28	**–**	**(8)**	**8**	**–**
Transfer from share-based payments reserve on vesting of MEREP awards	27, 28	**419**	**(419)**	**–**	**–**
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	27, 28	**2**	**(2)**	**–**	**–**
		683	**102**	**(1,108)**	**(323)**
Balance as at 31 Mar 2021		**11,063**	**1,158**	**17,154**	**29,375**

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

Statements of cash flows

For the financial year ended 31 March 2021

		CONSOLIDATED		COMPANY	
	Notes	2021 $m	2020 $m	2021 $m	2020 $m
Cash flows generated from operating activities					
Interest income and expense:					
Received		**3,992**	5,114	**554**	829
Paid		**(1,919)**	(3,375)	**(628)**	(906)
Fee, commissions and other income and charges:					
Received		**6,246**	7,609	**14**	20
Paid		**(1,983)**	(1,792)	**(8)**	–
Operating lease income received		**1,026**	1,728	**–**	–
Dividends and distributions received		**148**	383	**601**	848
Operating expenses paid:					
Employment expenses		**(4,647)**	(4,841)	**(4)**	(2)
Other operating expenses including occupancy, non-salary technology and brokerage, commission and trading-related fee expenses		**(1,872)**	(2,958)	**(1)**	(6)
Income tax paid		**(790)**	(1,043)	**(345)**	(390)
Changes in operating assets:					
Loan assets and due to/due from subsidiaries		**(14,056)**	(15,487)	**520**	3,024
Assets under operating lease		**(388)**	(487)	**–**	–
Other assets		**100**	(666)	**(38)**	48
Trading assets, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities), segregated funds and trading income		**(1,495)**	3,232	**–**	–
Changes in operating liabilities:					
Deposits		**17,179**	10,920	**(5)**	–
Borrowings		**(2,798)**	5,973	**(2,821)**	1,653
Debt issued		**4,138**	7,736	**2,288**	(1,230)
Other liabilities		**(57)**	69	**–**	–
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		**30**	426	**–**	–
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		**(28)**	(422)	**–**	–
Net cash flows generated from operating activities	29	**2,826**	12,119	**127**	3,888
Cash flows generated from/(utilised in) investing activities					
Net proceeds from/(payments for) financial investments		**149**	(1,156)	**–**	–
Associates, joint ventures, subsidiaries and businesses:					
Proceeds from disposal or capital return, net of cash deconsolidated		**4,248**	4,156	**534**	6,298
Payments for the acquisition or additional capital contribution, net of cash acquired		**(1,092)**	(4,661)	**–**	(9,146)
Property, plant and equipment, right-of-use assets, investment property and intangible assets:					
Proceeds from disposals		**359**	81	**–**	–
Payments for acquisitions		**(761)**	(1,165)	**–**	–
Net cash flows generated from/(utilised in) investing activities		**2,903**	(2,745)	**534**	(2,848)
Cash flows generated from/(utilised in) financing activities					
Proceeds from the issue of ordinary shares		**–**	1,670	**–**	1,660
Loan capital:					
Issuance		**4,419**	–	**725**	–
Redemption		**(1,271)**	(429)	**(531)**	–
Dividends and distributions paid		**(861)**	(2,122)	**(855)**	(2,093)
Payments for the acquisition of treasury shares	27	**–**	(607)	**–**	(607)
Non-Controlling interests:					
Redemption of Macquarie Income Securities		**(400)**	–	**–**	–
Receipts from non-controlling interests		**25**	413	**–**	–
Net cash flows generated from/(utilised in) financing activities		**1,912**	(1,075)	**(661)**	(1,040)
Net increase in cash and cash equivalents		**7,641**	8,299	**–**	–
Cash and cash equivalents at the beginning of the financial year	29	**28,960**	18,867	**–**	–
Effect of exchange rate movements on cash and cash equivalents		**(3,108)**	1,794	**–**	–
Cash and cash equivalents at the end of the financial year	29	**33,493**	28,960	**–**	–

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

Notes to the financial statements

For the financial year ended 31 March 2021

Note 1
Basis of preparation

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

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

(i) Compliance with IFRS as issued by the IASB

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

(ii) Basis of measurement

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

- financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL), financial assets classified as fair value through other comprehensive income (FVOCI) and financial instruments that have been designated as FVTPL (DFVTPL)
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships
- non-current assets and disposal groups that have been classified as held for sale and where a disposal group has been impaired to its fair value less costs to sell
- commodity inventories that are measured at fair value less costs to sell in accordance with the broker-trader exemption
- certain other non-financial assets and liabilities 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 notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Consolidated Entity and the consolidated Financial Report such as:

- determining the appropriate business model for a group of financial assets which includes determining the level at which the business model condition is applied and whether past or expected sales activity is consistent with a held to collect business model (Note 44(vii))
- assessing whether the cash flows generated by a financial asset constitute solely payments of principal and interest (SPPI) may require the application of judgement, particularly for certain subordinated or non-recourse positions, and in the determination of whether compensation for early termination of a contract is reasonable (Note 44(vii))
- the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss, including the determination of significant increase in credit risk (SICR), forecasts of economic conditions and the weightings assigned thereto (Note 44(xxii) and Note 13)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including the reversal thereof (Note 44(i), Note 44(xxii), Note 14 and Note 17)
- the timing and amount of impairment of goodwill and other identifiable intangible assets and, where applicable, the reversal thereof (Note 44(xxii) and Note 16)
- fair value of assets and liabilities including the determination of non-recurring fair values and accounting for day 1 profits or losses for financial instruments (Note 44(vii), Note 44(x) and Note 38)
- distinguishing between whether assets or a business is acquired under a business combination, particularly the determination of whether a substantive process exists that, together with an integrated set of activities and assets, significantly contributes to the ability to create an output (Note 44(ii))
- determination of significant influence over associates, joint control over arrangements and control over subsidiaries, including the assessment of whether certain rights are protective or substantive in nature, whether these rights are held in the capacity as agent or principal, and whether the level of involvement in an investee's relevant activities is sufficient to significantly affect the returns generated (Note 44(i))
- recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities can require significant judgement, particularly where the recoverability of such tax balances relies on the estimation of future taxable profits and management's determination of the likelihood that uncertain tax positions will be accepted by the relevant taxation authority (Note 44(vi), Note 4 and Note 18)
- recognition and measurement of certain revenue streams including performance fees from Macquarie-managed funds and other capital market investments and transactions (Note 44(iv))
- recognition and measurement of provisions related to actual and potential claims, determination of contingent liabilities, and supplemental rent, maintenance liabilities and end of lease compensation (Note 44(iv), Note 44(xvii) and Note 33)
- the application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 44(x) and Note 35)
- the timing of derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 44(i)).

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

Note 1
Basis of preparation continued

(iii) Critical accounting estimates and significant judgements continued

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 and 30 September 2020 financial statements. Those processes identified that expected credit losses (Note 13) and the assessment of the impairment of non-financial assets (Note 15 and Note 16) required continued judgement as a result of the impact of COVID-19.

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

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

(i) AASB Revised Conceptual Framework for Financial Reporting

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

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

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

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

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

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

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

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

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

Note 1
Basis of preparation continued

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

Impacts on financial reporting

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

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

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

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

(iii) Other amendments made to existing standards

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

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Note 2				
Operating profit before income tax				
Net interest income/(expense)				
Interest and similar income				
Effective interest rate method[1]	**3,632**	4,411	**554**	828
Other	**333**	745	**–**	–
Interest and similar expense[2]	**(1,770)**	(3,297)	**(602)**	(893)
Net interest income/(expense)	**2,195**	1,859	**(48)**	(65)
Fee and commission income				
Base and other asset management fees[3]	**2,305**	2,356	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**858**	1,060	**–**	–
Brokerage and other trading-related fee income	**816**	870	**–**	–
Performance fees	**660**	821	**–**	–
Other fee and commission income	**537**	730	**14**	14
Total fee and commission income	**5,176**	5,837	**14**	14
Net trading income[4]				
Commodities[5],[6]	**2,750**	1,793	**–**	–
Equities	**399**	647	**–**	–
Credit, interest rate, foreign exchange and other products	**333**	421	**(3)**	296
Net trading income	**3,482**	2,861	**(3)**	296
Net operating lease income				
Rental income	**949**	1,748	**–**	–
Depreciation and other operating lease-related charges	**(483)**	(1,003)	**–**	–
Net operating lease income	**466**	745	**–**	–
Share of net (losses)/profits from associates and joint ventures[7]	**(3)**	95	**–**	–

(1) Includes interest income of $3,500 million (2020: $4,228 million) in the Consolidated Entity and $554 million (2020: $828 million) in the Company on financial assets measured at amortised cost and $132 million (2020: $183 million) in the Consolidated Entity on financial assets measured at FVOCI. As part of business model assessment, certain loan assets in Company's books have been reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI). Refer to Note 37 *Measurement categories of financial instruments.*
(2) Includes interest expense on financial liabilities measured at amortised cost calculated using effective interest method of $1,734 million (2020: $3,196 million) in the Consolidated Entity and $602 million (2020: $893 million) in the Company.
(3) Includes $2,011 million (2020: $2,053 million) of base fee income.
(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships; fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk and foreign currency gains and losses on foreign currency-denominated monetary assets and liabilities. Refer to Note 44(x) *Derivative instruments and hedging activities.*
(5) Includes $679 million (2020: $701 million) of transportation, storage and certain other trading-related costs.
(6) Includes $47 million (2020: $41 million) depreciation on right-of-use (ROU) assets held for trading-related business.
(7) Includes the Consolidated Entity's equity-accounted share of impairments on aircraft in Macquarie AirFinance. Refer to Note 14 *Interests in associates and joint ventures.*

Note 2
Operating profit before income tax continued

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Credit and other impairment (charges)/reversal				
Credit impairment (charges)/reversal				
Loan assets	**(323)**	(618)	**–**	–
Other assets	**(50)**	(81)	**12**	1
Margin money and settlement assets	**(42)**	(71)	**–**	–
Loans to associates and joint ventures	**(17)**	(13)	**–**	–
Undrawn credit commitments and financial guarantees	**(9)**	(24)	**6**	(3)
Financial investments	**5**	(12)	**–**	–
Gross credit impairment (charges)/reversal	**(436)**	(819)	**18**	(2)
Recovery of loans previously written off	**2**	14	**–**	–
Net credit impairment (charges)/reversal	**(434)**	(805)	**18**	(2)
Other impairment (charges)/reversal				
Interests in associates and joint ventures	**65**	(119)	**–**	–
Intangible and other non-financial assets	**(155)**	(116)	**–**	–
Total other impairment charges	**(90)**	(235)	**–**	–
Total credit and other impairment (charges)/reversal	**(524)**	(1,040)	**18**	(2)
Other operating income and charges				
Investment income				
Net gain/(loss) on:				
Interests in associates and joint ventures	**1,063**	1,235	**–**	–
Equity investments	**215**	76	**–**	–
Debt investments	**5**	(38)	**–**	–
Non-financial assets	**492**	35	**–**	–
Disposal of businesses and subsidiaries[(1),(2)]	**239**	291	**167**	–
Change of control, joint control and/or significant influence	**9**	113	**–**	–
Dividends from subsidiaries	**–**	–	**601**	848
Total investment income	**2,023**	1,712	**768**	848
Subsidiaries held for investment purposes[(3)]				
Net operating revenue[(4)]	**354**	467	**–**	–
Expenses[(5)]	**(504)**	(573)	**–**	–
Net loss incurred by subsidiaries held for investment purposes	**(150)**	(106)	**–**	–
Other income and charges	**109**	362	**(7)**	11
Total other operating income and charges	**1,982**	1,968	**761**	859
Net operating income	**12,774**	12,325	**742**	1,102

(1) Company includes gain on sale of Macquarie's service entities to MBL.
(2) Includes gains on disposal of businesses of $120 million (2020: $261 million) and gain on disposal of subsidiaries of $119 million (2020: $30 million).
(3) Subsidiaries held for investment purposes are consolidated entities that are held with the ultimate intention to sell as part of Macquarie's investment activities.
(4) Includes revenue of $968 million (2020: $858 million) after deduction of $614 million (2020: $391 million) related to cost of goods sold.
(5) Includes employment expenses, depreciation and amortisation expenses and other operating expenses.

Note 2
Operating profit before income tax continued

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Employment expenses				
Salary and related costs including commissions, superannuation and performance-related profit share	**(4,522)**	(4,395)	**(4)**	(5)
Share-based payments[1]	**(582)**	(586)	**–**	–
Provision for long service leave and annual leave	**(86)**	(20)	**–**	–
Total compensation expenses	**(5,190)**	(5,001)	**(4)**	(5)
Other employment expenses including on-costs, staff procurement and staff training	**(327)**	(322)	**–**	–
Total employment expenses	**(5,517)**	(5,323)	**(4)**	(5)
Brokerage, commission and trading-related fee expenses				
Brokerage and other trading-related fee expenses	**(643)**	(722)	**–**	–
Other fee and commission expenses	**(236)**	(242)	**–**	–
Total brokerage, commission and trading-related fee expenses	**(879)**	(964)	**–**	–
Occupancy expenses				
Lease expenses[2]	**(172)**	(200)	**–**	–
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements (Note 15)	**(67)**	(72)	**–**	–
Other occupancy expenses	**(143)**	(128)	**–**	–
Total occupancy expenses	**(382)**	(400)	**–**	–
Non-salary technology expenses				
Information services	**(216)**	(218)	**–**	–
Depreciation on own use assets: equipment (Note 15)	**(27)**	(26)	**–**	–
Service provider and other non-salary technology expenses[3]	**(538)**	(505)	**–**	–
Total non-salary technology expenses	**(781)**	(749)	**–**	–
Other operating expenses				
Professional fees	**(495)**	(505)	**–**	–
Indirect and other taxes	**(154)**	(138)	**–**	–
Advertising and promotional expenses	**(100)**	(110)	**–**	–
Amortisation of intangible assets	**(63)**	(70)	**–**	–
Audit fees	**(55)**	(40)	**–**	–
Communication expenses	**(30)**	(29)	**–**	–
Travel and entertainment expenses	**(17)**	(183)	**–**	–
Depreciation on own use assets: infrastructure assets (Note 15)	**(9)**	(27)	**–**	–
Other expenses	**(385)**	(333)	**(4)**	(5)
Total other operating expenses	**(1,308)**	(1,435)	**(4)**	(5)
Total operating expenses	**(8,867)**	(8,871)	**(8)**	(10)
Operating profit before income tax	**3,907**	3,454	**734**	1,092

(1) Includes share-based payment related expenses of $50 million (2020: $3 million gain) for cash settled awards.
(2) Includes $159 million (2020: $167 million) of depreciation on ROU assets relating to property leases.
(3) Includes $9 million (2020: $12 million) of depreciation on ROU assets relating to technology leases.

Note 3
Segment reporting

(i) Operating segments

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

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

During the current year, Cash Equities was transferred from CGM to Macquarie Capital. Comparatives have been reclassified to reflect this reorganisation between the Operating Groups.

The financial information disclosed relates to the Consolidated Entity's ordinary activities.

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

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income and multi-asset solutions
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance[1] products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms, as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a range of tailored specialised asset finance solutions across a variety of industries and asset classes
- **Macquarie Capital** has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, and providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors. It also has global capability in the development and investment in infrastructure and energy projects and companies, and in relation to renewable energy projects, the supply of green energy solutions to corporate clients. Additionally, Macquarie Capital's equities brokerage business provides clients with access to equity research, sales, execution capabilities and corporate access.

The Corporate segment, which is not considered an Operating Group, comprises head office and Central Service Groups, including Group Treasury. As applicable, the Corporate segment holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups.

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

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

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

Internal funding arrangements

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

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

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

(1) Includes general plant and equipment.

Note 3
Segment reporting continued

(i) Operating segments continued

Transactions between Operating Segments

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

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

Accounting for derivatives that hedge interest rate risk

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

Central Service Groups

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

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

Performance-related profit share and share-based payments expense

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

Income tax

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

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

Reportable segment assets

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

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Note 3
Segment reporting continued

(i) Operating segments continued

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment:

	Macquarie Asset Management $m	Banking and Financial Services $m
Net interest and trading (expense)/income	**(249)**	**1,746**
Fee and commission income/(expense)	**2,921**	**419**
Net operating lease income	**79**	**–**
Share of net (losses)/profits of associates and joint ventures	**(12)**	**(3)**
Credit and other impairment reversal/(charges)	**85**	**(115)**
Other operating income and charges	**699**	**30**
Internal management revenue/(charge)	**31**	**1**
Net operating income	**3,554**	**2,078**
Total operating expenses	**(1,474)**	**(1,307)**
Operating profit/(loss) before income tax	**2,080**	**771**
Income tax expense	**–**	**–**
(Profit)/loss attributable to non-controlling interests	**(6)**	**–**
Net profit/(loss) attributable to the ordinary equity holders of Macquarie Group Limited	**2,074**	**771**
Reportable segment assets	**5,927**	**90,226**
Net interest and trading (expense)/income	(402)	1,728
Fee and commission income/(expense)	3,207	445
Net operating lease income	380	–
Share of net profits/(losses) of associates and joint ventures	224	2
Credit and other impairment charges	(231)	(148)
Other operating income and charges	465	8
Internal management revenue/(charge)	89	2
Net operating income	3,732	2,037
Total operating expenses	(1,554)	(1,267)
Operating profit/(loss) before income tax	2,178	770
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(1)	–
Net profit/(loss) attributable to the ordinary equity holders of Macquarie Group Limited	2,177	770
Reportable segment assets	8,434	76,776

Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
			CONSOLIDATED 2021
3,856	**69**	**255**	**5,677**
485	**1,387**	**(36)**	**5,176**
383	**–**	**4**	**466**
43	**(35)**	**4**	**(3)**
(237)	**(229)**	**(28)**	**(524)**
153	**1,025**	**75**	**1,982**
(5)	**31**	**(58)**	**–**
4,678	**2,248**	**216**	**12,774**
(2,077)	**(1,614)**	**(2,395)**	**(8,867)**
2,601	**634**	**(2,179)**	**3,907**
–	**–**	**(899)**	**(899)**
–	**17**	**(4)**	**7**
2,601	**651**	**(3,082)**	**3,015**
94,972	**19,342**	**35,186**	**245,653**
			CONSOLIDATED 2020
2,957	(59)	496	4,720
630	1,592	(37)	5,837
360	–	5	745
24	(198)	43	95
(243)	(282)	(136)	(1,040)
97	1,397	1	1,968
15	61	(167)	–
3,840	2,511	205	12,325
(2,102)	(1,765)	(2,183)	(8,871)
1,738	746	(1,978)	3,454
–	–	(728)	(728)
–	17	(11)	5
1,738	763	(2,717)	2,731
126,612	23,778	20,202	255,802

Note 3
Segment reporting continued

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

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

	Macquarie Asset Management $m	Banking and Financial Services $m	Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
						CONSOLIDATED 2021
Fee and commission income/(expense)						
Base and other asset management fees	**2,090**	**212**	**3**	**–**	**–**	**2,305**
Mergers and acquisitions, advisory and underwriting fees	**18**	**–**	**12**	**839**	**(11)**	**858**
Brokerage and other trading-related fee income	**36**	**47**	**209**	**524**	**–**	**816**
Performance fees	**653**	**–**	**–**	**7**	**–**	**660**
Other fee and commission income/(expense)	**124**	**160**	**261**	**17**	**(25)**	**537**
Total fee and commission income/(expense)	**2,921**	**419**	**485**	**1,387**	**(36)**	**5,176**
						CONSOLIDATED 2020
Fee and commission income/(expense)						
Base and other asset management fees	2,132	219	5	–	–	2,356
Mergers and acquisitions, advisory and underwriting fees	53	–	18	1,000	(11)	1,060
Brokerage and other trading-related fee income	10	50	251	559	–	870
Performance fees	821	–	–	–	–	821
Other fee and commission income/(expense)	191	176	356	33	(26)	730
Total fee and commission income/(expense)	3,207	445	630	1,592	(37)	5,837

Note 3
Segment reporting continued

(iii) Products and services

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

- **Financial markets**: trading in fixed income, equities, foreign exchange and commodities and broking services
- **Lending**: corporate and structured finance, banking activities, home loans, asset financing and leasing
- **Capital markets**: capital raising and advisory services, underwriting, facilitation and principal lending and investments
- **Asset and wealth management**: distribution and management of funds and wealth management products.

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Revenue from external customers		
Financial markets	**6,023**	6,039
Lending	**4,350**	5,472
Capital markets	**3,814**	4,116
Asset and wealth management	**3,208**	3,585
Total revenue from external customers(1)	**17,395**	19,212

(iv) Geographical areas

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

	CONSOLIDATED 2021		CONSOLIDATED 2020	
	Revenue from external customers $m	Non-current assets(2) $m	Revenue from external customers $m	Non-current assets(2) $m
Americas(3)	**6,370**	**3,146**	5,457	4,359
Australia	**5,425**	**2,183**	7,049	2,663
Europe, Middle East and Africa(4)	**4,041**	**5,790**	5,408	9,268
Asia Pacific	**1,559**	**557**	1,298	581
Total	**17,395**	**11,676**	19,212	16,871

(v) Major customers

The Consolidated Entity does not rely on any major customers.

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, operating income from subsidiaries held for investment purposes, share of net profits/(losses) of associates and joint ventures, income associated with investing activities and other operating income.
(2) Non-current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and right-of-use assets and investment properties.
(3) Includes external revenue generated in the United States of America of $5,979 million (2020: $5,053 million).
(4) Includes external revenue generated in the United Kingdom of $2,943 million (2020: $4,266 million).

Note 4
Income tax expense

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
(i) Income tax (expense)/benefit				
Current tax expense	**(1,021)**	(1,027)	**37**	(95)
Deferred tax benefit/(expense)	**122**	299	**(16)**	(9)
Total income tax (expense)/benefit	**(899)**	(728)	**21**	(104)
(ii) Reconciliation of income tax expense to *prima facie* tax expense				
Prima facie income tax expense on operating profit[1]	**(1,172)**	(1,036)	**(220)**	(327)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:				
Rate differential on offshore income	**302**	375	**62**	15
Intra-group dividend	**–**	–	**180**	254
Other items	**(29)**	(67)	**(1)**	(46)
Total income tax (expense)/benefit	**(899)**	(728)	**21**	(104)
(iii) Tax (expense)/benefit relating to items of OCI				
FVOCI reserve	**(25)**	22	**–**	–
Own credit risk	**46**	(26)	**12**	–
Cash flow hedges and cost of hedging	**15**	(22)	**–**	–
Share of other comprehensive expense/(income) of associates and joint ventures	**14**	6	**–**	–
Total tax (expense)/benefit relating to items of OCI	**50**	(20)	**12**	–
(iv) Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities				
Property, plant and equipment	**(5)**	(1)	**–**	–
Intangible assets	**67**	(36)	**–**	–
Financial investments and interests in associates and joint ventures	**(62)**	87	**–**	–
Tax losses	**(69)**	(22)	**–**	–
Operating and finance lease assets	**55**	98	**–**	–
Loan assets and derivatives	**(21)**	28	**7**	–
Other assets and liabilities	**157**	145	**(23)**	(9)
Total deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)	**122**	299	**(16)**	(9)

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

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

Note 5
Dividends

(i) Dividends paid

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Ordinary share capital and exchangeable shares				
Final dividend paid (2020: $1.80 (2019: $3.60) per share)	637	1,224	633	1,215
Interim dividend paid (2021: $1.35 (2020: $2.50) per share)	486	884	483	878
Total dividends paid (Note 28)[(1)]	**1,123**	2,108	**1,116**	2,093

The 2021 interim and 2020 final dividends paid during the year were franked at 40%, based on tax paid at 30% (2020 interim dividend franked at 40% based on tax paid at 30%; 2019 final dividend franked at 45% based on tax paid at 30%). The dividends paid to the holders of the exchangeable shares were not franked (refer to Note 27 *Contributed equity* for information on exchangeable shares).

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Equity Shares issued by the Consolidated Entity in the current year (equity shares purchased from the market and reissued in earlier periods) were allocated as fully paid ordinary shares pursuant to the DRP, details of which are included in Note 27 *Contributed equity* and Note 29 *Notes to the statements of cash flows.*

(ii) Dividends not recognised at the end of the financial year

Since the end of the financial year, the Directors have resolved to pay a final dividend of $3.35 per fully paid ordinary share, 40% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 2 July 2021 from retained profits, but not recognised as a liability at the end of the year is $1,211 million[(2)]. This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 31 March 2021.

	CONSOLIDATED		COMPANY	
	2021	2020	2021	2020
Cash dividend per ordinary share (distribution of current year profits) ($ per share)	**4.70**	4.30	**4.70**	4.30
Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2020: 30%) ($m)[(3)]	**426**	264	**426**	264

(1) Includes $7 million (2020: $15 million) of dividend equivalent amount paid to Deferred Share Unit (DSU) holders as described in Note 32 *Employee equity participation.*
(2) This liability will be reduced to the extent that the Company issues shares to meet DRP elections.
(3) Amounts represent balances for franking accounts adjusted for franking credits/debits that will arise from the payment/receipt of income tax payables/receivables as at the end of the financial year respectively.

Note 6
Earnings per share

Basic earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders (adjusted by profit attributable to the dilutive potential ordinary shares) by the weighted average number of ordinary shares and potential ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

	CONSOLIDATED 2021	CONSOLIDATED 2020
	CENTS PER SHARE	
Basic earnings per share	**842.9**	791.0
Diluted earnings per share	**824.6**	764.5
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	$m	$m
Profit after income tax	**3,008**	2,726
(Profit)/loss attributable to non-controlling interests:		
Macquarie Income Securities	**–**	(12)
Other non-controlling interests	**7**	17
Total profit attributable to the ordinary equity holders of MGL	**3,015**	2,731
Less: profit attributable to participating unvested MEREP awards[1]	**(99)**	(95)
Total earnings used in the calculation of basic earnings per share	**2,916**	2,636
Add back:		
Profit attributable to dilutive participating unvested MEREP awards	**57**	58
Distributions to subordinated debt holders	**123**	139
Total earnings used in the calculation of diluted earnings per share	**3,096**	2,833
	NUMBER OF SHARES	
Total weighted average number of equity shares (net of treasury shares) adjusted for participating unvested MEREP awards used in the calculation of basic earnings per share[2]	**345,940,759**	333,234,377
Reconciliation of weighted average number of equity shares used in the calculation of basic and diluted earnings per share		
Weighted average number of equity shares used in the calculation of basic earnings per share	**345,940,759**	333,234,377
Weighted average number of potential dilutive equity shares:		
Unvested MEREP awards	**9,394,636**	10,146,584
Convertible subordinated debt (loan capital)[3]	**20,113,100**	27,178,986
Total weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share	**375,448,495**	370,559,947

(1) For details of MEREP awards, refer to Note 32 *Employee equity participation.*
(2) Includes weighted average number of additional equity shares issued during the current year under MEREP and DRP participation and the Macquarie Group Employee Share Plan (ESP) (2020: includes weighted average number of equity shares issued under the Institutional Private Placement and Share Purchase Plan).
(3) For details of loan capital included in potential dilutive equity shares, refer to Note 26 *Loan capital.*

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Note 7				
Trading assets				
Commodities	**6,988**	3,785	**–**	–
Equity securities				
Listed	**6,756**	4,437	**–**	–
Unlisted	**1**	2	**–**	–
Debt securities				
Commonwealth and foreign government securities	**4,385**	6,763	**–**	–
Corporate loans and securities	**269**	605	**–**	–
Treasury notes	**–**	318	**–**	–
Other debt securities	**2**	2	**–**	–
Commodity contracts	**3,345**	943	**–**	–
Total trading assets	**21,746**	16,855	**–**	–

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

Note 8
Margin money and settlement assets

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Security settlements	**7,253**	6,698	**–**	–
Margin money	**4,852**	7,238	**–**	–
Commodity settlements	**2,292**	2,457	**–**	–
Total margin money and settlement assets	**14,397**	16,393	**–**	–

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

Note 9
Derivative assets

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Held for trading	**19,478**	42,572	**2**	–
Designated in hedge relationships[1]	**1,164**	3,035	**–**	–
Total derivative assets	**20,642**	45,607	**2**	–

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

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 35 *Hedge Accounting*.

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Note 10				
Financial investments				
Equity securities				
Listed	**181**	255	**–**	–
Unlisted	**1,260**	1,046	**–**	–
Debt securities				
Bonds and Negotiable Certificate of Deposits (NCDs)	**7,676**	7,232	**–**	–
Other	**449**	397	**–**	–
Total financial investments	**9,566**	8,930	**–**	–

Of the above amounts, $2,309 million (2020: $3,446 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 11
Held for sale and other assets

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Held for sale assets				
Assets of disposal groups and interests in associates and joint ventures classified as held for sale[1]	**279**	1,634	**–**	–
Other assets				
Debtors and prepayments[2]	**2,948**	3,405	**2**	–
Commodity-related receivables	**1,661**	1,525	**–**	–
Property and other inventory[3]	**681**	785	**–**	–
Income tax receivables	**675**	807	**52**	16
Life investment linked contracts and other unitholder assets	**10**	307	**–**	–
Other	**31**	39	**–**	2
Total other assets	**6,006**	6,868	**54**	18

Of the above amounts, $4,801 million (2020: $7,564 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $53 million (2020: $18 million) by the Company.

(1) Subsequent to 31 March 2021, the Consolidated Entity disposed of certain assets that had been classified as held for sale for a pre-tax gain of approximately $450 million. The gain on disposal will be recognised by the Consolidated Entity in the half-year ending 30 September 2021.
(2) Includes $778 million (2020: $891 million) of fee and commission receivables and $331 million (2020: $270 million) of fee-related contract assets.
(3) Includes $356 million (2020: $240 million) of investment properties measured at fair value. The valuation is classified as Level 3 in the fair value hierarchy as shown in Note 38 *Fair values of financial assets and financial liabilities.*

Note 12
Loan assets

	CONSOLIDATED 2021			CONSOLIDATED 2020		
	Gross $m	ECL allowance[(1)] $m	Net $m	Gross $m	ECL allowance[(1)] $m	Net $m
Home loans[(2)]	**72,068**	**(67)**	**72,001**	56,653	(62)	56,591
Corporate, commercial and other lending	**18,117**	**(721)**	**17,396**	18,960	(557)	18,403
Asset financing[(2)]	**13,697**	**(342)**	**13,355**	16,866	(302)	16,564
Investment lending	**2,275**	**(1)**	**2,274**	2,562	(3)	2,559
Total loan assets	**106,157**	**(1,131)**	**105,026**	95,041	(924)	94,117

Of the above amounts, $27,422 million (2020: $27,811 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 36.1 *Credit risk*.

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

Repossessed collateral

In the event of a customer default, the Consolidated Entity may either take possession of the underlying collateral held as security and/or exercise its right to dispose of the customer's asset. At the reporting date the Consolidated Entity 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 financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment. Finance lease receivables do not include retail products such as hire purchase, mortgages related to movable property and consumer loans. The following table represents the maturity profile of the contractual undiscounted cashflows of the Consolidated Entity:

	CONSOLIDATED 2021			CONSOLIDATED 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	**1,532**	**(123)**	**1,409**	2,169	(209)	1,960
Between one and two years	**1,142**	**(87)**	**1,055**	1,599	(144)	1,455
Between two and three years	**751**	**(56)**	**695**	1,112	(100)	1,012
Between three and four years	**396**	**(30)**	**366**	641	(59)	582
Between four and five years	**130**	**(9)**	**121**	282	(26)	256
Later than five years	**43**	**(1)**	**42**	68	(3)	65
Total	**3,994**	**(306)**	**3,688**	5,871	(541)	5,330

(1) The ECL allowance carried against loan assets measured at FVOCI is not represented in the table as the allowance is included in reserves. Refer to Note 13 *Expected credit losses.*
(2) Includes $11,344 million (2020: $16,402 million) held by consolidated Structured Entities (SEs), which are available as security to note holders and debt providers.

Note 13
Expected credit losses

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

Model inputs

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

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

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

The key model inputs used in measuring the ECL include:

- exposure at default (EAD): The EAD represents the estimated exposure in the event of a default
- probability of default (PD): The calculation of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for both retail and wholesale portfolios are also adjusted for FLI
- loss given default (LGD): The LGD associated with the PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios.

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 CreditWatch are classified as stage II or, if defaulted, as stage III.

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

Retail exposures

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

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

Wholesale exposures

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

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

For both retail and wholesale portfolios:

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

Definition of default

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

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

Note 13
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 $450 million. These judgements are reviewed by FMG and RMG at each reporting date.

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

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

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

Refinement of 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 is available, management exercises judgement when determining the duration, severity and impact of the macroeconomic scenarios used by the Consolidated Entity.

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

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

The scenarios for each of the key regions where Macquarie's ECL is derived have been set out below. 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.

Note 13
Expected credit losses continued

Forward Looking Information (FLI) continued

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$1,450 million (2020: $1,400 million)[(1)]	Probable	**Global:** The baseline assumes the global economic recovery continues through the first half of 2021, helped by the continuation of localised health policies and enduring fiscal and monetary stimulus across most economies. Job retention schemes and other policy measures are expected to ease gradually through 2021 as recoveries take hold, ensuring that official unemployment rates remain stable as economic activity returns gradually towards normalised levels. In developed markets outside Europe, GDP is expected to return to pre-COVID-19 levels by mid-2021. **Australia:** The Australian economy is expected to recover ahead of other economies having experienced a relatively small contraction in 2020. Equity markets are expected to continue to stabilise and return to modest growth reaching pre-COVID-19 peaks at the end of 2021. With localised restrictions generally eased, unemployment rates continue to fall from a peak of 7.1% in mid-2020 declining to ~5% by the end of 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 13
Expected credit losses continued

Scenario	Weighting	Expectation
Downside A 100% weighting to this scenario would result in a of total expected credit loss provision on balance sheet at the reporting date of ~$2,200 million (2020: $1,900 million)[(1)]	Possible	**Global:** The downside assumes the COVID-19 recovery is more protracted as fresh outbreaks trigger renewed lockdown measures, while delayed or ineffectual vaccination programmes fail are unable to facilitate a return to pre-COVID economic environments. The impact to global economic output is significantly less than the initial wave in early 2020, but the recovery trajectory is slow as low interest rates and limited fiscal capacity constrain the scope for further stimulus. Employment rates in this scenario stagnate at elevated levels across developed markets throughout 2021. With equity markets reversing 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 the recognition of total expected credit loss provision on balance sheet at the reporting date of ~$1,300 million (2020: $1,200 million)[(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.

Note 13
Expected credit losses continued

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

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI $m	Other[2] $m	Total exposure $m	Amortised cost $m	FVOCI $m	Other $m	Total ECL allowance $m
								AS AT 31 MARCH 2021
Cash and bank balances	**18,425**	**–**	**–**	**18,425**	**–**	**–**	**–**	**–**
Cash collateral on securities borrowed and reverse repurchase agreements	**9,284**	**19,488**	**–**	**28,772**	**–**	**–**	**–**	**–**
Margin money and settlement assets	**14,136**	**–**	**–**	**14,136**	**71**	**–**	**–**	**71**
Financial investments	**18**	**7,632**	**–**	**7,650**	**–**	**6**	**–**	**6**
Held for sale and other assets	**2,455**	**6**	**331**	**2,792**	**158**	**–**	**–**	**158**
Loan assets	**105,404**	**317**	**–**	**105,721**	**1,131**	**50**	**–**	**1,181**
Loans to associates and joint ventures	**635**	**90**	**–**	**725**	**99**	**31**	**–**	**130**
Undrawn credit commitments, letters of credit and financial guarantees[3]	**–**	**–**	**8,695**	**8,695**	**–**	**–**	**57**	**57**
Total	**150,357**	**27,533**	**9,026**	**186,916**	**1,459**	**87**	**57**	**1,603**
								AS AT 31 MARCH 2020
Cash and bank balances	9,717	–	–	9,717	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	6,689	23,064	–	29,753	–	–	–	–
Margin money and settlement assets	15,909	–	–	15,909	71	–	–	71
Financial investments	–	7,345	–	7,345	–	15	–	15
Held for sale and other assets	3,879	–	270	4,149	143	–	–	143
Loan assets	92,342	1,592	–	93,934	924	182	–	1,106
Loans to associates and joint ventures	799	117	–	916	88	62	–	150
Undrawn credit commitments, letters of credit and financial guarantees[3]	–	–	6,792	6,792	–	–	56	56
Total	129,335	32,118	7,062	168,515	1,226	259	56	1,541

(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.
(3) Gross exposure for undrawn credit commitments letters of credit and financial guarantees (not measured at FVTPL) represents the notional values of these contracts.

Note 13
Expected credit losses continued

The Company's ECL provision primarily relates to a $19 million (March 2020: $37 million) provision on related party receivables of $19,260 million (March 2020: $29,466 million) that are presented as Due from Subsidiaries in the Statement of financial position and certain off balance sheet exposures of $4,402 million (March 2020: $5,877 million). Change in the ECL allowance is primarily due to the decrease in underlying exposures during the year as well as decrease in PD due to improved ratings.

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

	Margin money and settlement assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
Balance as at 1 Apr 2019	–	91	102	618	119	29	959
Credit impairment charge (Note 2)	71	12	81	618	13	24	819
Amount written off, previously provided for	–	–	(19)	(156)	–	–	(175)
Foreign exchange, reclassifications and other movements	–	(88)	(21)	26	18	3	(62)
Balance as at 31 Mar 2020	71	15	143	1,106	150	56	1,541
Credit impairment charge/(reversal) (Note 2)	**42**	**(5)**	**50**	**323**	**17**	**9**	**436**
Amount written off, previously provided for	**(33)**	**(2)**	**(12)**	**(159)**	**(21)**	**–**	**(227)**
Foreign exchange, reclassifications and other movements	**(9)**	**(2)**	**(23)**	**(89)**	**(16)**	**(8)**	**(147)**
Balance as at 31 Mar 2021	**71**	**6**	**158**	**1,181**	**130**	**57**	**1,603**

The $62 million increase in ECL allowance during the year reflects the net impact of impairment charges partially offset by amounts written off, and foreign exchange movements with the appreciation of the Australian dollar during the year.

ECL on loan assets

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

		LIFETIME ECL		
	Stage I 12 month ECL $m	Stage II Not credit impaired $m	Stage III Credit impaired $m	Total ECL Allowance $m
Balance as at 1 Apr 2019	158	199	261	618
Transfers during the year	27	(13)	(14)	–
Credit impairment charge (Note 2)	97	170	351	618
Amount written off, previously provided for	–	–	(156)	(156)
Foreign exchange, reclassifications and other movements	3	2	21	26
Balance as at 31 Mar 2020	285	358	463	1,106
Transfers during the year	**17**	**(24)**	**7**	**–**
Credit impairment charge /(reversal) (Note 2)	**143**	**(44)**	**224**	**323**
Amount written off, previously provided for	**–**	**–**	**(159)**	**(159)**
Foreign exchange, reclassifications and other movements	**(24)**	**(10)**	**(55)**	**(89)**
Balance as at 31 Mar 2021	**421**	**280**	**480**	**1,181**

Note 14
Interests in associates and joint ventures

	CONSOLIDATED 2021 $m	2020 $m
Equity investments with no provisions for impairment	**2,652**	6,415
Equity investments with provisions for impairment		
Gross carrying value	**1,415**	1,600
Less: provisions for impairment	**(505)**	(648)
Equity investments with provisions for impairment	**910**	952
Total equity investments in associates and joint ventures(1)	**3,562**	7,367
Loans to associates and joint ventures	**731**	1,040
Less: credit impairment charges(2)	**(99)**	(88)
Total loans to associates and joint ventures	**632**	952
Total interests in associates and joint ventures(3),(4)	**4,194**	8,319

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

Disclosure of principal associates

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

Associates(5)	Carrying value 2021 ($m)	Carrying value 2020 ($m)	Ownership interest	Nature of activities	Financial reporting date
Macquarie Infrastructure Corporation (MIC)	**517**	763	**16.11%**	**Infrastructure business**	**31 December**
Macquarie AirFinance Limited	**569**	789	**50.00%**	**Aircraft leasing**	**31 March**

Macquarie Infrastructure Corporation

The Consolidated Entity holds a 16.11% interest in Macquarie Infrastructure Corporation (MIC) under the MAM Operating Group and accounts for it as an interest in associate on the basis of exercising significant influence through its advisory contract, Board representation and secondment of key management. MIC owns, operates and invests in a portfolio of infrastructure businesses and is listed on the New York Stock Exchange.

During the financial year, indicators of impairment reversal have been identified which resulted in the Consolidated Entity calculating the investment's recoverable amount. The recoverable amount has been determined using management's estimate of the future risk-adjusted cash flows with significant inputs including net proceeds on realisation of the remaining portfolio businesses. Both the investment's fair value less costs of disposal (FVLCD) and value-in-use (VIU) resulted in a $125 million impairment reversal, which was recognised in the income statement as part of net Other impairment charges.

(1) Includes investments in Macquarie-managed funds of $1,076 million (2020: $1,185 million). The Consolidated Entity classifies its investments in these 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 credit losses of $31 million (2020: $62 million) which have been recognised on loans to associates classified as FVOCI. The loans are measured at fair value through OCI hence these expected credit losses have also been recognised in reserves.
(3) Comprises $3,039 million (2020: $6,959 million) relating to interests in associates and $1,155 million (2020: $1,360 million) relating to interests in joint ventures.
(4) Financial statements of associates and joint ventures have various 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 associates at the reporting date.

Note 14
Interests in associates and joint ventures continued

Macquarie AirFinance Limited

During the prior year, the Consolidated Entity disposed of its Macquarie AirFinance Limited (MAF) under the MAM Operating Group to a newly formed joint venture of which the Consolidated Entity held a 75% interest (Refer to Note 42 *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.

Note 15
Property, plant and equipment and right-of-use assets

	CONSOLIDATED 2021			CONSOLIDATED 2020		
	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m
Assets for own use						
Furniture, fittings and leasehold improvements	**1,020**	**(633)**	**387**	1,049	(676)	373
Land and buildings	**531**	**(43)**	**488**	381	(26)	355
Infrastructure assets	**489**	**(134)**	**355**	273	(129)	144
Equipment	**129**	**(90)**	**39**	175	(123)	52
Total assets for own use	**2,169**	**(900)**	**1,269**	1,878	(954)	924
Assets under operating lease						
Meters	**2,184**	**(814)**	**1,370**	2,454	(910)	1,544
Aviation	**967**	**(124)**	**843**	1,193	(79)	1,114
Telecommunications	**734**	**(602)**	**132**	1,139	(715)	424
Other	**526**	**(85)**	**441**	315	(98)	217
Total assets under operating lease	**4,411**	**(1,625)**	**2,786**	5,101	(1,802)	3,299
Right-of-use assets						
Property	**825**	**(295)**	**530**	875	(173)	702
Commodity storage	**129**	**(78)**	**51**	129	(45)	84
Other	**59**	**(19)**	**40**	51	(16)	35
Total right-of-use assets	**1,013**	**(392)**	**621**	1,055	(234)	821
Total property, plant and equipment and right-of-use assets	**7,593**	**(2,917)**	**4,676**	8,034	(2,990)	5,044

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

Note 15
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:

	Furniture, fittings and leasehold improvements $m	Land and buildings $m	Infrastructure assets $m	Equipment $m	Total $m
Assets for own use					
Balance as at 1 Apr 2019	155	305	165	39	664
Acquisitions and additions	277	80	129	40	526
Disposals	(10)	(29)	(102)	(1)	(142)
Reclassifications and other adjustments	(3)	1	(7)	(4)	(13)
Impairments	–	–	(39)	–	(39)
Foreign exchange movements	22	3	29	5	59
Depreciation expense[(1)]	(68)	(5)	(31)	(27)	(131)
Balance as at 31 Mar 2020	373	355	144	52	924
Acquisitions and additions	**184**	**151**	**186**	**24**	**545**
Disposals	**(13)**	**(11)**	**(5)**	**(1)**	**(30)**
Reclassifications and other adjustments	**(52)**	**2**	**84**	**1**	**35**
Impairments	**–**	**–**	**(8)**	**–**	**(8)**
Foreign exchange movements	**(37)**	**(4)**	**(36)**	**(8)**	**(85)**
Depreciation expense[(1)]	**(68)**	**(5)**	**(10)**	**(29)**	**(112)**
Balance as at 31 Mar 2021	**387**	**488**	**355**	**39**	**1,269**

	Aviation $m	Meters $m	Tele-communications $m	Rail cars $m	Other $m	Total $m
Assets under operating lease						
Balance as at 1 Apr 2019	1,027	1,248	966	612	184	4,037
Acquisitions and additions	27	420	347	–	105	899
Disposals	(47)	–	(330)	–	(26)	(403)
Reclassifications and other adjustments[(2)]	(9)	(51)	–	(589)	(19)	(668)
Impairments	(3)	–	(11)	(40)	–	(54)
Foreign exchange movements	153	142	1	44	22	362
Depreciation expense	(34)	(215)	(549)	(27)	(49)	(874)
Balance as at 31 Mar 2020	1,114	1,544	424	–	217	3,299
Acquisitions and additions	**3**	**304**	**(1)**	**–**	**296**	**602**
Disposals	**(10)**	**–**	**(92)**	**–**	**(18)**	**(120)**
Reclassifications and other adjustments	**(13)**	**(98)**	**(3)**	**–**	**32**	**(82)**
Impairments	**(3)**	**–**	**(14)**	**–**	**(0)**	**(17)**
Foreign exchange movements	**(211)**	**(163)**	**(1)**	**–**	**(33)**	**(408)**
Depreciation expense	**(37)**	**(217)**	**(181)**	**–**	**(53)**	**(488)**
Balance as at 31 Mar 2021	**843**	**1,370**	**132**	**–**	**441**	**2,786**

(1) Includes depreciation expense of $1 million (2020: $4 million) on infrastructure assets, $2 million (2020: $1 million) on equipment and $6 million (2020: $1 million) on buildings, furniture, fittings and leasehold improvements relating to subsidiaries held for investment purposes and presented under other operating income and charges in Note 2 *Operating profit before income tax.*
(2) $589 million of Rail assets were reclassified to held for sale in March 2020 and were subsequently disposed of.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 15
Property, plant and equipment and right-of-use assets continued

	Property $m	Commodity storage $m	Other $m	Total $m
Right-of-use assets				
Balance as at 1 Apr 2019	616	92	29	737
Additions	226	26	51	303
Disposals	(15)	–	(7)	(22)
Depreciation	(165)	(41)	(17)	(223)
Foreign exchange movements	53	12	2	67
Other adjustments	(13)	(5)	(23)	(41)
Balance as at 31 Mar 2020	702	84	35	821
Additions	**102**	**31**	**29**	**162**
Disposals	**(23)**	**(3)**	**(5)**	**(31)**
Depreciation	**(161)**	**(47)**	**(13)**	**(221)**
Impairment	**(11)**	**–**	**–**	**(11)**
Foreign exchange movements	**(79)**	**(15)**	**(3)**	**(97)**
Other adjustments	**–**	**1**	**(3)**	**(2)**
Balance as at 31 Mar 2021	**530**	**51**	**40**	**621**

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

	CONSOLIDATED	
	2021 $m	2020 $m
Assets under operating lease		
Within one year	**269**	422
Between one and two years	**230**	149
Between two and three years	**181**	95
Between three and four years	**116**	36
Between four and five years	**38**	12
Later than five years	**326**	11
Total future minimum lease payments receivable	**1,160**	725

Note 16
Intangible assets

	CONSOLIDATED 2021			CONSOLIDATED 2020		
	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m
Goodwill	**1,354**	**(33)**	**1,321**	1,975	(258)	1,717
Management rights and licenses	**486**	**(133)**	**353**	551	(126)	425
Customer and servicing contracts	**557**	**(216)**	**341**	619	(219)	400
Intangible assets with indefinite lives	**272**	**-**	**272**	337	–	337
Other identifiable intangible assets	**464**	**(208)**	**256**	637	(248)	389
Total intangible assets	**3,133**	**(590)**	**2,543**	4,119	(851)	3,268

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

Goodwill and intangible assets with indefinite lives comprises of $926 million (2020: $1,239 million) related to the Consolidated Entity's integrated consolidated businesses and $667 million (2020: $815 million) related to the Consolidated Entity's subsidiaries held for investment purposes.[1]

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 with reference to external valuations or 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.

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

	Goodwill $m	Management rights and license $m	Customer and servicing contracts $m	Intangible assets with indefinite lives $m	Other identifiable intangible assets $m	Total $m
Balance as at 1 Apr 2019	1,032	222	25	291	461	2,031
Acquisitions[2]	722	221	366	–	258	1,567
Disposals, reclassifications and other adjustments	(237)	–	–	–	(326)	(563)
Impairment	(1)	1	(2)	–	(20)	(22)
Amortisation[3]	–	(27)	(25)	–	(48)	(100)
Foreign exchange movements	201	8	36	46	64	355
Balance as at 31 Mar 2020	1,717	425	400	337	389	3,268
Acquisitions[2]	**2**	**13**	**52**	**-**	**334**	**401**
Disposals, reclassifications and other adjustments[4]	**(46)**	**(1)**	**(1)**	**-**	**(360)**	**(408)**
Impairment	**(106)**	**(11)**	**-**	**-**	**(9)**	**(126)**
Amortisation[3]	**-**	**(36)**	**(37)**	**-**	**(41)**	**(114)**
Foreign exchange movements	**(246)**	**(37)**	**(73)**	**(65)**	**(57)**	**(478)**
Balance as at 31 Mar 2021	**1,321**	**353**	**341**	**272**	**256**	**2,543**

(1) Subsidiaries held for investment purposes are consolidated entities that are held with the ultimate intention to sell as part of Macquarie's investment activities.
(2) Includes asset acquisitions. Refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses* for intangible assets acquired as part of business combinations.
(3) Includes amortisation of $51 million (2020: $30 million) presented under Net trading income and other income and $63 million (2020: $70 million) under Other operating expenses in the Income statement.
(4) Includes purchase price adjustments and reclassifications as held for sale.

Note 17
Investments in subsidiaries

	COMPANY 2021 $m	COMPANY 2020 $m
Investments at cost with no provisions for impairment	**19,076**	19,463
Investment at cost with provisions for impairment	**14,249**	14,249
Less: provisions for impairment[1]	**(1,896)**	(1,896)
Investment with provisions for impairment	**12,353**	12,353
Total investments in subsidiaries	**31,429**	31,816

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

The following are the Consolidated Entity's significant subsidiaries:

BANK GROUP	NON-BANK GROUP: Macquarie Financial Holdings Pty Limited (MFHPL)[2]	NON-BANK GROUP: Macquarie Asset Management Holdings Pty Ltd (MAMH)[3]
Australia		
• Macquarie B.H. Pty Ltd • Macquarie Bank Limited • Macquarie Equities Limited • Macquarie Finance Pty Limited • Macquarie Group Services Australia Pty Ltd • Macquarie Group Treasury Funding Pty Limited • Macquarie International Finance Limited • Macquarie Investment Management Ltd • Macquarie Leasing Pty. Limited • Macquarie Life Limited	• Macquarie Financial Holdings Pty Limited • Macquarie Corporate Holdings Pty Limited • Macquarie Capital (Australia) Limited • Macquarie Principal Finance Pty Limited • Macquarie Securities (Australia) Limited	• Macquarie Asset Management Holdings Pty Limited • Macquarie Financial Products Management Limited • Macquarie Investment Management Australia Limited • Macquarie Investment Management Global Limited • Macquarie Specialised Asset Management Ltd
Asia Pacific		
• Macquarie Commodities Trading (Shanghai) Co, Ltd (China) (Reporting date 31 December) • Macquarie Emerging Markets Asian Trading Pte. Limited (Singapore) • Macquarie Futures (Singapore) Pte. Limited (Singapore)	• Macquarie Capital (Singapore) Pte. Limited (Singapore) • Macquarie Capital Limited (Hong Kong) • Macquarie Capital Securities (India) Private Limited (India) • Macquarie Capital Securities (Philippines) Inc. (Philippines) • Macquarie Capital Securities (Singapore) Pte. Limited (Singapore) • Macquarie Securities (NZ) Limited (New Zealand) • Macquarie Securities (Thailand) Limited (Thailand) • Macquarie Securities Korea Limited (Korea)	

(1) In accordance with its accounting policies, the Company reviewed its investments in subsidiaries for indicators of impairment and, where applicable, reversal of impairment. Where its investments had indicators of impairment, the investments' carrying value was compared to its recoverable value which was determined as the higher of VIU and fair value less cost to sell (valuation). The valuations, which are classified as Level 3 in the fair value hierarchy (as defined in Note 38 *Fair value of financial assets and financial liabilities*), have been calculated using a valuation technique with significant inputs including the subsidiary's maintainable earnings, growth rates and relevant earnings' multiples. Taking into account the valuations and broader macroeconomic risks, no impairment loss or reversal of previously recognised impairment losses was recognised by the Company during the year.
(2) Within the Non-Bank Group, MFHPL is the holding company for Macquarie Capital and Macquarie Transportation business of MAM.
(3) Within the Non-Bank Group, MAMH is the holding company for MAM business (except for Macquarie Transportation business and certain other excluded assets).

Note 17
Investments in subsidiaries continued

BANK GROUP	NON-BANK GROUP	
	Macquarie Financial Holdings Pty Limited (MFHPL)[1]	Macquarie Asset Management Holdings Pty Ltd (MAMH)[2]
Europe, Middle East and Africa		
• Macquarie Bank Europe Designated Activity Company (Ireland) • Macquarie Bank International Limited (United Kingdom) • Macquarie Commodities (UK) Limited (United Kingdom) • Macquarie Corporate and Asset Finance 1 Limited (United Kingdom) • Macquarie Corporate and Asset Finance 2 Limited (United Kingdom) • Macquarie Equipment Finance Designated Activity Company (Ireland) • Macquarie Equipment Funding Limited (Ireland) • Macquarie Investments (UK) Limited (United Kingdom) • Macquarie Leasing Limited (United Kingdom) • Macquarie Meters 3 (UK) Limited (United Kingdom)	• Bilbao Offshore Topco Limited (United Kingdom) • Macquarie (UK) Group Services Limited (United Kingdom) • Macquarie Asset Management Europe S.À R.L. (Luxembourg) • Macquarie Capital (Europe) Limited (United Kingdom) • Macquarie Capital (Ireland) Designated Activity Company (Ireland) • Macquarie Capital France Société Anonyme (France) (Reporting date 31 December) • Macquarie Commodities Trading Sa (Switzerland) • Macquarie Euro Limited (United Kingdom) • Macquarie Insurance Facility Luxembourg S.À R.L. (Luxembourg) • Macquarie Internationale Investments Limited (United Kingdom) • Macquarie Investment Management Europe Limited (United Kingdom) • Macquarie Transportation Finance Limited (United Kingdom)	• Green Investment Group Management Limited (United Kingdom) • Macquarie Infrastructure And Real Assets (Europe) Limited (United Kingdom) • Macquarie Private Debt Europe Limited (Ireland)
Americas		
• Macquarie Energy Canada Ltd. (Canada) • Macquarie Energy LLC (United States) • Macquarie Financial Holdings (USA) LLC (United States) • Macquarie Futures USA LLC (United States) • Macquarie Inc. (United States) • Macquarie Physical Metals (USA) Inc. (United States)	• Macquarie Capital (USA) Inc. (United States) • Macquarie Capital Markets Canada Ltd./Marchés Financiers Macquarie Canada Ltée. (Canada) • Macquarie Holdings (U.S.A.) Inc. (United States) • Macquarie Infrastructure Partners II GP LLC (United States) • Macquarie US Gas Supply LLC (United States)	• Delaware Investments Management Company, LLC (United States) • Macquarie Investment Management Advisers (United States) • Macquarie Management Holdings, Inc. (United States)

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

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in the subsidiaries listed above is 100%.

The subsidiaries listed above have a 31 March reporting date, except for specific cases covered above.

(1) Within the Non-Bank Group, MFHPL is the holding company for Macquarie Capital and MAM's transportation business.
(2) Within the Non-Bank Group, MAMH is the holding company for MAM's transportation business (except for MAM's transportation business and certain excluded assets).

Note 18
Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Other assets and liabilities	**1,237**	1,112	**–**	–
Tax losses	**185**	254	**–**	–
Financial investments and interests in associates and joint ventures	**149**	170	**–**	–
Property, plant and equipment	**81**	85	**–**	–
Operating and finance leases	**17**	73	**–**	–
Loan assets and derivatives	**60**	45	**7**	–
Intangible assets	**135**	103	**–**	–
Set-off of deferred tax liabilities	**(392)**	(502)	**(7)**	–
Net deferred tax assets	**1,472**	1,340	**–**	–
Other assets and liabilities	**(64)**	(83)	**(11)**	–
Financial investments and interests in associates and joint ventures	**(37)**	(9)	**–**	–
Property, plant and equipment	**(3)**	(2)	**–**	–
Operating and finance lease assets	**(302)**	(420)	**–**	–
Loan assets and derivatives	**(54)**	(54)	**–**	–
Intangible assets	**(136)**	(168)	**–**	–
Set-off of deferred tax assets	**392**	502	**7**	–
Net deferred tax liabilities	**(204)**	(234)	**(4)**	–

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

Potential tax assets of approximately $389 million (2020: $436 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 $34 million (2020: $71 million) that will expire within two years, $80 million (2020: $64 million) that will expire in 2–5 years, $109 million (2020: $96 million) that will expire in 5–10 years and $261 million (2020: $331 million) that will expire in 10–20 years. $1,060 million (2020: $1,555 million) do not expire and can be carried forward indefinitely.

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Note 19				
Trading liabilities				
Equity securities				
Listed	**6,205**	5,534	**–**	–
Commodities and debt securities	**–**	10	**–**	–
Total trading liabilities	**6,205**	5,544	**–**	–
Note 20				
Margin money and settlement liabilities				
Margin money	**12,368**	13,894	**–**	–
Security settlements	**7,490**	6,607	**–**	–
Commodity settlements	**2,266**	2,314	**–**	–
Total margin money and settlement liabilities	**22,124**	22,815	**–**	–
Note 21				
Derivative liabilities				
Held for trading	**16,804**	37,953	**1**	2
Designated in hedge relationships[1]	**775**	446	**–**	–
Total derivative liabilities	**17,579**	38,399	**1**	2
Note 22				
Deposits				
Interest bearing deposits				
Call	**63,951**	48,244	**–**	–
Term	**9,289**	12,385	**42**	48
Non-interest bearing deposits	**10,959**	6,713	**4**	3
Total deposits	**84,199**	67,342	**46**	51
Note 23				
Held for sale and other liabilities				
Held for sale liabilities				
Liabilities of disposal groups classified as held for sale	**18**	260	**–**	–
Other liabilities				
Accrued charges, employment-related liabilities and provisions[2]	**4,002**	3,803	**90**	47
Creditors	**1,475**	1,402	**19**	53
Income tax payable	**1,075**	984	**312**	357
Lease liabilities	**784**	1,038	**–**	–
Commodity-related payables	**604**	314	**–**	–
Life investment linked contracts and other unitholder liabilities[3]	**12**	307	**–**	–
Other	**259**	179	**2**	3
Total other liabilities	**8,211**	8,027	**423**	460

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 35 *Hedge accounting*.
(2) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and change in provisions during the current year in these matters did not have and is not currently expected to have a material impact on the Consolidated Entity.
(3) Certain liabilities were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 24 Debt issued				
Bonds, NCDs and commercial paper[1]	**58,258**	61,611	**12,625**	13,145
Structured notes[2]	**2,722**	2,945	**607**	108
Total debt issued[3],[4]	**60,980**	64,556	**13,232**	13,253

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Reconciliation of debt issued by major currency				
(In Australian dollar equivalent)				
United States dollar	**33,903**	33,102	**8,715**	9,835
Australian dollar	**18,166**	21,046	**966**	969
Euro	**5,788**	6,627	**2,589**	1,665
Swiss franc	**1,031**	1,260	**–**	–
Japanese yen	**587**	840	**418**	621
Pound sterling	**580**	1,028	**–**	–
Chinese renminbi	**491**	120	**424**	–
Norwegian krone	**157**	165	**–**	–
Korean won	**107**	123	**–**	–
Hong Kong dollar	**83**	103	**34**	42
South African rand	**–**	7	**–**	–
Other	**87**	135	**86**	121
Total debt issued	**60,980**	64,556	**13,232**	13,253

(1) The Consolidated Entity includes $9,994 million (2020: $13,665 million) payable to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security.
(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates, other assets or credit risk of a counterparty.
(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued measured at DFVTPL for the Consolidated Entity is $3,350 million (2020: $3,615 million) and for the Company is $606 million (2020: $129 million). This amount is based on the final notional amount rather than the fair value. Refer to Note 37 *Measurement categories of financial instruments* for the carrying value of debt issued measured at DFVTPL.
(4) The Consolidated Entity includes cumulative fair value loss of $34 million (2020: $119 million gain) due to changes in own credit risk on DFVTPL debt securities recognised in directly OCI.

Note 25
Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by Australian Prudential Regulation Authority (APRA).

A wholly owned subsidiary of the Company, MBL, is accredited by APRA to apply the Basel III Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management and non-financial operations. Level 3 consists of the Level 2 group, other bank entities excluded from Level 2 plus the Non-Bank Group. In determining the capital requirements, transactions internal to the Consolidated Entity are eliminated.

As an APRA authorised and regulated Non-Operating Holding Company (NOHC), the Company is required to maintain minimum regulatory capital calculated as the sum of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWA plus Tier 1 deductions using prevailing APRA ADI Prudential Standards
- the Non-Bank Group capital requirement, using the Consolidated Entity's ECAM.

The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity has satisfied all internally and externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the financial year.

Note 26
Loan capital

Subordinated debt

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

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

Contract feature	Macquarie Group Capital Notes	Macquarie Group Capital Notes
Code	MCN2	MCN3
Issuer	Macquarie Group Limited	Macquarie Group Limited
Par value	$100	$100
Currency	AUD	AUD
Carrying value at the reporting date	$Nil	$1,000 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost
Issue date	18 December 2015	7 June 2018
Interest rate	180-day BBSW plus a fixed margin of 5.15% per annum, adjusted for franking credits	90-day BBSW plus a fixed margin of 4.00% per annum, adjusted for franking credits
Interest payment frequency	Semi-annually in arrears	Quarterly in arrears
Interest payment	Discretionary, non-cumulative	Discretionary, non-cumulative
Dividend stopper	Yes	Yes
Outstanding notes at reporting date	Nil[1]	10 million
Maturity	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument
Convertible into ordinary shares	Yes	Yes
Convertible in issuer shares	MGL	MGL
Mandatory conversion date	18 March 2024	15 December 2027
Maximum number of shares on conversion	32,644,295	43,798,178
Optional exchange dates	• 17 March 2021 • 17 September 2021 • 17 March 2022 • earlier in specified circumstances at the discretion of MGL subject to APRA approval	• 16 December 2024 • 16 June 2025 • 15 December 2025 • earlier in specified circumstances at the discretion of MGL subject to APRA approval
Other exchange events	• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)
Capital treatment	Eligible hybrid capital	Eligible hybrid capital

(1) On 17 March 2021, MBL redeemed the MCN2. Nil MCN2 were exchanged during the period before their redemption.

Macquarie Group Capital Notes	Macquarie Group Capital Notes	Macquarie Additional Capital Securities	Macquarie Bank Capital Notes
MCN4	MCN5	MACS	BCN2
Macquarie Group Limited	Macquarie Group Limited	Macquarie Bank Limited	Macquarie Bank Limited
$100	$100	n/a	$100
AUD	AUD	USD	AUD
$905 million	$725 million	$US750 million/($A1,055 million)	$641 million
Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost
27 March 2019	17 March 2021	8 March 2017	2 June 2020
90-day BBSW plus a fixed margin of 4.15% per annum, adjusted for franking credits	90-day BBSW plus a fixed margin of 2.90% per annum, adjusted for franking credits	6.125% per annum	180-day BBSW plus a fixed margin of 4.70% per annum, adjusted for franking credits
Quarterly in arrears	Quarterly in arrears	Semi-annually in arrears	Quarterly in arrears
Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative
Yes	Yes	MBL only	MBL only
9.05 million	7.25 million	–(2)	6.41 million
Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual, redeemed subject to APRA's written approval, and at the discretion of MBL in limited circumstances	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument
Yes	Yes	Yes	Yes
MGL	MGL	MGL	MGL
10 September 2029	18 September 2030	n/a	21 December 2028
35,439,961	24,641,431	56,947,286	30,530,834
• 10 September 2026 • 10 March 2027 • 10 September 2027 • earlier in specified circumstances at the discretion of MGL subject to APRA approval	• 18 September 2027 • 18 March 2028 • 18 September 2028 • earlier in specified circumstances at the discretion of MGL subject to APRA approval	n/a	• 21 December 2025 • 21 June 2026 • 21 December 2026 • earlier in specified circumstances at the discretion of MGL subject to APRA approval
• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	• acquisition date (where a party acquires control of MBL or MGL) • where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 capital ratio falls below 5.125%	• acquisition date (where a party acquires control of MBL or MGL) • where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 Capital ratio falls below 5.125%
Eligible hybrid capital	Eligible hybrid capital	Additional Tier 1 capital	Additional Tier 1 capital

(2) The MACS are held by a custodian on behalf of the security holders.

Note 26
Loan capital continued

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

The table below discloses the carrying value of loan capital at 31 March. Where these instruments are designated in fair value hedge accounting relationships, the carrying value includes the fair value hedge adjustment, refer to Note 35 *Hedge accounting*. The contractual undiscounted cash flows are disclosed in Note 36 *Financial risk management*.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Original contractual maturity of loan capital:				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	**81**	97	**5**	5
Subordinated debt instruments with fixed repayment obligations:				
21 September 2020	**–**	826	**–**	–
7 April 2021	**1,086**	1,386	**–**	–
10 June 2025	**1,049**	1,333	**–**	–
3 June 2030	**903**	–	**–**	–
28 May 2030	**750**	–	**–**	–
3 March 2036	**1,280**	–	**–**	–
Instruments with conditional repayment obligations:				
MCN2	**–**	531	**–**	531
MCN3	**1,000**	1,000	**1000**	1,000
MCN4	**905**	905	**905**	905
MCN5	**725**	–	**725**	–
BCN2	**641**	–	**–**	–
MACS	**1,055**	1,370	**–**	–
	9,475	7,448	**2,635**	2,441
Less: directly attributable issue costs	**(52)**	(34)	**(29)**	(25)
Total loan capital	**9,423**	7,414	**2,606**	2,416
Reconciliation of loan capital by major currency:				
(In Australian dollar equivalent)				
United States dollar	**5,439**	4,158	**–**	–
Australian dollar	**4,029**	2,438	**2,635**	2,441
Euro	**–**	852	**–**	–
Pound sterling	**7**	–	**–**	–
	9,475	7,448	**2,635**	2,441
Less: directly attributable issue costs	**(52)**	(34)	**(29)**	(25)
Total loan capital	**9,423**	7,414	**2,606**	2,416

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

Note 27
Contributed equity

	Notes	2021 Number of shares	2020 Number of shares	2021 Total $m	2020 Total $m
				CONSOLIDATED	
Ordinary share capital				**10,166**	9,290
Treasury shares				**(1,633)**	(1,446)
Other equity				**(2)**	7
Total contributed equity				**8,531**	7,851
(i) Ordinary share capital[1]					
Balance at the beginning of the financial year		**354,381,396**	340,382,738	**9,290**	7,546
Issue of shares on retraction of exchangeable shares		**1,730**	5,175	**–**	–
Issue of shares pursuant to the Institutional Private Placement[2]		**–**	8,333,333	**–**	1,000
Issue of shares pursuant to the Share Purchase Plan (SPP)[3]		**–**	5,660,150	**–**	679
Issue of shares pursuant to the MEREP[4]		**5,163,874**	–	**579**	–
Issue of shares pursuant to the Dividend Reinvestment Plan[5]		**2,261,063**	–	**258**	–
Issue of shares pursuant to the ESP scheme[6]		**13,314**	–	**2**	–
For employee MEREP awards:					
Transfer from share-based payments reserve on vesting of MEREP awards	28	**–**	–	**419**	557
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	28	**–**	–	**8**	52
Transfer from treasury shares for MEREP awards exercised		**–**	–	**(392)**	(533)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	28	**–**	–	**–**	(2)
Others[7]		**–**	–	**2**	(9)
Balance at the end of the financial year		**361,821,377**	354,381,396	**10,166**	9,290
(ii) Treasury shares[8]					
Balance at the beginning of the financial year		**(14,391,059)**	(16,433,421)	**(1,446)**	(1,372)
Acquisition of shares for employee MEREP awards[4]		**(5,163,874)**	(4,960,137)	**(579)**	(607)
Transfer to ordinary share capital for MEREP awards exercised		**4,419,011**	7,002,499	**392**	533
Purchase of shares for allocation under DRP scheme		**–**	(1,123,770)	**–**	(142)
Allocation of shares under DRP scheme		**–**	1,123,770	**–**	142
Purchase of shares for allocation under ESP scheme		**–**	(10,717)	**–**	(1)
Allocation of shares under ESP scheme		**–**	10,717	**–**	1
Balance at the end of the financial year		**(15,135,922)**	(14,391,059)	**(1,633)**	(1,446)
(iii) Other equity					
(a) Exchangeable shares[9]					
Balance at the beginning of the financial year		**100,501**	105,984	**7**	7
Retraction of exchangeable shares		**(1,832)**	(5,483)	**–**	–
Balance at the end of the financial year		**98,669**	100,501	**7**	7
(b) Other					
Balance at the beginning of the financial year		**–**	–	**–**	–
Transaction cost relating to Macquarie Income Securities (MIS)[10]		**–**	–	**(9)**	–
Closing balance of exchangeable shares		**–**	–	**(9)**	–

(1) Ordinary shares have no par value.
(2) On 3 September 2019, MGL issued 8,333,333 fully paid ordinary shares at a price of $120 per share.
(3) On 30 September 2019, MGL issued 5,660,150 fully paid ordinary shares under the Share Purchase Plan offered to eligible existing shareholders with a registered address in Australia or New Zealand.
(4) On 9 June 2020 and 4 August 2020 MGL issued 5,024,608 and 139,266 fully paid ordinary shares respectively, at a price of $112.15 per share that were allocated under the MEREP plan that were accounted for as treasury shares.
(5) On 3 July 2020 and 22 December 2020, MGL issued 1,958,357 and 302,706 fully paid ordinary shares respectively at a price of $110.47 and $139.08 per share to the DRP participative shareholders.
(6) On 9 December 2020, MGL issued 13,314 fully paid ordinary shares at a price of $139.70 per share to the ESP holders.
(7) Includes transaction costs and related tax, where applicable.
(8) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and is presented as Treasury shares. The Consolidated Entity has resolved to issue additional Treasury shares to satisfy MEREP requirements of approximately $619 million, expected to occur on or around 9 June 2021. Ordinary shares will be purchased if issuing becomes impractical or inadvisable. For further information regarding the terms and conditions of MEREP refer to Note 32 *Employee equity participation*.
(9) The exchangeable shares were issued by subsidiaries as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity.
(10) Balance represents transaction costs relating to the original issuance of MIS which was transferred to Contributed equity on redemption of the MIS during the current year. The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020.

Note 27
Contributed equity continued

	Notes	2021 Number of shares	2020 Number of shares	2021 Total $m	2020 Total $m
					COMPANY
Ordinary share capital				12,696	11,826
Treasury shares				(1,633)	(1,446)
Total contributed equity				**11,063**	10,380
(i) Ordinary share capital[1]					
Opening balance of fully paid ordinary shares		**354,381,396**	340,382,738	**11,826**	10,139
Issue of shares pursuant to the Institutional Private Placement[2]		**–**	8,333,333	**–**	1,000
Issue of shares pursuant to the Share Purchase Plan (SPP)[3]		**–**	5,660,150	**–**	679
Issue of shares on retraction of exchangeable shares		**1,730**	5,175	**–**	1
Issue of shares pursuant to the MEREP[4]		**5,163,874**	–	**579**	–
Issue of shares pursuant to the Dividend Reinvestment Plan[5]		**2,261,063**	–	**258**	–
Issue of shares pursuant to the ESP Scheme[6]		**13,314**	–	**2**	–
For employee MEREP awards:					
Transfer of MEREP expense from share-based payments reserve on vesting of MEREP awards	28	**–**	–	**419**	557
Transfer of additional deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	28	**–**	–	**2**	4
Transfer from treasury shares for awards withdrawn/exercised		**–**	–	**(392)**	(533)
Transfer from share-based payments capital reduction reserve on vested and forfeited awards	28	**–**	–	**–**	(2)
Others[7]		**–**	–	**2**	(19)
Closing balance of fully paid ordinary shares		**361,821,377**	354,381,396	**12,696**	11,826
(ii) Treasury shares[8]					
Opening balance		**(14,391,059)**	(16,433,421)	**(1,446)**	(1,372)
Acquisition of shares for employee MEREP awards		**(5,163,874)**	(4,960,137)	**(579)**	(607)
Transfer to ordinary share capital for awards withdrawn/exercised		**4,419,011**	7,002,499	**392**	533
Closing balance of treasury shares		**(15,135,922)**	(14,391,059)	**(1,633)**	(1,446)

(1) Ordinary shares have no par value.
(2) On 3 September 2019, MGL issued 8,333,333 fully paid ordinary shares at a price of $120 per share.
(3) On 30 September 2019, MGL issued 5,660,150 fully paid ordinary shares under the Share Purchase Plan offered to eligible existing shareholders with a registered address in Australia or New Zealand.
(4) On 9 June 2020 and 4 August 2020 , MGL issued 5,024,608 and 139,266 fully paid ordinary shares respectively, at a price of $112.15 per share that were allocated under the MEREP plan that were accounted for as treasury shares.
(5) On 3 July 2020 and 22 December 2020, MGL issued 1,958,357 and 302,706 fully paid ordinary shares respectively at a price of $110.47 and $139.08 per share to the DRP participative shareholders.
(6) On 9 December 2020, MGL issued 13,314 fully paid ordinary shares at a price of $139.70 per share to the ESP holders.
(7) Includes transaction costs and related tax, where applicable.
(8) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and is presented as Treasury shares. The Consolidated Entity has resolved to issue additional Treasury shares to satisfy MEREP requirements of approximately $619 million, expected to occur on or around 9 June 2021. Ordinary shares will be purchased if issuing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 32 *Employee equity participation*.

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

Note 28
Reserves, retained earnings and non-controlling interests

(i) Reserves

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Foreign currency translation and net investment hedge reserve				
Balance at the beginning of the financial year	**2,016**	824	**–**	–
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax[1]	**(1,710)**	1,192	**–**	–
Balance at the end of the financial year	**306**	2,016	**–**	–
FVOCI reserve				
Balance at the beginning of the financial year	**(72)**	9	**–**	–
Revaluation movement for the year, net of tax	**233**	(108)	**–**	–
Changes in allowance for ECL, net of tax	**(127)**	27	**–**	–
Balance at the end of the financial year	**34**	(72)	**–**	–
Share-based payments reserve				
Balance at the beginning of the financial year	**1,067**	1,086	**1,063**	1,035
MEREP share-based payment arrangements for the financial year	**529**	586	**–**	–
Deferred tax benefit on MEREP share-based payment arrangements	**50**	4	**2**	3
MEREP issued to employees of subsidiaries (Note 30)	**–**	–	**529**	586
Transfer to ordinary share capital on vesting of MEREP awards	**(419)**	(557)	**(419)**	(557)
Transfer of deferred tax benefit to ordinary share capital on vesting of MEREP awards	**(8)**	(52)	**(2)**	(4)
Transfer from share based payment reserve for awards provided for which the performance condition was not met following the vesting period[2]	**(8)**	–	**(8)**	–
Balance at the end of the financial year	**1,211**	1,067	**1,165**	1,063
Share-based payments capital reduction reserve[3]				
Balance at the beginning of the financial year	**(7)**	(9)	**(7)**	(9)
Transfer to ordinary share capital on vested awards	**–**	2	**–**	2
Balance at the end of the financial year	**(7)**	(7)	**(7)**	(7)
Cash flow hedge reserve				
Balance at the beginning of the financial year	**(90)**	(102)	**–**	–
Revaluation movement for the financial year, net of tax	**(13)**	(24)	**–**	–
Transferred to income statement on realisation, net of tax[4]	**6**	42	**–**	–
Transferred to share of reserves in associates and joint ventures	**–**	(6)	**–**	–
Balance at the end of the financial year	**(97)**	(90)	**–**	–
Cost of hedging reserve[5]				
Balance at the beginning of the financial year	**(10)**	(5)	**–**	–
Revaluation movement for the financial year, net of tax	**–**	(5)	**–**	–
Transferred to income statement on realisation, net of tax	**2**	–	**–**	–
Balance at the end of the financial year	**(8)**	(10)	**–**	–
Share of reserves in associates and joint ventures				
Balance at the beginning of the financial year	**(131)**	(30)	**–**	–
Share of other comprehensive losses of associates and joint ventures during the year, net of tax	**(22)**	(107)	**–**	–
Transferred from cash flow hedge reserve	**–**	6	**–**	–
Balance at the end of the financial year	**(153)**	(131)	**–**	–
Total reserves at the end of the financial year	**1,286**	2,773	**1,158**	1,056

(1) The current year movement represents the revaluation of the Group's unhedged investments in foreign operations primarily driven by the appreciation of the Australian dollar against the United States dollar. It excludes foreign exchange movements of $51 million attributable to non-controlling interest. Refer to Note 36.3 *Market Risk* for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.
(2) This relates to awards which were vested but not exercised as they have not met the performance hurdles criteria, and where the holder was not an employee of the Consolidated Entity at the vesting date. For details, refer to Note 32 *Employee equity participation*.
(3) The share based payment capital reduction reserve represents the capital distribution attributable to all the unvested MEREP awards on the disposal of the Sydney Airport. The reserve was created at the time of distribution, and will be transferred to ordinary share capital on vesting of the MEREP awards.
(4) Includes a $1 million loss (2020: $12 million loss) related to a previously designated hedge relationship for which the hedged future cash flows are no longer expected to occur.
(5) Relates to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.

Note 28
Reserves, retained earnings and non-controlling interests continued

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
(ii) Retained earnings				
Balance at the beginning of the financial year	**10,439**	9,758	**17,535**	18,629
Profit attributable to ordinary equity holders of MGL	**3,015**	2,731	**755**	988
Dividends paid on ordinary share capital and exchangeable shares (Note 5)	**(1,123)**	(2,108)	**(1,116)**	(2,093)
Loss on change in non-controlling ownership interest	**(1)**	(3)	**–**	–
Transferred from share-based payment reserve for unexercised awards(1)	**8**	–	**8**	–
Fair value changes attributable to own credit risk on debt classified at DFVTPL, net of tax	**(107)**	61	**(28)**	11
Balance at the end of the financial year	**12,231**	10,439	**17,154**	17,535
(iii) Non-controlling interests				
Macquarie Income Securities(2)				
4,000,000 MIS of $100 each	**–**	400	**–**	–
Less: transaction costs for original placement	**–**	(9)	**–**	–
Total Macquarie Income Securities	**–**	391	**–**	–
Other non-controlling interests(3)				
Share capital and partnership interests	**486**	437	**–**	–
Reserves(4)	**(59)**	(14)	**–**	–
Accumulated losses	**(124)**	(93)	**–**	–
Total other non-controlling interests	**303**	330	**–**	–
Total non-controlling interests	**303**	721	**–**	–

Distributions on MIS

The Macquarie Income Securities (MIS), which were stapled arrangements, which include perpetual preference shares issued by the Company, $12 million of distributions were paid and provided for in the previous year. The MIS were redeemed during the year on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020.

(1) This relates to awards which were vested but not exercised as they have not met the performance hurdles criteria. For details, refer to Note 32 *Employee equity participation.*
(2) The MIS were redeemed for cash of $400 million during April 2020. Following the redemption, original issuance cost of $9 million was re-attributed to contributed equity.
(3) Other non-controlling interests represents equity in subsidiaries that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.
(4) Includes non-controlling interest in the foreign currency translation reserve.

Note 29
Notes to the statements of cash flows

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
(i) Reconciliation of cash and cash equivalents				
Cash and cash equivalents at the end of the financial year are reflected in the related items in the Statement of financial position as follows:				
Cash and bank balances[1],[2]	**15,452**	6,838	**–**	–
Cash collateral on securities borrowed and reverse repurchase agreements	**17,606**	21,469	**–**	–
Financial investments	**430**	616	**–**	–
Held for sale assets	**5**	37	**–**	–
Cash and cash equivalents at the end of the financial year	**33,493**	28,960	**–**	–

(1) Amounts excluded from cash and cash equivalents but presented in the Statement of financial position as cash and bank balances primarily relate to $2,451 million (2020: $2,360 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and thus not available to meet the Consolidated Entity's short-term cash commitments.
(2) Cash and bank balances includes $1,506 million (2020: $947 million) of balances held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is subject to certain restrictions.

Note 29
Notes to the statements of cash flows continued

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
(ii) Reconciliation of profit after income tax to net cash flows generated from operating activities				
Profit after income tax	**3,008**	2,726	**755**	987
Adjustments to profit after income tax:				
Depreciation and amortisation	**925**	1,453	**–**	–
Expected credit losses and other impairment charges	**524**	1,040	**(18)**	2
Investment income and gain on sale of operating lease assets and other non-financial assets	**(1,968)**	(1,673)	**(167)**	–
Share-based payments expense	**529**	586	**–**	–
Share of net losses/ (profits) of associates and joint ventures	**3**	(95)	**–**	–
Changes in assets and liabilities:				
Carrying values of associates due to dividends received	**118**	356	**–**	–
Interest, fee and commission receivable and payable	**(253)**	513	**(27)**	(8)
Tax balances	**112**	(317)	**(366)**	(286)
Debtors, prepayments, accrued charges and creditors	**780**	(837)	**3**	(6)
Trading assets and liabilities, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities)[1]	**(5,070)**	309	**–**	–
Other assets and liabilities	**43**	(597)	**(38)**	48
Loan assets and related entities	**(14,056)**	(15,487)	**523**	2,728
Operating lease assets	**(388)**	(487)	**–**	–
Deposits	**17,179**	10,920	**(5)**	–
Borrowings	**(2,798)**	5,973	**(2,821)**	1,653
Debt issued	**4,138**	7,736	**2,288**	(1,230)
Net cash flows generated from operating activities	**2,826**	12,119	**127**	3,888

(iii) Non-cash financing activities

Non-cash transactions include the issue of ordinary shares of $579 million relating to the issue of shares to the MEREP trust under the MEREP plan, $260 million relating to issue of shares to shareholders under the DRP for settlement of the dividend liability and $2 million relating to issue of shares under the ESP during the year ended 31 March 2021. Refer to Note 27 *Contributed equity* for details.

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
(iv) Reconciliation of loan capital				
Balance at the beginning of the financial year	**7,414**	6,963	**2,416**	2,411
Cash flows:[2],[3]				
Issuance	**4,419**	–	**725**	–
Redemption	**(1,271)**	(429)	**(531)**	–
Non-cash changes:				
Foreign currency translation and other movements	**(1,139)**	880	**(4)**	5
Balance at the end of the financial year	**9,423**	7,414	**2,606**	2,416

(1) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.
(2) During the year ended 31 March 2021, the Consolidated Entity issued BCN2 ($641 million) and MCN5 ($725 million) and redeemed MCN2 ($531 million). These are perpetual securities which are eligible for conversion into a variable number of Consolidated Entity's ordinary shares on the scheduled mandatory exchange date, provided the exchange conditions are satisfied, unless redeemed, resold or written off earlier. Refer to Note 26 *Loan capital* for details.
(3) During the year ended 31 March 2021, the Consolidated Entity raised $3,053 million through the issue of tier 2 loan capital and redeemed $740 million of loan capital.

Note 30
Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of funding, deposit of funds, derivative transactions for managing and hedging market risks, the provision of management and administration services and the provision of guarantees.

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

A list of significant subsidiaries is set out in Note 17 *Investments in subsidiaries*.

The Company, as the ultimate parent entity of the Consolidated Entity, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in Note 44(vi) *Taxation*. Due from subsidiaries in the Company's separate Statement of financial position includes the amount of current tax asset assumed by the Company as the head entity and amount receivable by the Company under the tax funding agreement of the tax consolidated group.

	COMPANY	
	2021 $'000	2020 $'000
The following represents transaction balances with subsidiaries during the financial year:		
Interest income	**552,497**	826,715
Interest expense	**(2,882)**	(12,838)
Fee and commission income	**27,877**	13,580
Other operating expense	**(110,617)**	(54,391)
Gain on disposal of subsidiaries (Note 2)[1]	**167,370**	–
Dividends and distributions (Note 2)	**601,080**	847,628
Share based payments (Note 28)[2]	**529,122**	586,482
The following represents outstanding balances with subsidiaries as at financial year end:		
On Balance Sheet:		
Due from subsidiaries[3]	**22,227,171**	32,334,286
Due to subsidiaries[4]	**(2,204,221)**	(8,901,171)
Off Balance Sheet:		
Guarantees[5]	**(4,401,614)**	(5,877,316)

Performance related guarantee of $591,019 thousand (2020: $763,382 thousand) was provided to the Company by its subsidiary (MBL) for which collateral of a similar amount has been received from another subsidiary (MFHPL).

(1) Represents the gain on sale of Macquarie's service entities to MBL.
(2) Represents an increase in the share based payment reserve – refer to accounting policy (xxiii) Performance based remuneration.
(3) Due from subsidiaries primarily represents loans and receivables as per the terms of the funding arrangements under MLA, loans and receivables under bespoke funding agreements and trading-related balances including derivatives designated in hedge accounting relationships.
(4) Due to subsidiaries primarily represents the amounts in respect of MEREP awards offered to its subsidiaries' employees, loans and payables as per the terms of the funding arrangements under the MLA and trading-related balances including derivatives designated in hedge accounting relationships.
(5) Includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $6,270 million (2020: $7,898 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 30
Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions for managing and hedging market risks and the provision of management services.

Balances may arise from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures which are generally extended on a term basis and where appropriate may be either subordinated or collateralised.

During the financial year, the following amounts of income/(expense) resulted from transactions with the Consolidated Entity's associates and joint ventures:

	CONSOLIDATED	
	2021 $'000	2020 $'000
Interest income	**73,334**	122,436
Fee and commission income[1]	**1,589,838**	1,524,311
Brokerage, commission and trading-related expenses	**(14,984)**	(15,575)
Other income/(expenses)	**85,353**	(2,075)

Dividends and distributions of $118,230 thousand (2020: $356,000 thousand) received from associates were 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 and joint ventures, disclosed in Note 14 *Interests in associates and joint ventures*):

On Balance Sheet:		
Amounts receivable[2]	**413,022**	360,258
Amounts payable	**(101,917)**	(91,817)
Off Balance Sheet:		
Undrawn Commitments[3]	**(1,866,230)**	(1,699,116)

(1) Includes $611,751 thousand (2020: $598,707 thousand) of performance fees.
(2) Includes $299,692 thousand (2020: $230,252 thousand) of fee and commission receivable and fee-related contract assets from Macquarie-managed funds.
(3) Includes $598,371 thousand (2020: $432,836 thousand) of debt and equity commitments to Macquarie-managed funds.

Note 31
Key management personnel disclosure

Key management personnel (KMP)

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

Executive Voting Directors

S.R. Wikramanayake	CEO

Non-Executive Directors

P.H. Warne	Chairman
J.R. Broadbent AC	
G.M. Cairns[(1)]	
P.M. Coffey	
M.J. Coleman	
D.J. Grady AO	
R.J. McGrath	(appointed effective from 20 January 2021)
M. Roche	(appointed effective from 20 January 2021)
G.R. Stevens AC[(2)]	
N.M. Wakefield Evans	

Former Non-Executive Directors

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

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

Current Executives[(3)]

A.H. Harvey	CFO, Head of FMG
F. Herold[(4)]	Head of Macquarie Capital Principal Finance
N. O'Kane	Head of CGM
M.J. Reemst[(5)]	Macquarie Bank CEO
M.J. Silverton	Co-Head of Macquarie Capital (appointed to the Executive Committee effective from 1 June 2019)
N. Sorbara	COO, Head of COG
P.C. Upfold	CRO, Head of RMG
G.C. Ward	Deputy Managing Director and Head of BFS
D. Wong	Co-Head of Macquarie Capital (appointed to the Executive Committee effective from 1 June 2019)
M.S.W. Stanley	Head of MAM (ceased to be a member of the Executive Committee effective from 1 April 2021)

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)

The remuneration arrangements for all the persons listed above are described on pages 100 to 145 of the Remuneration Report, contained in the Directors' Report.

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

Note 31
Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS				LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		
	Salary and fees (including superannuation) $	Performance-related remuneration[1] $	Other benefits $	Total short-term employee benefits $	Restricted profit share including earnings on restricted profit share[2] $	Equity awards[3] $	PSUs[4] $	Total remuneration $
Executive Remuneration								
2021	**12,327,119**	**37,062,968**	**–**	**49,390,087**	**9,721,688**	**54,612,705**	**8,632,799**	**122,357,279**
2020	12,097,922	–	–	12,097,922	28,498,167	49,940,006	15,214,083	105,750,178
Non-Executive Remuneration								
2021	**3,999,048**	**–**	**10,000**	**4,009,048**	**–**	**–**	**–**	**4,009,048**
2020	4,227,750	–	12,000	4,239,750	–	–	–	4,239,750

Equity holdings of KMP and their related parties

The following tables set out details of MGL ordinary shares held during the financial year by KMP including their related parties, on a Consolidated Entity basis.

	Number of shares held by current KMP at 1 Apr	Number of shares held by new KMP at appointment date (after 1 Apr)	Shares received on withdrawal from MEREP	Other changes[5]	Number of shares held by KMP at date of resignation/ retirement (prior to 31 Mar)	Number of shares held as at 31 Mar
2021	**1,275,470**	**2,349**	**391,505**	**(315,072)**	**(51,354)**	**1,302,898**
2020	1,128,331	19,970	713,583	(404,977)	(181,437)	1,275,470

MEREP RSU Awards of KMP and their related parties

The following tables set out details of the MEREP RSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 138 to 143. Further details in relation to the MEREP RSU awards are disclosed in Note 32 *Employee equity participation*.

	Number of RSU awards held by current KMP at 1 Apr	Number of RSU awards held by new KMP at appointment date (after 1 Apr)	RSU awards granted during the financial year[6]	Vested RSU awards transferred to the KMP's shareholding during the financial year	Number of RSU awards held by KMP at the date of resignation/ retirement (prior to 31 Mar)	Number of RSU awards held as at 31 Mar
2021	**1,415,064**	**–**	**603,497**	**(268,752)**	**–**	**1,749,809**
2020	1,991,081	96,681	362,754	(468,558)	(566,894)	1,415,064

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.
(2) The amount of retained profit share held via the DPS plan including earnings on notional investments from retained profit share in prior financial years.
(3) The current year amortisation for equity awards calculated as described in Note 44(xxiii) *Performance based remuneration*.
(4) The current year amortisation for PSUs calculated as described in Note 44(xxiii) *Performance based remuneration*. The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.
(5) Includes on-market acquisitions and disposals.
(6) RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above for 2021 relate to the Consolidated Entity's performance in 2020.

Note 31
Key Management Personnel disclosure continued

MEREP DSU Awards of KMP and their related parties

The following tables set out details of the MEREP DSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 138 to 143. Further details in relation to the MEREP DSU awards are disclosed in Note 32 *Employee equity participation*.

	Number of DSU awards held by current KMP at 1 Apr	Number of DSU awards held by new KMP at appointment date	DSU awards granted during the financial year[1]	Vested DSU awards transferred to the KMP's shareholding during the financial year	Number of DSU awards held by KMP at the date of resignation/ retirement	Number of DSU awards held as at 31 Mar
2021	**447,479**	**–**	**130,711**	**(50,070)**	**–**	**528,120**
2020	251,081	146,212	105,036	(54,850)	–	447,479

MEREP PSU Awards of KMP and their related parties

The following tables set out details of MEREP PSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report on page 138 to 143. Further details in relation to the MEREP PSU awards are disclosed in Note 32 *Employee equity participation.*

	Number of PSU awards held by current KMPs at 1 Apr	Number of PSU awards held by new KMP at appointment date	PSU awards granted during the financial year[2]	Vested PSU awards transferred to KMP shareholding during the financial year	PSU awards for which performance hurdles were not met	PSU awards cancelled on termination	Number of PSU awards held by KMP at date of resignation/ retirement	Number of PSU awards held as at 31 Mar[3]
2021	**549,286**	**–**	**235,431**	**(72,360)**	**(72,361)**	**–**	**–**	**639,996**
2020	828,388	–	223,021	(189,875)	–	(14,081)	(298,167)	549,286

(1) DSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates.
(2) PSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates. PSUs disclosed as granted above for 2021 relate to the Consolidated Entity's performance in 2020.
(3) PSU awards vested and not exercised as at 31 March 2021: Nil (2020: Nil).

Note 31
Key Management Personnel disclosure continued

Details of share-based payment grant dates whose vesting periods affected compensation for the financial years ended 31 March 2021 and 31 March 2020.

		GRANT DATE	
Financial year grant relates to	Type of grant	Managing Director	All other KMP
2012	Retained DPS	15 August 2012	7 June 2012
2013	Retained DPS	15 August 2013	25 June 2013
2014	Retained DPS	15 August 2014	25 June 2014
2015	Retained DPS	17 August 2015	6 July 2015
	PSUs	17 August 2015	17 August 2015
2016	Retained DPS	15 August 2016	17 June 2016
	PSUs	15 August 2016	15 August 2016
2017	Retained DPS	15 August 2017	22 June 2017
	PSUs	15 August 2017	15 August 2017
2018	Retained DPS	15 August 2018	21 June 2018
	PSUs	15 August 2018	15 August 2018
2019	Retained DPS	15 August 2019	24 June 2019
	PSUs	15 August 2019	15 August 2019
2020	Retained DPS	4 August 2020	9 June 2020
	PSUs	4 August 2020	4 August 2020

Loans to Key Management Personnel and their related parties

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

Total for Key Management Personnel and their related parties	Opening balance as at 1 Apr $'000	Additions during the year $'000	Interest charged $'000	Repayments during the year $'000	Write-downs $'000	Closing balance as at 31 Mar $'000(1)
2021	**11,811**	**180**	**144**	**(698)**	**–**	**11,437**
2020	1,516	10,365	120	(190)	–	11,811

(1) Number of persons included in the aggregate as at 31 March 2021: 7 (2020: 7).

Note 32
Employee equity participation

MEREP

The Consolidated Entity continues to operate the MEREP in conjunction with other remuneration arrangements.

Award Types under the MEREP

Restricted Share Units (RSUs)

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

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

	NUMBER OF RSU AWARDS	
	2021	2020
RSUs on issue at the beginning of the financial year	**11,374,065**	13,478,950
Granted during the financial year	**4,218,981**	4,125,167
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(3,599,807)**	(5,938,611)
Forfeited during the financial year	**(341,367)**	(291,441)
RSUs on issue at the end of the financial year	**11,651,872**	11,374,065
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**72**	3,225

The weighted average fair value of the RSU awards granted during the financial year was $124.30 (2020: $126.73).

Deferred Share Units (DSUs)

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

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

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

	NUMBER OF DSU AWARDS	
	2021	2020
DSUs on issue at the beginning of the financial year	**3,177,680**	3,075,825
Granted during the financial year	**1,082,878**	1,011,298
Exercised during the financial year	**(687,073)**	(817,692)
Forfeited during the financial year	**(61,114)**	(91,751)
DSUs on issue at the end of the financial year	**3,512,371**	3,177,680
DSUs exercisable at the end of the financial year	**1,057,957**	913,107

The weighted average fair value of the DSU awards granted during the financial year was $117.53 (2020: $118.44).

Note 32
Employee equity participation continued

Award types under the MEREP continued

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles 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	**1,017,433**	1,229,353
Granted during the financial year	**235,431**	223,021
Exercised during the financial year	**(190,293)**	(412,516)
Expired during the year	**(190,295)**	–
Forfeited during the financial year	**–**	(22,425)
PSUs on issue at the end of the financial year	**872,276**	1,017,433
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).

Restricted Shares

A Restricted Share is an MGL ordinary share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on, and to exercise the voting rights of, the Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

	NUMBER OF RESTRICTED SHARE AWARDS	
	2021	2020
Restricted shares on issue at the beginning of the financial year	**547,874**	13,782
Transfer from MEREP Trust during the financial year	**113,222**	551,687
Forfeited during the financial year	**(49,430)**	(1,766)
Released during the financial year	**(251,479)**	(15,829)
Restricted shares on issue at the end of the financial year	**360,187**	547,874

The weighted average fair value of the Restricted Shares granted during the financial year was $Nil (2020: $Nil).

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

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

Note 32
Employee equity participation continued

Award types under the MEREP continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant(1)
Retained DPS Awards	Executive Committee members and Designated Executive Directors	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards	All other Executive Directors	1/3rd in the 3rd, 4th and 5th year following the year of grant(2)
PSU Awards granted in relation to 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).

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

Note 32
Employee equity participation continued

Performance Share Units (PSUs)

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically reviewed by the Board Remuneration Committee (BRC) to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for this financial year.

The hurdles are outlined below.

Performance hurdle 1

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

Performance hurdle 2

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

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

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

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

- interest rate to maturity: 0.2023% 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 the 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 dates 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 valuation for recognising the expense over the remaining vesting period.

The Consolidated Entity annually reviews its estimates of the number of awards (including those delivered through MEREP) that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the employment expenses in the income statement, with a corresponding adjustment to equity (for equity settled awards), or a corresponding adjustment to liabilities (for cash settled awards).

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

Note 32
Employee equity participation continued

Performance Share Units (PSUs) continued

For the financial year ended 31 March 2021, compensation expense relating to the MEREP totalled $579,198 thousand (2020: $583,161 thousand).

For the equity settled awards, the estimated future withholding tax outflow is $391,480 thousand (2020: $197,947 thousand).

Employee Share Plan

The Consolidated Entity continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to $1,000 worth of fully paid MGL ordinary shares for no cash consideration.

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

The latest offer under the ESP was made during November 2020. A total of 1,902 (2020: 1,531) 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 13,314 (2020: 10,717) shares being allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2021, compensation expense relating to the ESP totalled $1,860 thousand (2020: $1,446 thousand).

Historical Share and Option Plans

Shares are no longer being issued under the Staff Share Acquisition Plan or the Non-Executive Director Share Acquisition plan. However, employees and Non-Executive Directors still hold shares issued in previous years.

Options over fully paid unissued ordinary shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

Other plans

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

Shares issued/purchased on-market for the purpose of an employee incentive scheme

During the financial year ended 31 March 2021, the Consolidated Entity issued 5,163,874 shares (2020: purchased 2,246,584 shares on-market and 2,713,553 shares via off-market transfer from its employees during the Staff Trading window) for MEREP. A further 13,314 shares were issued for the ESP (2020: 10,717 shares were purchased on-market). The average price of all share issued during the financial year was $112.22 (2020: $122.40 for shares purchased) and the average price of the purchases made on-market was $Nil (2020: $125.02).

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

Note 33
Contingent liabilities and commitments

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Contingent liabilities exist in respect of:				
Letters of credit	**1,085**	1,030	**–**	–
Guarantees[1]	**651**	623	**4,402**	5,877
Indemnities	**391**	417	**–**	–
Performance-related contingencies	**297**	313	**–**	–
Total contingent liabilities[2]	**2,424**	2,383	**4,402**	5,877
Commitments exist in respect of:				
Undrawn credit facilities and securities commitments[3],[4],[5],[6]	**14,041**	11,948	**–**	–
Property, plant and equipment and right-of-use and other asset developments[7],[8]	**2,246**	4,155	**1,613**	1,833
Total commitments	**16,287**	16,103	**1,613**	1,833
Total contingent liabilities and commitments	**18,711**	18,486	**6,015**	7,710

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

(1) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $6,270 million (2020: $7,898 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.
(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 underwriting 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 $1,750 million (2020: $1,645 million) of equity commitment and $116 million (2020: $54 million) of debt commitment to associates and joint ventures of the Consolidated Entity. Also, includes $598 million (2020: $432 million) of debt and equity commitment to Macquarie-managed funds.
(6) Includes $2,175 million equity commitment relating to the acquisition of Waddell & Reed Financial Inc., a publicly traded US asset manager providing wealth and asset management services. For further details refer to Note 43 *Events after the reporting date*.
(7) The Consolidated Entity includes asset development commitments to third parties of $515 million (2020: $2,161 million) which certain subsidiaries of the Consolidated Entity fund with borrowings of $365 million (2020: $1,874 million).
(8) The Consolidated Entity and Company includes asset development commitments to third parties of $1,613 million (2020: $1,833 million). During the financial year, the Consolidated Entity entered into a sale agreement to divest of several assets which is contingent upon completion of their development.

Note 34
Structured entities

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

Securitisations

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

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

Asset-backed financing

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

Other

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

Consolidated Structured Entities

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

Interests held in unconsolidated structured entities

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

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

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

Note 34
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):

	CONSOLIDATED 2021			CONSOLIDATED 2020		
	Securitisations $m	Asset-backed financing $m	Other[3] $m	Securitisations $m	Asset-backed financing $m	Other[3] $m
Carrying value of assets						
Trading assets	122	–	–	23	–	–
Derivative assets	414			551	–	–
Financial investments	2,089	33	–	2,580	61	–
Loan assets	698	2,034	–	513	2,796	–
Total carrying value of assets[1]	3,323	2,067	–	3,667	2,857	–
Maximum exposure to loss[2]						
Debt, equity and derivatives held	3,323	2,067	–	3,667	2,857	–
Undrawn commitments[3]	180	–	57	–	–	71
Total maximum exposure to loss	3,503	2,067	57	3,667	2,857	71

The Consolidated Entity's interests in Macquarie-managed funds, include investments, receivables, contract assets, and undrawn commitments, which represents the Consolidated Entity's maximum exposure to loss. The Assets under Management (AUM) of $562 billion (2020: $598 billion) represents the indicative size of these funds and is measured as the proportional ownership interest in the underlying assets of 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 14 *Interest in associates and joint ventures*. Other interests in these managed funds, which include receivables, contract assets, and undrawn commitments are disclosed in Note 30 *Related party information*. 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 to securitisation entities in the nature of trading assets, derivatives and debt financial investment positions are acquired for the purpose of trading and liquidity management and are typically managed under market risk described in Note 36.3 *Market risk*. For these reasons, information on the size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented.

In respect of the Consolidated Entity's loan assets' exposure in securitisation and asset backed financing entities, the total size of the unconsolidated SEs is $32,075 million (2020: $6,853 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

(1) Includes non-investment grade interests of $89 million (2020: $182 million) in securitisation activities and $1,211 million (2020: $1,521 million) in asset-backed financing activities. Of these non-investment grade interests in asset backed financing activities, the potential loss borne by holders of notes whose interests rank lower is $Nil (2020: $164 million).
(2) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.
(3) Excludes $2,905 million (2020: $3,640 million) of guarantees provided by the Company in respect of a subsidiary to fulfil its obligations for certain prepaid commodity contracts towards unconsolidated structured entities. On consolidation these guarantees are accounted for as part of borrowings that represent the subsidiary's obligations in terms of these commodity contracts.

Note 35
Hedge accounting

Hedging strategy

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

Hedging instruments

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

Hedging ineffectiveness

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

IBOR reform

The Consolidated Entity designates hedging relationships where the hedged item and/or hedging instrument reference IBOR. These rates are being transitioned to alternative reference rates (ARRs) as described in Note 1 *Basis of preparation* and Note 36 *Financial risk management*. IBOR reform primarily impacts the Consolidated Entity's hedge relationships referencing USD LIBOR and GBP LIBOR. The hedge relationships disclosed as impacted by IBOR reform includes all those referencing transitioning LIBOR rates at the reporting date and includes relationships that are expected to expire before mandatory transition to ARRs. The majority of these derivatives are subject to the ISDA Fallbacks 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. Certain hedge accounting relationships have transitioned to ARRs during the current period and consequently the Consolidated Entity has made use of the relief provided by AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* (Phase 2 relief) to amend the formal designation of these hedging relationships.

Note 35
Hedge accounting 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	GBP $m	Other[1] $m	Total $m	Other not affected by reform[2] $m	Total notional[3] $m
						CONSOLIDATED 2021
Cash flow hedges	**3,004**[4]	**2,051**[5]	**731**	**5,786**	**4,584**	**10,370**
Fair value hedges	**18,479**	**–**	**1,247**	**19,726**	**13,712**	**33,438**
						CONSOLIDATED 2020
Cash flow hedges	4,001[4]	3,056	1,225	8,282	6,799	15,081
Fair value hedges	20,240	–	1,883	22,123	13,626	35,749

(1) Other includes balances impacted by the IBOR reform of JPY LIBOR and CHF LIBOR.
(2) The Consolidated Entity has exposure to rates such as BBSW and EURIBOR that are not subject to mandatory replacement and therefore do not make use of the relief (as described in Note 1 *Basis of preparation*).
(3) Where a cross currency swap in a cash flow hedge designation references more than one interest rate, the risk exposure has been shown twice to reflect the absolute risk exposure to different reference rates. For all other hedge accounting disclosures, the notional has been shown once. To reconcile this notional to other hedge accounting disclosures an amount of $3,047 million (2020: $5,049 million) would need to be deducted in this regard. The notional of commodity swaps and futures and foreign exchange contracts shown in the hedging instrument maturity tables on pages 217 and 220 are not included in the notionals disclosed above.
(4) The hedged exposure differs by AUD equivalent of $1,918 million (2020: $2,800 million) as it references another correlated US market rate.
(5) Excludes hedge relationships of $303 million notional which have been synthetically transitioned to SONIA during the current year (making use of the Phase 2 relief) and thus meet the requirement for end of Phase 1 relief.

Note 35
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 28(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's statements of comprehensive income. The cumulative gains and losses remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur is $1 million (2020: $3 million). This amount will be transferred to the income statement as a loss when the hedged item affects the income statement.

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						CONSOLIDATED 2021
Derivative assets						
Cross currency swaps	Foreign exchange	**(20)**	**(48)**	**477**	**1,079**	**1,488**
Foreign exchange contracts	Foreign exchange	**3**	**–**	**–**	**–**	**3**
Interest rate swaps and options	Interest rate	**76**	**369**	**1,482**	**48**	**1,975**
Commodity swaps and futures	Commodity price	**3**	**–**	**–**	**–**	**3**
Derivative liabilities						
Cross currency swaps	Foreign exchange	**–**	**1,038**	**884**	**–**	**1,922**
Foreign exchange contracts	Foreign exchange	**2**	**–**	**–**	**–**	**2**
Interest rate swaps and options	Interest rate	**(94)**	**(102)**	**1,196**	**938**	**1,938**
Commodity swaps and futures	Commodity price	**7**	**22**	**32**	**38**	**99**
						CONSOLIDATED 2020
Derivative assets						
Cross currency swaps	Foreign exchange	18	955	2,216	1,353	4,542
Interest rate swaps and options	Interest rate	105	455	2,215	98	2,873
Commodity swaps and futures	Commodity price	12	22	–	–	34
Derivative liabilities						
Cross currency swaps	Foreign exchange	–	–	537	–	537
Interest rate swaps and options	Interest rate	(44)	75	741	1,308	2,080

		CONSOLIDATED CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Cross currency swaps	Foreign exchange	**105**	**82**	697	38
Interest rate swaps and options	Interest rate	**68**	**111**	126	175
Commodity swaps and futures	Commodity price	**–**	**8**	19	–

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 35
Hedge accounting continued

Hedge ineffectiveness

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

		CONSOLIDATED					
		(Loss)/gain on hedged item		Gain/(loss) on hedged item		Hedge ineffectiveness gain/(loss)	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	Foreign exchange	**(27)**	18	**28**	(19)	**1**	(1)
Interest rate swaps and options	Interest rate	**15**	(81)	**(24)**	78	**(9)**	(3)
Commodity swaps and futures	Commodity price	**(26)**	33	**26**	(33)	**–**	–
Total		**(38)**	(30)	**30**	26	**(8)**	(4)

Hedge accounting executed rates

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

		CONSOLIDATED	
Hedging instruments	Currency/currency pair	2021	2020
Cross currency swaps	AUD/EUR	**0.62–0.68**	0.62–0.68
	USD/GBP	**0.66**	0.66
	AUD/CHF	**0.72**	0.72
	GBP/CHF	**1.46**	1.46
	USD/CHF	**0.93**	0.93
Interest rate swaps and options	GBP	**1.01–2.49%**	0.40–2.49%
	USD	**0.29–3.01%**	1.00–3.01%

Note 35
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 issued debt. Refer to Note 36.3 *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 44 *Significant accounting policies*). Hedge ineffectiveness is recognised in net trading income in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

		CONSOLIDATED CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts	Foreign exchange	**51**	266	**223**	13
Foreign currency denominated issued debt	Foreign exchange	**–**	–	**16,322**	17,845

		CONSOLIDATED NOTIONAL			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts[(1)]	Foreign exchange	**2,211**	4,131	**4,877**	1,083
Foreign currency denominated issued debt	Foreign exchange	**–**	–	**16,244**	17,732

In order to hedge the currency exposure of certain net investments in foreign operations, the Consolidated Entity jointly designates both foreign exchange contracts (from the currency of the underlying foreign operation to USD) and foreign denominated issued debt (from USD to AUD). As a result, the notional value of hedging instruments presented in the table above of $23,332 million (2020: $22,946 million) represents the notional of both the derivative hedging instruments and the foreign denominated issued debt and hence exceeds the $16,683 million (2020: $17,631 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 absolute change in either the fair value of the derivative or the carrying amount of foreign currency denominated debt issued attributable to the change in exchange rates exceeds that of the hedged item. There was no ineffectiveness recognised in the income statement by the Consolidated Entity in the current year (2020: $Nil).

(1) Where the fair value of the derivative is positive/(negative), the notional of the derivative has been similarly included in the table as an asset/(liability).

Note 35
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
						CONSOLIDATED 2021
Derivative assets						
Cross currency swaps	Interest rate	**–**	**–**	**884**	**435**	**1,319**
Interest rate swaps	Interest rate	**1,204**	**1,401**	**11,751**	**4,852**	**19,208**
Commodity forward contracts	Commodity price	**1**	**2**	**–**	**–**	**3**
Derivative liabilities						
Interest rate swaps	Interest rate	**791**	**2,220**	**6,231**	**3,669**	**12,911**
						CONSOLIDATED 2020
Derivative assets						
Cross currency swaps	Interest rate	34	997	1,382	605	3,018
Interest rate swaps	Interest rate	–	4,561	11,298	9,215	25,074
Commodity forward contracts	Commodity price	4	15	4	–	23
Derivative liabilities						
Interest rate swaps	Interest rate	525	2,724	4,408	–	7,657

		CONSOLIDATED CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Cross currency swaps	Interest rate	**56**	**–**	106	–
Interest rate swaps	Interest rate	**883**	**351**	1,806	212
Commodity forward contracts	Commodity price	**–**	**–**	7	–

Note 35
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 Statements of financial positions for hedged items that have ceased to be adjusted for hedging gains and losses is $3 million gain (2020: $19 million loss) 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.

	CONSOLIDATED 2021		CONSOLIDATED 2020	
	Carrying amount[1] $m	Fair value hedge adjustment $m	Carrying amount[1] $m	Fair value hedge adjustment $m
Assets				
Financial investments[2]	**400**	**–**	104	4
Loan assets	**7,940**	**50**	7,200	128
Commodity transportation contracts	**–**	**–**	2	2
Liabilities				
Debt issued	**19,874**	**(628)**	24,870	(1,380)
Loan capital	**5,372**	**(10)**	4,920	(318)

Hedge ineffectiveness

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

		CONSOLIDATED					
		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
Cross currency swaps	Interest rate	**(49)**	43	**48**	(45)	**(1)**	(2)
Interest rate swaps	Interest rate	**(890)**	1,329	**936**	(1,317)	**46**	12
Commodity forward contracts[3]	Commodity price	**(7)**	64	**(2)**	(53)	**(9)**	11
Total		**(946)**	1,436	**982**	(1,415)	**36**	21

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

Note 36
Financial risk management

Risk Management and Risk Management Group (RMG)

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

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

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

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

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

Note 36.1 Credit risk

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

Credit risk assessment and approval

Exercise of credit authority within 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. 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 13 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

Wholesale rating:

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

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

Retail rating

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

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

Due from subsidiaries

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

Portfolio and country risk

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

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

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Credit quality of financial assets

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

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				CONSOLIDATED 2021
Cash and bank balances	18,232	-	-	18,232
Cash collateral on securities borrowed and reverse repurchase agreements	23,033	-	-	23,033
Margin money and settlement assets	11,850	-	-	11,850
Financial investments	7,579	-	-	7,579
Held for sale and other assets	1,391	-	-	1,391
Loan assets	47,222	1,272	-	48,494
Undrawn credit commitments, letters of credit and financial guarantee contracts	3,153	-	-	3,153
Total investment grade	112,460	1,272	-	113,732
Non-investment grade				
Cash and bank balances	193	-	-	193
Cash collateral on securities borrowed and reverse repurchase agreements	5,739	-	-	5,739
Margin money and settlement assets	1,985	5	-	1,990
Financial investments	71	-	-	71
Held for sale and other assets	1,184	61	-	1,245
Loan assets	44,354	10,849	-	55,203
Loans to associates and joint ventures	264	318	-	582
Undrawn credit commitments, letters of credit and financial guarantee contracts	4,593	728	-	5,321
Total non-investment grade	58,383	11,961	-	70,344
Default				
Margin money and settlement assets	-	-	296	296
Held for sale and other assets	-	-	156	156
Loan assets	-	-	2,024	2,024
Loans to associates and joint ventures	-	-	143	143
Undrawn credit commitments, letters of credit and financial guarantee contracts	-	-	221	221
Total default	-	-	2,840	2,840
Total	170,843	13,233	2,840	186,916

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 13 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Stage I(1) $m	Stage II(1) $m	Stage III(1) $m	Total $m
Financial assets by ECL stage				**CONSOLIDATED 2021**
Cash and bank balances	18,425	–	–	18,425
Cash collateral on securities borrowed and reverse repurchase agreements	28,772	–	–	28,772
Margin money and settlement assets	13,835	5	296	14,136
Financial investments	7,650	–	–	7,650
Held for sale and other assets	2,575	61	156	2,792
Loan assets	91,576	12,121	2,024	105,721
Loans to associates and joint ventures	264	318	143	725
Undrawn credit commitments, letters of credit and financial guarantee contracts	7,746	728	221	8,695
Total financial assets ECL by stage	**170,843**	**13,233**	**2,840**	**186,916**

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

				OF WHICH PAST DUE				
	Investment grade $m	Non-investment grade $m	Total other than default $m	Up to 30 days $m	31 to <90 days $m	Total past due but not default $m	Default $m	Total $m
								CONSOLIDATED 2021
Home loans(2)	38,372	32,906	71,278	447	166	613	790	72,068
Asset financing	3,756	9,546	13,302	304	60	364	395	13,697
Corporate, commercial and other lending	4,319	12,523	16,842	56	109	165	839	17,681
Investment lending	2,047	228	2,275	–	–	–	–	2,275
Total(3)	**48,494**	**55,203**	**103,697**	**807**	**335**	**1,142**	**2,024**	**105,721**

(1) For definitions of stage I, II and III, refer to Note 13 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
(2) Includes $12,190 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another $39,909 million home loans where the Consolidated Entity has bought risk protection from a global panel of investment grade reinsurers via an excess of loss and quota share structure. Refer to Note 36.1 *Credit risk* section *Collateral and credit enhancements* for further details.
(3) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Credit quality of financial assets

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

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				CONSOLIDATED 2020
Cash and bank balances	9,603	–	–	9,603
Cash collateral on securities borrowed and reverse repurchase agreements	23,432	–	–	23,432
Margin money and settlement assets	12,571	–	–	12,571
Financial investments	7,196	–	–	7,196
Held for sale and other assets	1,599	–	–	1,599
Loan assets	47,468	418	–	47,886
Loans to associates and joint ventures	52	–	–	52
Undrawn credit commitments, letters of credit and financial guarantees	2,236	–	–	2,236
Total investment grade	104,157	418	–	104,575
Non-investment grade				
Cash and bank balances	114	–	–	114
Cash collateral on securities borrowed and reverse repurchase agreements	6,321	–	–	6,321
Margin money and settlement assets	3,147	104	–	3,251
Financial investments	147	–	–	147
Held for sale and other assets	2,210	40	–	2,250
Loan assets	29,737	14,320	–	44,057
Loans to associates and joint ventures	666	–	–	666
Undrawn credit commitments, letters of credit and financial guarantees	4,305	198	–	4,503
Total non-investment grade	46,647	14,662	–	61,309
Default				
Margin money and settlement assets	–	–	87	87
Financial investments	–	–	2	2
Held for sale and other assets	–	–	300	300
Loan assets	–	–	1,991	1,991
Loans to associates and joint ventures	–	–	198	198
Undrawn credit commitments, letters of credit and financial guarantees	–	–	53	53
Total default	–	–	2,631	2,631
Total	150,804	15,080	2,631	168,515

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 13 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Stage I[(1)] $m	Stage II[(1)] $m	Stage III[(1)] $m	Total $m
Financial assets by ECL stage				CONSOLIDATED 2020
Cash and bank balances	9,717	–	–	9,717
Cash collateral on securities borrowed and reverse repurchase agreements	29,753	–	–	29,753
Margin money and settlement assets	15,718	104	87	15,909
Financial investments	7,343	–	2	7,345
Held for sale and other assets	3,809	40	300	4,149
Loan assets	77,205	14,738	1,991	93,934
Loans to associates and joint ventures	718	–	198	916
Undrawn credit commitments, letters of credit and financial guarantees	6,541	198	53	6,792
Total financial assets by ECL stage	150,804	15,080	2,631	168,515

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

				OF WHICH PAST DUE				
	Investment grade $m	Non-investment grade $m	Total other than default $m	Up to 30 days $m	31 to <90 days $m	Total past due but not default[(2)] $m	Default $m	Total $m
								CONSOLIDATED 2020
Home loans[(3)]	40,010	15,966	55,976	337	274	611	677	56,653
Asset financing	1,927	14,379	16,306	807	124	931	560	16,866
Corporate, commercial and other lending	3,526	13,573	17,099	60	75	135	754	17,853
Investment lending	2,423	139	2,562	–	–	–	–	2,562
Total[(4)]	47,886	44,057	91,943	1,204	473	1,677	1,991	93,934

(1) For definitions of stage I, II and III, refer to Note 13 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
(2) Loan assets of $177 million for which borrowers have been meeting their repayment obligations until recently and have applied for payment deferrals as a result of COVID-19 are not considered past due by the Consolidated Entity.
(3) Includes $14,263 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another $35,837 million home loans where the Consolidated Entity has bought risk protection from a panel of investment grade companies via an excess of loss structure. Refer to Note 36.1 *Credit risk* section Collateral and credit enhancements for further details.
(4) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

The following table below discloses, by credit rating grades, the gross carrying amount of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Company subject to the impairment requirements of AASB 9.

	COMPANY 2021		COMPANY 2020	
	Stage I $m	Total $m	Stage I $m	Total $m
Investment grade				
Due from subsidiaries	19,260	19,260	29,438	29,438
Undrawn commitments, letters of credit and financial guarantees[1]	4,402	4,402	5,877	5,877
Total investment grade	23,662	23,662	35,315	35,315
Non-investment grade				
Due from subsidiaries	–	–	28	28
Total non-investment grade	–	–	28	28
Financial assets by ECL stage				
Due from subsidiaries	19,260	19,260	29,466	29,466
Undrawn commitments, letters of credit and financial guarantees[1]	4,402	4,402	5,877	5,877
Financial assets by ECL stage	23,662	23,662	35,343	35,343

(1) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $6,270 million (2020: $7,898 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Credit risk concentration

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

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Margin money and settlement assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets[(1)] $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
									CONSOLIDATED 2021
Australia									
Governments	–	–	13	16	15	45	–	11	100
Financial institutions	11,593	2,372	1,941	5,114	161	2,818	–	549	24,548
Other	–	–	1,088	583	327	91,467	4	4,469	97,938
Total Australia	11,593	2,372	3,042	5,713	503	94,330	4	5,029	122,586
Asia Pacific									
Governments	–	–	136	–	–	–	–	5	141
Financial institutions	2,157	1,771	1,011	571	24	–	–	5	5,539
Other	–	–	1,591	-	284	311	14	5	2,205
Total Asia Pacific	2,157	1,771	2,738	571	308	311	14	15	7,885
Europe, Middle East and Africa									
Governments	–	–	22	–	88	4	–	1	115
Financial institutions	1,463	15,404	1,982	900	426	759	319	84	21,337
Other	–	–	2,519	–	675	3,980	156	344	7,674
Total Europe, Middle East and Africa	1,463	15,404	4,523	900	1,189	4,743	475	429	29,126
Americas									
Governments	–	–	23	–	92	110	–	3	228
Financial institutions	3,212	9,225	1,959	448	158	2,472	–	215	17,689
Other	–	–	1,851	18	542	3,755	232	3,004	9,402
Total Americas	3,212	9,225	3,833	466	792	6,337	232	3,222	27,319
Total gross credit risk[(2)]	18,425	28,772	14,136	7,650	2,792	105,721	725	8,695	186,916

(1) Loan assets in the Australia region includes Home loans of $71,751 million, Asset financing of $12,433 million, Corporate, commercial and other lending of $9,461 million and Investment lending of $685 million.

(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Margin money and settlement assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets[1] $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
								CONSOLIDATED 2020	
Australia									
Governments	–	–	–	188	17	112	–	–	317
Financial institutions	2,121	2,148	1,978	4,006	142	2,646	47	269	13,357
Other	–	–	1,119	990	353	76,449	–	3,378	82,289
Total Australia	2,121	2,148	3,097	5,184	512	79,207	47	3,647	95,963
Asia Pacific									
Governments	–	–	344	–	–	–	–	6	350
Financial institutions	1,637	3,231	1,003	558	32	–	–	–	6,461
Other	–	–	1,103	–	505	523	37	152	2,320
Total Asia Pacific	1,637	3,231	2,450	558	537	523	37	158	9,131
Europe, Middle East and Africa									
Governments	668	–	–	–	152	10	–	58	888
Financial institutions	1,314	13,855	2,363	1,266	357	494	373	30	20,052
Other	–	–	2,937	–	1,486	4,014	188	463	9,088
Total Europe, Middle East and Africa	1,982	13,855	5,300	1,266	1,995	4,518	561	551	30,028
Americas									
Governments	–	–	23	–	92	125	–	4	244
Financial institutions	3,977	10,519	3,148	337	537	4,510	–	197	23,225
Other	–	–	1,891	–	476	5,051	271	2,235	9,924
Total Americas	3,977	10,519	5,062	337	1,105	9,686	271	2,436	33,393
Total gross credit risk[2]	9,717	29,753	15,909	7,345	4,149	93,934	916	6,792	168,515

(1) Loan assets in the Australia region includes Home loans of $56,270 million, Asset financing of $14,745 million, Corporate, commercial and other lending of $8,020 million and Investment lending of $172 million.
(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Due from subsidiaries[1] $m	Undrawn commitments and financial guarantees[2] $m	Total $m
			COMPANY 2021
Australia			
Financial institutions	**18,074**	**-**	**18,074**
Other	**1,173**	**232**	**1,405**
Total Australia	**19,247**	**232**	**19,479**
Asia Pacific			
Financial institutions	**2**	**-**	**2**
Other	**1**	**344**	**345**
Total Asia Pacific	**3**	**344**	**347**
Europe, Middle East and Africa			
Financial institutions	**2**	**-**	**2**
Other	**-**	**168**	**168**
Total Europe, Middle East and Africa	**2**	**168**	**170**
Americas			
Financial institutions	**6**	**488**	**494**
Other	**2**	**3,170**	**3,172**
Total Americas	**8**	**3,658**	**3,666**
Total gross credit risk	**19,260**	**4,402**	**23,662**
			COMPANY 2020
Australia			
Financial institutions	29,407	–	29,407
Other	9	292	301
Total Australia	29,416	292	29,708
Asia Pacific			
Financial institutions	2	–	2
Other	3	543	546
Total Asia Pacific	5	543	548
Europe, Middle East and Africa			
Financial institutions	11	–	11
Other	–	448	448
Total Europe, Middle East and Africa	11	448	459
Americas			
Financial institutions	33	619	652
Other	1	3,975	3,976
Total Americas	34	4,594	4,628
Total gross credit risk	29,466	5,877	35,343

(1) Due from subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(2) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $6,270 million (2020: $7,898 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

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

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Margin money and settlement assets $m	Derivative assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Total $m
									CONSOLIDATED 2021
Australia									
Governments	-	3,842	-	10	-	-	-	-	3,852
Financial institutions	-	1,235	-	1,581	-	-	60	9	2,885
Other	-	5		1,473	-	29	69	7	1,583
Total Australia	-	5,082		3,064	-	29	129	16	8,320
Asia Pacific									
Governments	-	125	-	41	-	-	-	-	166
Financial institutions	264	18	-	582	104	-	-	-	968
Other	-	937	6	703	3	335	6	-	1,990
Total Asia Pacific	264	1,080	6	1,326	107	335	6	-	3,124
Europe, Middle East and Africa									
Governments	-	-	-	18	-	-	38	-	56
Financial institutions	2,203	15	-	4,514	52	-	-	-	6,784
Other	-	969	-	5,360	6	417	208	20	6,980
Total Europe, Middle East and Africa	2,203	984	-	9,892	58	417	246	20	13,820
Americas									
Governments	-	403	-	15	-	-	-	-	418
Financial institutions	5,438	25	-	4,051	200	-	1	-	9,715
Other	4	427	326	2,294	67	532	102	-	3,752
Total Americas	5,442	855	326	6,360	267	532	103	-	13,885
Total gross credit risk	7,909	8,001	332	20,642	432	1,313	484	36	39,149

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

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

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Margin money and settlement assets $m	Derivative assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Total $m
								CONSOLIDATED 2020	
Australia									
Governments	–	4,613	–	165	–	–	–	–	4,778
Financial institutions	–	60	–	6,894	–	–	52	8	7,014
Other	–	–	3	1,989	–	25	–	1	2,018
Total Australia	–	4,673	3	9,048	–	25	52	9	13,810
Asia Pacific									
Governments	–	441	–	28	–	–	–	–	469
Financial institutions	822	106	–	587	55	–	–	–	1,570
Other	–	91	223	1,647	7	278	–	–	2,246
Total Asia Pacific	822	638	223	2,262	62	278	–	–	4,285
Europe, Middle East and Africa									
Governments	–	–	–	13	–	–	16	–	29
Financial institutions	1,782	48	–	13,149	136	–	–	–	15,115
Other	–	527	–	11,618	8	528	192	77	12,950
Total Europe, Middle East and Africa	1,782	575	–	24,780	144	528	208	77	28,094
Americas									
Governments	–	2,015	3	57	–	–	–	–	2,075
Financial institutions	5,353	35	12	6,683	102	–	76	–	12,261
Other	–	695	314	2,777	15	176	1,004	99	5,080
Total Americas	5,353	2,745	329	9,517	117	176	1,080	99	19,416
Total gross credit risk	7,957	8,631	555	45,607	323	1,007	1,340	185	65,605

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	COMPANY 2021 Due from subsidiaries[1] $m	COMPANY 2020 Due from subsidiaries[1] $m
Australia		
Financial institutions	**2,424**	2,580
Other	**500**	300
Total Australia	**2,924**	2,880
Total gross credit risk	**2,924**	2,880

Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet (refer to Note 37 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount except for certain usage-based guarantees in which case the maximum exposure is determined with respect to the fair value of the underlying exposure and is disclosed in Note 13 *Expected credit losses.*

Collateral and credit enhancements held

Cash collateral on securities borrowed and reverse repurchase agreements

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

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

The fair value of non-cash collateral held not recognised in the Statements of financial position as at 31 March 2021 is $37,149 million (2020: $38,072 million). The Consolidated Entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is $8,796 million (2020: $7,852 million). The value attributed to collateral held is judgemental and is generally subject to valuation movements. Macquarie may also incur additional selling costs when a defaulted position is closed out.

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

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Loan assets

Home loans

Macquarie purchases risk protection for its Home Loans portfolio. Prior to 2017 this was in the form of Lenders Mortgage Insurance from a well rated Australian LMI provider. Since then Macquarie has diversified its risk protection coverage to a global panel of reinsurers (panel) via an excess of loss structure for all loans whereby Macquarie is exposed to a defined first loss on a pooled basis for each year of home loan origination after which loss protection is in place to certain pre-defined levels and is thereafter exposed to any excess loss. From 1 April 2020 Macquarie began purchasing quota share protection for greater than 80% LVR loans from the panel as well as excess of loss for greater than 70% LVR loans. The panel has diverse lines of business coverage and ratings ranging from AA to A- from external rating agencies. The length of cover is up to 10 years.

The following table provides information on the loan to collateral value ratio as determined using loan carrying values and the most recent valuation of the home loan collateral. Expected credit loss provisions disclosed in Note 13 *Expected credit losses* include forward-looking assumptions for the value of the collateral in determining the ECL at the reporting date.

	2021			2020		
	Australia $m	**EMEA $m**	**Total $m**	Australia $m	EMEA $m	Total $m
						CONSOLIDATED
<=25%	**2,182**	**5**	**2,187**	1,699	5	1,704
>25% to 50%	**13,360**	**56**	**13,416**	10,104	67	10,171
>50% to 70%	**29,576**	**176**	**29,752**	22,415	205	22,620
>70% to 80%	**22,199**	**65**	**22,264**	17,992	72	18,064
>80% to 90%	**3,656**	**14**	**3,670**	3,436	27	3,463
>90% to 100%	**676**	**5**	**681**	525	5	530
Partly collateralised	**30**	**1**	**31**	36	3	39
Total home loans	**71,679**	**322**	**72,001**	56,207	384	56,591

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $13,354 million (2020: $16,564 million), the credit exposure after considering the depreciated value of collateral is $5,921 million (2020: $7,514 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 $17,396 million (2020: $18,403 million), the credit exposure after considering the estimated value of collateral and credit enhancements is $3,108 million (2020: $2,853 million).

Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral or holds security by way of a registered pledge over the underlying investment. Investment lending portfolio of $2,274 million (2020: $2,559 million) is fully collateralised.

Derivative instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over the Counter (OTC) derivatives. The Consolidated Entity's 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 $1,379 million (2020: $5,662 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 Annexure in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2021, the Consolidated Entity held OTC contracts with a positive replacement value of $19,263 million (2020: $39,945 million). The credit risk of these contracts has been reduced due to master netting agreements covering negative OTC contracts of $11,048 million (2020: $24,154 million) and margins and financial collateral held (excluding the impact of over-collateralisation) of $3,054 million (2020: $5,882 million).

Financial investments

This classification mainly includes debt securities held by the Consolidated Entity primarily in the nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities for liquidity management purposes and other securities for short-term gains.

The Consolidated Entity utilises Credit Default Swaps (CDS), guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to this credit risk.

Margin money and settlement assets

Security and commodity settlements of $7,253 million (2020: $6,698 million) and $2,292 million (2020: $2,457 million) respectively included in margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities, commodities and other securities sold. These assets are collateralised with the underlying securities, commodities or cash held by the Consolidated Entity until the date of settlement. The period between trade and settlement date varies as per regional regulatory and business norms.

Credit commitments

Undrawn facilities and lending securities commitments of $7,210 million (2020: $4,844 million) are secured through collateral and credit enhancement out of the total undrawn facilities and lending securities commitments of $14,041 million (2020: $11,948 million).

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Additional collateral

Apart from collateral details 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.

The home loan and asset finance balance includes $11,344 million (2020: $16,402 million) of loans which has been securitised by consolidated SEs.

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 36.2 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. Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a regular basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Co-Heads of Group Treasury and Operating Group Heads.

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

Liquidity policy and risk appetite

The MGL and MBL liquidity policies are designed so that each of Macquarie, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due. The *MBL Liquidity Policy* outlines the standalone framework for the Bank Group and its principles are consistent with the *MGL Liquidity Policy.* MGL provides funding predominantly to the Non-Bank Group. Macquarie's liquidity risk appetite is intended to ensure that Macquarie is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie's franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MBL is an authorised deposit-taking institution and is funded mainly with capital, long-term liabilities and deposits.

Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan,* which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details:
- factors that may constitute a crisis
- the officers responsible for enacting the plan
- a committee of senior executives responsible for managing a crisis
- the information required to effectively manage a crisis
- a communications strategy
- a high level checklist of possible actions to conserve or raise additional liquidity
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

In addition, Macquarie monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the plan.

The *Liquidity Contingency Plan* is subject to regular review by both Group Treasury and RMG. It is submitted annually to the ALCO and the MGL and MBL Boards for approval.

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the *Liquidity Contingency Plan* contains either a supplement or a reference to a separate document providing the specific information required for those branches or subsidiaries.

Funding strategy

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

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

The *Funding Strategy* is reviewed by the ALCO and approved by the respective Boards.

Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to regulatory defined scenarios, Group Treasury models additional liquidity scenarios covering both market-wide and Macquarie name-specific crises.

These scenarios use a range of assumptions, which Macquarie intends to be conservative, regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Note 36
Financial risk management continued

Note 36.2 Liquidity risk continued

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie name-specific crisis over a twelve month time frame. This scenario assumes no access to wholesale funding markets, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets which are intended to ensure adequate liquidity is available under a range of market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA) or be eligible as collateral in the Reserve Bank of Australia's (RBA) facilities such as the Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions and the separate funding tasks and liquidity requirements of the Bank and Non-Bank Groups. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Undrawn credit lines and facilities

The Consolidated Entity has $2,279 million (March 2020: $2,775 million) of available undrawn credit lines and facilities at 31 March 2021. On 19 March 2020, the RBA announced that it was establishing a Term Funding Facility (TFF) that would offer authorised deposit-taking institutions three year funding at a rate of 0.25% per annum in response to COVID-19. Subsequent to the Initial and Additional Allowances, the RBA expanded the facility by introducing a Supplementary Allowance and also reduced the rate on subsequent drawdowns to 0.10% (for Additional and Supplementary Allowances). As at March 2021, MBL has been granted a Funding Allowance of $7,625 million (March 2020: $1,911 million) and has drawn $1,723 million (March 2020: $Nil) of this Funding Allowance. MBL has not included the TFF in the available undrawn credit lines and facilities balance.

Contractual undiscounted cash flows

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

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 36
Financial risk management continued

Note 36.2 Liquidity risk continued

Contractual undiscounted cash flows

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2021
Cash collateral on securities lent and repurchase agreements[1]	4,542	487	2,183	147	1,736	–	4,553
Trading liabilities[2]	6,205	–	6,205	–	–	–	6,205
Margin money and settlement liabilities	22,124	13,029	8,464	631	–	–	22,124
Derivative liabilities (trading)[2]	16,804	–	16,804	–	–	–	16,804
Derivative liabilities (hedge accounting relationships)[3]	775						
Contractual amount payable		–	1,071	2,872	2,256	171	6,370
Contractual amount receivable		–	(999)	(2,630)	(1,951)	–	(5,580)
Deposits	84,199	74,903	6,070	3,002	230	9	84,214
Held for sale and other liabilities[4]	2,641	516	1,027	499	566	108	2,716
Borrowings	9,817	410	1,281	599	7,651	451	10,392
Debt issued[5]	60,980	121	9,528	10,213	24,671	22,073	66,606
Loan capital[6]	9,423	–	1,150	254	4,542	5,393	11,339
Total	**217,510**	**89,466**	**52,784**	**15,587**	**39,701**	**28,205**	**225,743**
Contingent liabilities		–	2,424	–	–	–	2,424
Commitments		5,307	837	4,469	3,568	2,106	16,287
Total undiscounted contingent liabilities and commitments[7]		**5,307**	**3,261**	**4,469**	**3,568**	**2,106**	**18,711**

(1) Includes the Term Funding Facility (TFF) provided by the RBA.
(2) Derivative liabilities trading and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently settled in the short-term at fair value.
(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure's requirement.
(4) Excludes non-contractual accruals and provisions.
(5) Includes $9,994 million payables to SE note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets.
(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 26 *Loan capital*. Further, as explained in Note 26 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an Other exchange event, and this may impact their maturity profile.
(7) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 36
Financial risk management continued

Note 36.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2020
Cash collateral on securities lent and repurchase agreements	2,334	1,033	1,082	221	–	–	2,336
Trading liabilities[1]	5,544	–	5,544	–	–	–	5,544
Margin money and settlement liabilities	22,815	13,895	8,920	–	–	–	22,815
Derivative liabilities (trading)[1]	37,953	–	37,953	–	–	–	37,953
Derivative liabilities (hedge accounting relationships)[2]	446						
Contractual amount payable		–	462	555	787	56	1,860
Contractual amount receivable		–	(414)	(390)	(600)	–	(1,404)
Deposits	67,342	54,862	8,867	3,442	216	11	67,398
Held for sale and other liabilities[3]	2,919	466	586	929	755	271	3,007
Borrowings	17,093	196	1,451	900	11,031	4,847	18,425
Debt issued[4]	64,556	–	5,515	11,737	29,078	28,920	75,250
Loan capital[5]	7,414	–	68	1,627	3,175	3,566	8,436
Total	228,416	70,452	70,034	19,021	44,442	37,671	241,620
Contingent liabilities		–	2,383	–	–	–	2,383
Commitments		4,908	3,761	958	4,715	1,761	16,103
Total undiscounted contingent liabilities and commitments[6]		4,908	6,144	958	4,715	1,761	18,486

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosures requirement.
(3) Excludes non-contractual accruals and provisions.
(4) Includes $18,237 million payables to SE note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets.
(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 26 *Loan capital*. Further, as explained in Note 26 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an Other exchange event, and this may impact their maturity profile.
(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' 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 36
Financial risk management continued

Note 36.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							COMPANY 2021
Derivative liabilities (trading)[1]	**1**	**–**	**1**	**–**	**–**	**–**	**1**
Deposits	**46**	**–**	**6**	**6**	**36**	**–**	**48**
Other liabilities[2]	**19**	**16**	**3**	**–**	**–**	**–**	**19**
Borrowings	**5,821**	**–**	**21**	**56**	**6,083**	**–**	**6,160**
Due to subsidiaries	**1,695**	**1,095**	**589**	**–**	**6**	**5**	**1,695**
Debt issued	**13,232**	**1**	**197**	**488**	**6,343**	**7,909**	**14,938**
Loan capital[3]	**2,606**	**–**	**22**	**63**	**1,297**	**1,675**	**3,057**
Total	**23,420**	**1,112**	**839**	**613**	**13,765**	**9,589**	**25,918**
Contingent liabilities		**–**	**4,402**	**–**	**–**	**–**	**4,402**
Commitments		**–**	**230**	**69**	**1,314**	**–**	**1,613**
Total undiscounted contingent liabilities and commitments[4]		**–**	**4,632**	**69**	**1,314**	**–**	**6,015**
							COMPANY 2020
Derivative liabilities (trading)[1]	2	–	2	–	–	–	2
Deposits	51	–	–	3	54	–	57
Other liabilities[2]	15	14	1	–	–	–	15
Borrowings	10,114	–	46	126	7,365	3,205	10,742
Due to subsidiaries	8,474	530	936	19	7,088	–	8,573
Debt issued	13,253	–	114	1,636	8,041	5,836	15,627
Loan capital[3]	2,416	–	19	614	1,293	960	2,886
Total	34,325	544	1,118	2,398	23,841	10,001	37,902
Contingent liabilities	–	–	5,877	–	–	–	5,877
Commitments	–	284	25	102	1,420	2	1,833
Total undiscounted contingent liabilities and commitments[4]	–	284	5,902	102	1,420	2	7,710

(1) Derivative liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Excludes items that are non-contractual accruals and provisions.
(3) 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 26 *Loan capital*. Further, as explained in Note 26 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an Other exchange event, and this may impact their maturity profile.
(4) 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 36
Financial risk management continued

Note 36.3 Market risk

Traded market risk

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

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

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis. RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets.

Limits are for both individual trading desks and divisions as well as in aggregate.

RMG sets three complementary limit structures:

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

Note 36
Financial risk management continued

Note 36.3 Market risk continued

Value-at-Risk figures (1-day, 99% confidence level)

The table below shows the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is based on a one-day holding period being the mark-to-market that could be incurred over that period. The aggregated VaR is on a correlated basis.

	2021			2020		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
Equities	**4.19**	**15.62**	**2.66**	7.57	10.93	3.38
Interest rates	**4.91**	**8.07**	**3.25**	2.52	3.24	1.76
Foreign exchange and bullion	**2.28**	**4.00**	**1.21**	1.59	3.92	0.79
Commodities[1]	**22.21**	**45.20**	**12.03**	23.36	42.59	13.34
Aggregate	**24.45**	**46.72**	**12.72**	24.53	44.16	13.14

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. The following factors can limit the effectiveness of VaR in predicting future price moves:

- the use of historical data means that the current model parameters may not reflect future market conditions especially when entering a period of heightened volatility. The model utilises exponential weighting to place emphasis on the most recent market movements to more accurately reflect current conditions
- VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99% level of confidence.

For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Non-traded market risk

The Consolidated Entity has exposure to non-traded market risks arising from transactions entered into during its normal course of business and as a result of its investments in foreign operations. These risks include:

- **Interest rate:** changes in the level, shape and volatility of yield curves, and/or client behaviour given these changes
- **Foreign exchange:** changes in the spot exchange rates.

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above. Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the Consolidated Entity's *Non-traded market risk policy* is to reduce the sensitivity of regulatory capital ratios to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital. This aligns the currency of capital supply with capital requirements.

As a result of this policy, the Consolidated Entity is therefore partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Apart from this there is no material non-trading foreign exchange risk.

Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 44(x) *Derivative instruments and hedging activities* and Note 35 *Hedge accounting*.

(1) Includes commodity contracts.

Note 36
Financial risk management continued

Note 36.3 Market risk continued

Interest rate risk- Interest Rate Benchmark Reform (IBOR)

During 2018, the Consolidated Entity initiated a project, which is sponsored by its Chief Financial Officer (CFO), to manage the impacts of IBOR reform, including overseeing the transition from LIBOR to ARRs. A group-wide steering committee was established with its key responsibility being the governance of the project. This committee includes senior executives from the Consolidated Entity's Operating Groups, Financial Management Group (FMG), Risk Management Group (RMG), Corporate Operations Group (COG) and Legal and Governance.

In addition to the project's scoping and assessments outlined in the Consolidated Entity's annual financial report for the year ended 31 March 2020, and the progress reported in 30 September 2020 interim financial statements, the project achieved several important milestones in line with recommendations from industry working groups that included:

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

Macquarie has identified the following four 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 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.

Exposure yet to be transited to ARRs: Notional value information relating to the Consolidated Entity's financial instruments which have yet to transition to ARRs as at the reporting date includes[1]:

- **Derivatives:** Primarily includes USD LIBOR ($51,057 million), GBP LIBOR ($25,857 million), JPY LIBOR ($728 million) and other currencies ($129 million)
- **Non-Derivative financial assets:** Primarily includes USD LIBOR ($5,234 million), GBP LIBOR ($904 million) and other currencies ($48 million)
- **Non-Derivative financial liabilities:** Primarily includes USD LIBOR ($13,839 million) and GBP LIBOR ($1,882 million).

The scope of the above mentioned exposures has been determined as follows:

- the benchmark will be replaced, and the replacement date is known. Only exposures with contractual maturities extending beyond the replacement date have been included
- the gross notional values of both on-balance sheet and off-balance sheet exposures have been included
- for contracts that reference more than one benchmark, such as a cross currency swap, the exposure includes both benchmarks to reflect the absolute exposure to different reference rates
- exposures where a benchmark rate is not subject to mandatory replacement (e.g. BBSW exposures), will be considered in scope only if the Consolidated Entity makes a determination to transition to an ARR
- derivative contracts of $261 million designated in hedge accounting relationships and have synthetically transitioned from GBP LIBOR to SONIA have been excluded.

(1) The notional amounts of hedged items and/or hedging instruments designated in hedge relationship are covered in Note 35 *Hedge accounting*.

Note 36
Financial risk management continued

Note 36.3 Market risk continued

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 44(x) *Derivative instruments and hedging activities* and Note 34 *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 net investment in foreign operations to the most material currencies after considering related hedges is presented in the table below.

	2021		2020	
	Movement in exchange rates %	Sensitivity of other comprehensive income after tax $m	Movement in exchange rates %	Sensitivity of other comprehensive income after tax $m
				CONSOLIDATED
United States dollar	**+10**	**(633)**	+10	(678)
Pound sterling	**+10**	**(91)**	+10	(102)
Euro	**+10**	**(49)**	+10	(57)
Canadian dollar	**+10**	**(18)**	+10	(20)
Total		**(791)**		(857)
United States dollar	**-10**	**773**	-10	828
Pound sterling	**-10**	**112**	-10	125
Euro	**-10**	**60**	-10	70
Canadian dollar	**-10**	**22**	-10	24
Total		**967**		1,047

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**	**3**	+10	4
Americas	**+10**	**10**	+10	12
Europe, Middle East and Africa	**+10**	**1**	+10	3
Asia Pacific	**+10**	**1**	+10	–
Unlisted	**+10**	**84**	+10	71
Total		**99**		90
Listed				
Australia	**-10**	**(3)**	-10	(4)
Americas	**-10**	**(10)**	-10	(12)
Europe, Middle East and Africa	**-10**	**(1)**	-10	(3)
Asia Pacific	**-10**	**(1)**	-10	–
Unlisted	**-10**	**(84)**	-10	(71)
Total		**(99)**		(90)

Note 37

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 measurement categories are included in Note 44(vii) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 38 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m	$m
									CONSOLIDATED 2021
Assets									
Cash and bank balances	–	–	–	–	18,425	–	18,425	–	18,425
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,909	19,488	9,284	–	36,681	27,397	9,284
Trading assets[1]	21,746	–	–	–	–	–	21,746	21,746	–
Margin money and settlement assets	–	–	332	–	14,065	–	14,397	332	14,065
Derivative assets[2]	19,479	–	1,163	–	–	–	20,642	20,642	–
Financial investments									
Equity	–	–	1,442	–	–	–	1,442	1,442	–
Debt	–	–	432	7,674	18	–	8,124	8,106	18
Held for sale assets[3]	–	–	27	6	29	217	279	33	29
Other assets[3]	–	1,266	30	–	2,268	2,442	6,006	1,296	2,268
Loan assets[4]	–	64	420	269	104,273	–	105,026	753	105,024
Property, plant and equipment and right-of-use assets	–	–	–	–	–	4,676	4,676	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	3,562	3,562	–	–
Loans to associates and joint ventures[4]	–	–	36	60	536	–	632	96	538
Intangible assets	–	–	–	–	–	2,543	2,543	–	–
Deferred tax assets	–	–	–	–	–	1,472	1,472	–	–
Total assets	**41,225**	**1,330**	**11,791**	**27,497**	**148,898**	**14,912**	**245,653**	**81,843**	**149,651**
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	345	–	–	4,197	–	4,542	345	4,197
Trading liabilities	6,205	–	–	–	–	–	6,205	6,205	–
Margin money and settlement liabilities	–	–	–	–	22,124	–	22,124	–	22,124
Derivative liabilities[2]	16,804	–	775	–	–	–	17,579	17,579	–
Deposits	–	–	–	–	84,199	–	84,199	–	84,217
Held for sale liabilities[5]	–	–	–	–	17	1	18	–	17
Other liabilities[5]	–	605	–	–	2,019	5,587	8,211	605	1,213
Borrowings	–	–	–	–	9,817	–	9,817	–	9,867
Debt issued[4]	–	2,722	–	–	58,258	–	60,980	2,722	59,526
Deferred tax liabilities	–	–	–	–	–	204	204	–	–
Loan capital[4]	–	–	–	–	9,423	–	9,423	–	9,829
Total liabilities	**23,009**	**3,672**	**775**	**–**	**190,054**	**5,792**	**223,302**	**27,456**	**190,990**

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 35 *Hedge accounting*.
(3) Non-financial assets primarily represents non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale and other assets that include fee related contract assets, prepayments, tax receivables, inventory held for sale and investment properties.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represent non-financial liabilities of disposal groups classified as held for sale and other liabilities that include accrued charges, employee related provisions, retained director profit share, tax payables and income received in advance. The fair value of other liabilities excludes lease liabilities.

Note 37
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
									CONSOLIDATED 2020
Assets									
Cash and bank balances	–	–	–	–	9,717	–	9,717	–	9,717
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,957	23,064	6,689	–	37,710	31,021	6,689
Trading assets[1]	16,855	–	–	–	–	–	16,855	16,855	–
Margin money and settlement assets	–	–	555	–	15,838	–	16,393	555	15,838
Derivative assets[2]	42,572	–	3,035	–	–	–	45,607	45,607	–
Financial investments									
Equity	–	–	1,301	–	–	–	1,301	1,301	–
Debt	–	–	323	7,306	–	–	7,629	7,629	–
Held for sale assets[3]	–	–	52	–	609	973	1,634	52	609
Other assets[3]	–	947	315	–	3,127	2,479	6,868	1,262	3,127
Loan assets[4]	–	83	1,257	1,359	91,418	–	94,117	2,699	91,445
Property, plant and equipment and right-of-use assets	–	–	–	–	–	5,044	5,044	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	7,367	7,367	–	–
Loans to associates and joint ventures[4]	–	–	185	56	711	–	952	241	756
Intangible assets	–	–	–	–	–	3,268	3,268	–	–
Deferred tax assets	–	–	–	–	–	1,340	1,340	–	–
Total assets	59,427	1,030	14,980	31,785	128,109	20,471	255,802	107,222	128,181
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,042	–	2,334	1,292	1,042
Trading liabilities	5,544	–	–	–	–	–	5,544	5,544	–
Margin money and settlement liabilities	–	–	–	–	22,815	–	22,815	–	22,815
Derivative liabilities[2]	37,953	–	446	–	–	–	38,399	38,399	–
Deposits	–	–	–	–	67,342	–	67,342	–	67,413
Held for sale liabilities[5]	–	–	–	–	123	137	260	–	123
Other liabilities[5]	–	622	–	–	2,174	5,231	8,027	622	1,130
Borrowings	–	–	–	–	17,093	–	17,093	–	17,031
Debt issued[4]	–	2,929	–	–	61,627	–	64,556	2,929	60,961
Deferred tax liabilities	–	–	–	–	–	234	234	–	–
Loan capital[4]	–	–	–	–	7,414	–	7,414	–	7,013
Total liabilities	43,497	4,843	446	–	179,630	5,602	234,018	48,786	177,528

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are included as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 35 *Hedge accounting*.
(3) Non-financial assets primarily represents non-financial assets of disposal groups and equity interests in associates and joint ventures that have been classified as held for sale and other assets that include fee related contract assets, prepayments, tax receivables, inventory held for sale and investment properties.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risks.
(5) Non-financial liabilities primarily represents non-financial liabilities of disposal groups classified as held for sale and other liabilities that include accrued charges, employee related provisions, retained director profit share, tax payables and income received in advance and maintenance liability. The fair value of other liabilities excludes lease liabilities.

Note 37
Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories of financial instruments of the Company. The descriptions of measurement categories are included in Note 44(vii) *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 38 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
								COMPANY 2021	
Assets									
Derivative assets	2	–	–	–	–	–	2	2	–
Other assets[1]	–	–	–	–	–	54	54	–	–
Due from subsidiaries[2]	293	–	2,631	–	19,242	61	22,227	2,924	19,242
Investments in subsidiaries	–	–	–	–	–	31,429	31,429	–	–
Total assets	295	–	2,631	–	19,242	31,544	53,712	2,926	19,242
Liabilities									
Derivative liabilities	1	–	–	–	–	–	1	1	–
Deposits	–	–	–	–	46	–	46	–	46
Other liabilities[3]	–	–	–	–	19	404	423	–	19
Borrowings	–	–	–	–	5,821	–	5,821	–	5,821
Due to subsidiaries[4]	79	–	–	–	1,616	509	2,204	79	1,616
Debt issued	–	607	–	–	12,625	–	13,232	607	12,625
Deferred tax liabilities	–	–	–	–	–	4	4	–	–
Loan capital	–	–	–	–	2,606	–	2,606	–	2,606
Total liabilities	80	607	–	–	22,733	917	24,337	687	22,733

(1) Non-financial assets primarily represents tax receivables.
(2) Due from subsidiaries includes derivatives and trading positions classified as HFT and subordinated loan to subsidiaries classified as FVTPL. All other intercompany receivables are carried at amortised cost. Non-financial receivables primarily represents internal tax balances.
(3) Non-financial liabilities primarily represents provisions for tax payable and employee stock-option related obligations.
(4) Due to subsidiaries includes derivatives and trading positions classified as HFT and employee stock-option related obligations and tax payables that are non-financial liabilities. All other intercompany payables are carried at amortised cost.

Note 37
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
									COMPANY 2020
Assets									
Other assets[1]	–	–	–	–	–	18	18	–	–
Due from subsidiaries[2]	480	–	2,400	–	29,436	18	32,334	2,880	29,436
Investments in subsidiaries	–	–	–	–	–	31,816	31,816	–	–
Total assets	480	–	2,400	–	29,436	31,852	64,168	2,880	29,436
Liabilities									
Derivative liabilities	2	–	–	–	–	–	2	2	–
Deposits	–	–	–	–	51	–	51	–	51
Other liabilities[3]	–	–	–	–	15	445	460	–	15
Borrowings	–	–	–	–	10,114	–	10,114	–	10,114
Due to subsidiaries[4]	378	–	–	–	8,096	427	8,901	378	8,096
Debt issued	–	108	–	–	13,145	–	13,253	108	13,145
Loan capital	–	–	–	–	2,416	–	2,416	–	2,416
Total liabilities	380	108	–	–	33,837	872	35,197	488	33,837

(1) Non-financial assets primarily represents tax receivables.
(2) Due from subsidiaries includes derivatives and trading positions classified as HFT and subordinated loan to subsidiaries classified as FVTPL. All other intercompany receivables are carried at amortised cost.
(3) Non-financial liabilities primarily represents provisions for tax payable and employee stock-option related obligations.
(4) Due to subsidiaries includes derivatives and trading positions classified as HFT and employee stock-option related obligations and tax payables that are non-financial liabilities. All other intercompany payables are carried at amortised cost.

Note 38
Fair value of financial assets and financial liabilities

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

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

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as the timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

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

Level 1	unadjusted quoted prices in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The appropriate fair value hierarchy level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement. AASB 13 *Fair Value Measurement* requires the use of the price within the bid-offer spread that is most representative of fair value.

Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all of the residual net exposure to market risks were closed, on a portfolio basis, using available hedging instruments.

The fair values calculated for financial instruments which are carried in the Statements of financial position at amortised cost (as disclosed in Note 37 *Measurement categories of financial instruments)* are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold or a liability repurchased in a market-based transaction:

- the fair values of liquid assets and other instruments maturing within three months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on securities borrowed, cash collateral on securities lent and repurchase agreements approximates their carrying amounts
- the fair values of all loan assets, term deposits and debt liabilities carried at amortised cost, are determined with reference to changes in interest rates and credit spreads
- the fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of issued debt and loan capital, where carried at amortised cost, is based on quoted prices in active markets where available. Where quoted prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are measured at fair value:

- trading assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified as FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of quoted prices and observable market inputs. Unrealised gains and losses on FVOCI debt financial 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

Note 38
Fair value of financial assets and financial liabilities continued

- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, an adjustment is incorporated into the 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 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 38
Fair value of financial assets and financial liabilities continued

The following table summarises the fair value of financial assets and financial liabilities measured at amortised cost, including the level within the fair value hierarchy:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2021
Assets				
Loan assets	**–**	**4,314**	**100,710**	**105,024**
Loans to associates and joint ventures	**–**	**–**	**538**	**538**
Total assets	**–**	**4,314**	**101,248**	**105,562**
Liabilities				
Deposits	**68,613**	**15,604**	**–**	**84,217**
Borrowings	**405**	**8,188**	**1,274**	**9,867**
Debt issued	**–**	**50,578**	**8,948**	**59,526**
Loan capital	**3,447**	**6,382**	**–**	**9,829**
Total liabilities	**72,465**	**80,752**	**10,222**	**163,439**
				CONSOLIDATED 2020
Assets				
Loan assets	–	6,094	85,351	91,445
Loans to associates and joint ventures	–	52	704	756
Total assets	–	6,146	86,055	92,201
Liabilities				
Deposits	51,536	15,877	–	67,413
Borrowings	119	13,614	3,298	17,031
Debt issued	–	48,805	12,156	60,961
Loan capital	2,288	4,725	–	7,013
Total liabilities	53,943	83,021	15,454	152,418

The financial assets and liabilities measured at amortised cost in the Company as at 31 March 2021 and 31 March 2020 are predominantly categorised as Level 2 in the fair value hierarchy except for Loan capital which is classified as Level 1.

Note 38
Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments, including commodities, measured at fair value[1]:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2021
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	**–**	**27,397**	**–**	**27,397**
Trading assets[2]	**10,269**	**10,978**	**499**	**21,746**
Margin money and settlement assets	**–**	**332**	**–**	**332**
Derivative assets	**235**	**20,137**	**270**	**20,642**
Financial investments	**711**	**7,283**	**1,554**	**9,548**
Held for sale and other assets	**–**	**1,258**	**71**	**1,329**
Loan assets	**16**	**162**	**575**	**753**
Loans to associates and joint ventures	**–**	**–**	**96**	**96**
Total assets	**11,231**	**67,547**	**3,065**	**81,843**
Liabilities				
Cash collateral on securities lent and repurchase agreements	**–**	**345**	**–**	**345**
Trading liabilities	**6,090**	**115**	**–**	**6,205**
Derivative liabilities	**224**	**17,053**	**302**	**17,579**
Held for sale and other liabilities	**–**	**605**	**–**	**605**
Debt issued	**–**	**2,722**	**–**	**2,722**
Total liabilities	**6,314**	**20,840**	**302**	**27,456**
				CONSOLIDATED 2020
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	31,021	–	31,021
Trading assets[2]	10,362	5,837	656	16,855
Margin money and settlement assets	–	555	–	555
Derivative assets	1,009	43,718	880	45,607
Financial investments	723	6,819	1,388	8,930
Held for sale and other assets	3	1,301	10	1,314
Loan assets	–	184	2,515	2,699
Loans to associates and joint ventures	–	–	241	241
Total assets	12,097	89,435	5,690	107,222
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	1,292	–	1,292
Trading liabilities	5,164	380	–	5,544
Derivative liabilities	1,059	36,957	383	38,399
Held for sale and other liabilities	3	619	–	622
Debt issued	–	2,929	–	2,929
Total liabilities	6,226	42,177	383	48,786

(1) The fair value of non-financial assets and liabilities, where applicable, is disclosed under the respective notes.
(2) Includes commodities measured at fair value which are HFT purposes.

Note 38
Fair value of financial assets and financial liabilities continued

The Company does not hold financial instruments measured at fair value except for:

- $2,631 million (2020: $2,400 million) loan capital securities held in subsidiaries which are Level 3 financial instruments
- $293 million (2020: $480 million) derivative assets and $79 million (2020: $378 million) derivative liabilities due with subsidiaries and $607 million (2020: $108 million) structured notes issued which are Level 2 financial instruments.

Fair value sensitivity of these intercompany balances to alternate assumptions and valuation inputs is not significant and hence not covered under the sensitivity analysis disclosures.

Note 38
Fair value of financial assets and financial liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table summarises the movements in Level 3 of the fair value hierarchy for financial instruments, including commodities, measured at fair value by the Consolidated Entity:

	Trading assets $m	Financial investments $m	Held for sale and other assets $m
Balance as at 1 Apr 2019	225	1,502	97
Purchase, originations, issuances and other additions	363	366	15
Sales, settlements and repayments	(45)	(502)	(70)
Transfers into Level 3[2]	107	42	–
Transfers out of Level 3[2]	(17)	(195)	(33)
Fair value movements recognised in the income statement			
Net trading income[3],[4]	23	100	1
Other income/(loss)[5]	–	62	–
Fair value movements recognised in OCI[3]	–	13	–
Balance as at 31 Mar 2020	656	1,388	10
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[3]	23	146	–
Balance as at 1 Apr 2020	**656**	**1,388**	**10**
Purchase, originations, issuances and other additions	**526**	**552**	**22**
Sales, settlements and repayments	**(240)**	**(318)**	**–**
Transfers into Level 3[2]	**126**	**186**	**25**
Transfers out of Level 3[2]	**(189)**	**(138)**	**–**
Fair value movements recognised in the income statement			
Net trading loss[3],[4]	**(380)**	**(209)**	**(2)**
Other income/(loss)[5]	**–**	**54**	**16**
Fair value movements recognised in OCI[3]	**–**	**39**	**–**
Balance as at 31 Mar 2021	**499**	**1,554**	**71**
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[3]	**(379)**	**(134)**	**14**

(1) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $270 million (2020: $880 million) and derivative liabilities are $302 million (2020: $383 million).
(2) Assets and liabilities transferred in or out of Level 3 are presented as if the assets or liabilities had been transferred at the beginning of the financial year.
(3) The Consolidated Entity employs various hedging techniques in order to manage market risks including foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, that may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency denominated financial instruments that are measured at amortised cost, are not presented in the table above.
(4) Net trading loss for the year for trading assets and derivatives include trading-related gains and losses and foreign exchange gains and losses. For all other Statement of financial position items, trading loss represents foreign exchange losses only.
(5) Includes investment income and impairment charges on financial investments, loan assets and loans to associate and joint ventures.

Loan assets $m	Loans to associates and joint ventures $m	Derivative financial instruments (net replacement values)[1] $m	Total $m
621	208	238	2,891
2,213	256	249	3,462
(208)	(167)	(113)	(1,105)
–	–	18	167
–	(7)	(6)	(258)
62	33	111	330
6	(63)	–	5
(179)	(19)	–	(185)
2,515	241	497	5,307
53	(30)	111	303
2,515	**241**	**497**	**5,307**
468	**82**	**179**	**1,829**
(2,043)	**(19)**	**(289)**	**(2,909)**
–	**5**	**2**	**344**
(25)	**(74)**	**(38)**	**(464)**
(351)	**(36)**	**(383)**	**(1,361)**
(54)	**(27)**	**–**	**(11)**
65	**(76)**	**–**	**28**
575	**96**	**(32)**	**2,763**
(281)	**(55)**	**(382)**	**(1,217)**

Note 38
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 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 or losses

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

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

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Balance at the beginning of the financial year	**179**	185
Deferrals on new transactions and other adjustments	**6**	53
Foreign exchange movements	**(23)**	8
Recognised in net trading income during the year[1]	**(75)**	(67)
Balance at the end of the financial year	**87**	179

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 and valuation techniques such as discounted cash flows based on assumptions by reference to historical company and industry experience. The impact of the sensitivity of financial instruments which hedge the Level 3 positions but are classified as Level 1 or 2 is not included in the table below.

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss $m	OCI $m	Profit or loss $m	OCI $m
				CONSOLIDATED 2021
Product type				
Equity and equity-linked products	**108**	**–**	**(116)**	**-**
Commodities	**113**	**–**	**(73)**	**-**
Interest rate and other products	**58**	**3**	**(69)**	**(4)**
Total	**279**	**3**	**(258)**	**(4)**
				CONSOLIDATED 2020
Product type				
Equity and equity-linked products	112	–	(122)	–
Commodities	167	–	(133)	–
Interest rate and other products	69	32	(213)	(49)
Total	348	32	(468)	(49)

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

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

Note 38
Fair value of financial assets and financial liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair value. The range of values represent the highest and lowest input used in the valuation techniques. The range does not therefore reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS Minimum value	Maximum value
					CONSOLIDATED 2021	
Equity and equity-linked products	**910**	**8**	Net Asset Value (NAV)	Fund's NAV[1]		
			Pricing model	Earnings multiple	**3.2x**	**11.6x**
Commodities	**622**	**287**	Pricing model	Commodity margin curves	**(121.4)**	**1,458.0**
			Pricing model	Correlation	**(43.0%)**	**100.0%**
			Pricing model	Volatility and related variables	**8.3%**	**290.5%**
Interest rate and other products	**1,533**	**7**	Discounted cash flows	Discount rate	**2.5%**	**12.0%**
			Pricing model	Correlation	**0.0%**	**100.0%**
			Comparable transactions	Prices in %	**44%**	**97%**
Total	**3,065**	**302**				
					CONSOLIDATED 2020	
Equity and equity-linked products	976	10	Net Asset Value (NAV)	Fund's NAV[1]		
			Pricing model	Earnings multiple	2.0x	15.0x
Commodities	1,170	364	Pricing model	Commodity margin curves	(126.3)	967.5
			Pricing model	Correlation	(55.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	293.4%
Interest rate and other products	3,544	9	Discounted cash flows	Discount rate	2.0%	12.0%
			Pricing model	Correlation	0.0%	100.0%
Total	5,690	383				

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input into the valuation of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of the amount a particular underlying instrument, parameter or index will change in value over time. Volatility is an input into the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Correlations and volatilities are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.

(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.

Note 38
Fair value of financial assets and financial liabilities continued

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.

Note 39
Offsetting financial assets and financial liabilities

The Consolidated Entity and the Company present financial assets and financial liabilities on a net basis in the Statements of financial position when they meet the criteria described in Note 44(vii) *Financial instruments.* The following tables provide information on the impact of offsetting of financial instruments in the Statements of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore presented gross in the Statements of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity and Company's financial position in that circumstance is to settle these contracts as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity. Refer to Note 36.1 *Credit risk* for information on credit risk management.

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET(1)				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments(2) $m	Cash and other financial collateral(3) $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2021
Cash collateral on securities borrowed and reverse repurchase agreements	33,840	(583)	33,257	(26)	(32,781)	450	3,424	36,681
Settlement assets(4)	7,419	(5,153)	2,266	(21)	–	2,245	7,279	9,545
Derivative assets	26,472	(6,461)	20,011	(11,048)	(4,433)	4,530	631	20,642
Total assets	**67,731**	**(12,197)**	**55,534**	**(11,095)**	**(37,214)**	**7,225**	**11,334**	**66,868**
Cash collateral on securities lent and repurchase agreements	(4,669)	583	(4,086)	26	3,964	(96)	(456)	(4,542)
Settlement liabilities(4)	(7,266)	5,153	(2,113)	21	–	(2,092)	(7,643)	(9,756)
Derivative liabilities	(22,747)	6,461	(16,286)	11,048	2,766	(2,472)	(1,293)	(17,579)
Total liabilities	**(34,682)**	**12,197**	**(22,485)**	**11,095**	**6,730**	**(4,660)**	**(9,392)**	**(31,877)**

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
(4) Excludes margin money assets of $4,852 million and liabilities of $12,368 million presented under Note 8 *Margin money and settlement assets* and Note 20 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 39
Offsetting financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET[1]				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[2] $m	Cash and other financial collateral[3] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2020
Cash collateral on securities borrowed and reverse repurchase agreements	37,311	(944)	36,367	(353)	(35,269)	745	1,343	37,710
Settlement assets[4]	7,139	(5,796)	1,343	–	–	1,343	7,812	9,155
Derivative assets	61,467	(18,245)	43,222	(24,154)	(11,228)	7,840	2,385	45,607
Total assets	105,917	(24,985)	80,932	(24,507)	(46,497)	9,928	11,540	92,472
Cash collateral on securities lent and repurchase agreements	(2,862)	944	(1,918)	353	1,442	(123)	(416)	(2,334)
Settlement liabilities[4]	(7,355)	5,796	(1,559)	–	–	(1,559)	(7,362)	(8,921)
Derivative liabilities	(54,950)	18,245	(36,705)	24,154	8,270	(4,281)	(1,694)	(38,399)
Total liabilities	(65,167)	24,985	(40,182)	24,507	9,712	(5,963)	(9,472)	(49,654)

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
(4) Excludes margin money assets of $7,238 million and liabilities of $13,894 million presented under Note 8 *Margin money and settlement assets* and Note 20 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 39
Offsetting financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET				
	Gross Amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m	Amount not subject to enforceable netting arrangement $m	Statement of financial position total $m
								COMPANY 2021
Due from subsidiaries	**24,929**	**(5,652)**	**19,277**	**(665)**	**–**	**18,612**	**2,950**	**22,227**
Due to subsidiaries	**(7,044)**	**5,652**	**(1,392)**	**665**	**–**	**(727)**	**(812)**	**(2,204)**
								COMPANY 2020
Due from subsidiaries	29,806	(369)	29,437	(7,054)	–	22,383	2,897	32,334
Due to subsidiaries	(8,331)	369	(7,962)	7,054	–	(908)	(939)	(8,901)

Note 40
Pledged assets and transfers of financial assets

Pledged assets

Assets pledged as security for liabilities include the following:

- securities and commodities included under trading assets and off balance sheet collateral securities pledged for repurchase transactions, stock lending arrangements and trading liabilities. These transactions are governed by standard industry agreements
- loan assets held by the Consolidated SEs provided as collateral against debt issued
- cash and bank balances, trading assets, associate investments, financial investments, property, plant and equipment and other assets provided as collateral for borrowings.

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

	CONSOLIDATED	
	2021 $m	2020 $m
On Balance Sheet items:		
Cash and bank balances	**116**	146
Trading assets(1)	**3,826**	3,235
Financial investments	**202**	267
Other assets	**572**	332
Loan assets(2)	**14,157**	17,335
Interests in associates and joint ventures	**–**	2,853
Margin money and settlement assets	**92**	95
Property, plant and equipment	**520**	303
Intangible assets	**434**	451
Total On Balance Sheet items pledged for liabilities	**19,919**	25,017
Off Balance Sheet items:		
Collateral securities and commodities(3)	**8,796**	7,852
Total	**28,715**	32,869

(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 $1,734 million (2020: $1,214 million) 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 $2,605 million of SEs securitised bonds that have been pledged against repurchase agreement liabilities, including $505 million (2020: $531 million) relating to a repurchase liability with a related body corporate.
(3) Of the $37,149 million (2020: $38,072 million) of collateral received against reverse repurchase and collateral arrangements (refer Note 36.1 *Credit risk*), this balance represents securities transferred under repurchase agreements for which a corresponding liability is recognised on the Consolidated Entity's Statement of financial position and security swap arrangements where there is no associated liability on the Consolidated Entity's Statement of financial position.

Note 40
Pledged assets and transfers of financial assets
continued

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's Statement of financial position to other entities. Depending on the criteria discussed in Note 44(vii) *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 financial years ended 31 March 2021 and 31 March 2020, there were no material 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 any financial assets to the extent of continuing involvement in the years ended 31 March 2021 and 31 March 2020. The following transactions typically result in the transferred assets continuing to be recognised in full.

Repurchase and securities lending agreements

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

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

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

Financial investment – Total return swap

Financial assets sold, while concurrently entering into a total return swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold by the transferee.

Other financial transfers

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

Trading assets under other financial assets not derecognised represents gold and bonds transferred for margins in relation to trading activities.

Note 40
Pledged assets and transfers of financial assets continued

	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS Fair value of transferred assets $m	Fair value of associated liabilities $m	Fair value $m
					CONSOLIDATED 2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	**3,200**	**(1,454)**	**–**	**–**	**–**
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	**202**	**(182)**	**–**	**–**	**–**
Other financial assets not derecognised:					
Trading assets[2]	**988**	**–**	**–**	**–**	**–**
Loan assets	**208**	**(198)**	**209**	**(199)**	**10**
Total financial assets not derecognised	**4,598**	**(1,834)**	**209**	**(199)**	**10**
					CONSOLIDATED 2020
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	1,959	(775)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	267	(245)	–	–	–
Other financial assets not derecognised:					
Cash and bank balances[2]	124	–	–	–	–
Trading assets[2]	748	–	–	–	–
Loan assets	423	(412)	423	(412)	11
Total financial assets not derecognised	3,521	(1,432)	423	(412)	11

There were no material transfers of financial assets for the Company where the financial assets were transferred but not derecognised during the financial years ended 31 March 2021 and 31 March 2020.

(1) Includes securities amounting to $1,734 million (2020: $1,214 million) transferred under security swap arrangements.
(2) Includes gold and bonds placed as initial margin for trading activities.

Note 41
Audit and other services provided by PricewaterhouseCoopers

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

	CONSOLIDATED	
	2021 $'000	2020[1] $'000
PwC – Australia		
Audit of the Group and controlled entities[2]	**24,049**	24,603
Total audit services	**24,049**	24,603
Other statutory assurance services[3]	**2,622**	1,673
Other assurance services[4]	**4,342**	2,905
Advisory services	**28**	265
Taxation	**415**	588
Total non-audit services	**7,407**	5,431
Total remuneration paid to PwC Australia	**31,456**	30,034
Network firms of PwC Australia		
Audit of the controlled entities[2]	**11,498**	14,068
Total audit services	**11,498**	14,068
Other statutory assurance services[3]	**595**	542
Other assurance services[4]	**852**	1,080
Advisory services	**293**	286
Taxation	**2,759**	1,706
Total non-audit services	**4,499**	3,614
Total remuneration paid to network firms of PwC Australia	**15,997**	17,682
Total audit services remuneration paid to PwC	**35,547**	38,671
Total non-audit services remuneration paid to PwC	**11,906**	9,045
Total remuneration paid to PwC	**47,453**	47,716

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Consolidated Entity's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects and all non-audit services provided by PwC have been approved in accordance with its *Auditor Independence Policy*.

(1) Comparative information has been restated to conform to the presentation in the current year.
(2) Prior period includes additional fees of $5,603 thousand for PwC Australia ($2,049 thousand for network firms of PwC Australia) that related to the year ended 31 March 2020 but were incurred during the 2021 financial year.
(3) Other statutory assurance services include audit of Australian Financial Services license requirements and other due diligence activities including comfort letters on debt issuance programmes, generally performed by the auditor of the Consolidated Entity.
(4) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include engagements required under prudential standards, accounting advice, certifications, due diligence and reviews of controls and other agreed upon procedures.

Note 42
Acquisitions and disposals of subsidiaries and businesses

Significant acquisition of subsidiaries and businesses:

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

Other subsidiaries and businesses acquired:

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

Alira Energy, LLC, Woodway Holdings LLC, Vantage Commodities Financial Services LLC, Macquarie Fund Solutions – Global Listed Real Assets Fund, Delaware Wilshire Private Markets Fund, Future Energy sp.z.o.o, Aragorn Holdco 2 Pte Limited, Macquarie Corporate Bond Fund 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 is immaterial.

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

Premier Technical Services Group, The Dovel Group, LLC, Ace Info Solutions LLC, Eolica Kisielice spólka z ograniczona odpowiedzialnoscia Management Kisielice Spółka Z Ograniczoną Odpowiedzialnością, Lake Wind AB, Biocow Ltd, Zajączkowo Windfarm Sp. z o.o, Business Keeper AG, Macquarie Fund Solutions Macquarie Corporate Bond, PESY II Holdings S.a.r.l and Matrix Networks Group Limited.

Aggregate provisional details of the above-mentioned acquisitions are as follows:

	2021 $m	2020 $m
Fair value of net assets acquired		
Cash and bank balances	**51**	44
Financial investments	**74**	74
Other assets	**23**	213
Loan assets	**6**	-
Property, plant and equipment and right-of-use assets	**192**	193
Intangible assets	**57**	244
Payables, provisions, borrowings and other liabilities	**(60)**	(527)
Non-controlling interests	**(58)**	(69)
Total fair value of net assets acquired	**285**	172
Consideration		
Cash consideration	**281**	888
Deferred consideration	**6**	6
Total consideration	**287**	894
Goodwill recognised on acquisition	**2**	722
Net cash flow		
Cash consideration	**(281)**	(888)
Less: cash and cash equivalents acquired	**51**	44
Net cash outflow	**(230)**	(844)

Note 42
Acquisitions and disposals of subsidiaries and businesses continued

Significant disposal of subsidiaries and businesses:

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

Other disposal of subsidiaries and businesses:

During the year ended 31 March 2021, the Consolidated Entity disposed of Vestone Capital Pty Limited (formerly Macquarie Equipment Rentals Pty Limited). This was achieved by contributing the net assets of the business to a newly formed joint venture along with a third-party investor, in which the Consolidated Entity holds a 50% interest.

Other subsidiaries and businesses disposed of or deconsolidated due to the loss of control were:

VeenIX BaHo B.V, Acacia Renewables K.K, Macquarie European Rail, Macquarie Corporate Bond Fund, Hamel Renewables LLC, Hamel Renewables HoldCo LLC, Macquarie Fund Solutions – Global Listed Real Assets Fund, IPM Global Macro 50 Fund and Showa Planning K.K.

During the year ended 31 March 2020, the Consolidated Entity disposed of the Macquarie AirFinance business, by contributing the net assets of the business to a newly formed joint venture along with a third-party investor in which Macquarie held a 75% interest. Rental income and other operating lease related charges up to the date of the disposal have been included in the Consolidated Entity's net operating lease income.

Other subsidiaries and businesses disposed of or deconsolidated due to the loss of control were: Energy S. LSIS, Achim Solar Power Co. Ltd, Aran Solar Company Limited, Suri Solar Company Limited, Sosu Solar Company Limited, Mir Solar Company Limited, Maru Solar Company Limited, Laon Solar Company Limited, Nuix Pty Ltd, Nuix North America Inc., Nuix USG Inc., Nuix Ireland Ltd, Nuix Technology UK Ltd, Nuix Pte. Ltd, Nuix Holding Pty Ltd, Nuix Philippines ROHQ, Dalmatia WtE EUR Topco Limited, Dalmatia WtE EUR Holdings Limited, LPC Venture I, LLC, Godo Kaisha Alpha Mega Solar Project No. 1, Godo Kaisha Alpha Mega Solar Project No. 2, Alchemy Telco Solutions Limited, American Alpha Master Fund, Delaware Emerging Market Debt Fund, Delaware Small Cap Growth Fund, Global Multi Asset Income, UCITS Corp Bond Fund, PPP Irish Accommodation Limited, Zają czkowo Windfarm Sp. z o.o. Poland Bidco 1 Ltd, Kisielice Wind Limited, Eolica Kisielice spólka z ograniczona odpowiedzialnoscia Management Kisielice Spółka Z Ograniczoną Odpowiedzialnością.

Aggregate details of the diposals of are as follows:

	2021 $m	2020 $m
Carrying value of assets and liabilities		
Cash and bank balances	**39**	114
Financial investments	**119**	296
Loan assets	**423**	–
Held for sale and other assets	**758**	9,776
Property, plant and equipment and right-of-use assets	**–**	94
Interests in associates and joint ventures	**–**	44
Intangible assets	**5**	453
Deferred tax, held for sale and other liabilities	**(307)**	(7,288)
Non-controlling interests	**(53)**	(349)
Total carrying value of net assets	**984**	3,140
Consideration		
Cash consideration	**940**	1,223
Consideration receivable	**41**	17
Fair value remeasurement of investment retained	**56**	724
Loan assets	**376**	–
Interest acquired through contribution to a joint venture	**32**	1,558
Total consideration	**1,445**	3,522
Direct costs relating to disposal	**(5)**	(8)
Net cash flow		
Cash consideration	**940**	1,223
Less: cash and cash equivalents disposed of or deconsolidated[1]	**(64)**	(1,197)
Net cash inflow	**876**	26

(1) Includes $25 million (2020: $1,083 million) of cash and bank balances included under held for sale and other assets above.

Note 43
Events after the reporting date

On 30 April 2021, the Consolidated Entity acquired control of Waddell & Reed Financial Inc., a publicly traded US asset manager providing wealth management and asset management services, for consideration of $2,175 million. On completion, the Consolidated Entity sold the wealth management business to LPL Financial Holdings Inc. for $400 million. While the purchase price allocation for the acquisition and disposal is yet to be completed, it is estimated that it will result in an increase in goodwill and other intangible assets net of deferred tax of approximately $1,200 million and other net assets of approximately $600 million. Had the Consolidated Entity acquired control on 1 April 2020, the Consolidated Entity's net operating income for the year ended 31 March 2021, excluding the wealth management business, would have increased by approximately $660 million. The contribution to the Consolidated Entity's profit after income tax in this year, after acquisition-related costs and the amortisation of intangible assets but excluding integration costs and synergies, would have been approximately $50 million.

There were no other material events subsequent to 31 March 2021 and up until the authorisation of the financial statements for issue, that have not been disclosed elsewhere in the financial statements.

Note 44
Significant accounting policies

(i) Principles of consolidation

Subsidiaries

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

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

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

All variable returns are considered in making that assessment including, but not limited to, returns from debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

Structured entities

Structured Entities (SEs) are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities of the SE are directed by means of contractual arrangements. When assessing whether the Consolidated Entity controls (and therefore consolidates) a SE, judgement is required as to whether the Consolidated Entity has power over the relevant activities as well as exposure, or rights, to significant variable returns of the SE.

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

Consolidation

The effects of all transactions between subsidiaries in the Consolidated Entity are eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains but only to the extent that there is no evidence of impairment. Non-controlling interests (NCI) in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

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

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

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

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

Note 44
Significant accounting policies continued

(i) Principles of consolidation continued

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence the financial and operating policies or jointly control the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

The equity method of accounting is applied in the consolidated Financial Report and requires the recognition of the Consolidated Entity's share of its associates' and joint ventures' post acquisition profits or loss (including impairments of the associates' or joint ventures' assets) in the consolidated income statement, and the share of the post-acquisition movements in other comprehensive income in 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 44
Significant accounting policies continued

(ii) Business combinations continued

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

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

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

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

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

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

(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 35 *Hedge accounting* and Note 44(x) *Derivative instruments and hedging activities*).

Subsidiaries and other entities

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

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

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.

Note 44
Significant accounting policies continued

(iv) Revenue and expense recognition

Net interest income

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

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

The calculation of the EIR does not include ECL, except for financial assets which on initial recognition are classified as purchased or originated credit impaired (POCI). Interest income on these assets is determined using a credit adjusted EIR by discounting the estimated future cash receipts, including credit losses expected at initial recognition, through the expected life of the financial instrument to the net carrying amount of the financial asset.

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

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

Fee and commission income

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

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 the fund or managed account to date or consideration of the current valuation case of the assets in relation to the related performance fee hurdle rate
- the proportion of assets realised and returns on those assets
- nature of remaining underlying fund or managed account's assets and potential downside valuation risks on each
- time remaining until realisation of the assets and the fund's life or asset management services' timeline
- consideration of the ability to dispose of the asset, including any barriers to divest.

Mergers and acquisitions, advisory and underwriting fees

The Consolidated Entity earns revenue through its role as advisor on corporate transactions as well as through its role as manager and underwriter of equity and debt issuances. The revenue from these arrangements is recognised at a point in time, and when it has been established that the customer has received the benefit of the service such that the performance obligation is satisfied. For advisory services this is typically at the time of closing the transaction.

Where mandates contain rights to invoice upon reaching certain milestones, the Consolidated Entity assesses whether distinct services have been transferred at these milestones and accordingly recognises revenue. If not, the fee recognition will be deferred until such time as the performance obligation has been completed. Management of capital raisings and underwriting of debt or equity capital raisings are each considered distinct performance obligations that are typically satisfied on the allocation date of the underwritten securities.

Brokerage and other trading-related income

The Consolidated Entity enters into contracts with customers to act as an agent to buy and sell securities. 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 on a range of banking products and services platforms, wealth services, credit cards, structuring fees, lending services, stock borrow and lending activities and income on structured products which is recognised when the performance obligation is satisfied.

Note 44
Significant accounting policies continued

(iv) Revenue and expense recognition continued

Net operating lease income

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

Supplemental rent, maintenance liability and end of lease compensation

Generally, under operating lease contracts the lessee is responsible for maintenance. Supplementary rent received from lessees in relation to maintenance is recognised as a maintenance liability where the lessee is responsible for maintenance and the Consolidated Entity is obligated to reimburse lessees for the maintenance.

In certain circumstances, the Consolidated Entity, as lessor, agrees to an alternative mechanism related to maintenance known as end of lease compensation. This compensation is typically calculated on the basis of the condition of each major component at the end of the lease relative to the commencement of the lease measured by hours, number of cycles or calendar time at an agreed rate specified in the lease. The expected compensation for the use of the asset is accrued over the term of the lease and receipt of this compensation is deferred until the end of the lease.

In other leases, the lessee is required to enter into a contract with an approved third-party maintenance service provider and make payments on a monthly basis to the service provider based on hours operated.

Maintenance liabilities are recognised separately and are disclosed in Note 23 *Held for sale and other liabilities*.

Other operating income and charges

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

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

Gains or losses on the change of control, joint control and/or significant influence and reclassifications to/from held for sale also forms part of investment income. Refer to Note 44(i) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

Dividends

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

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

Judgement is applied in determining whether distributions from subsidiaries, associates and joint ventures are to be recognised as dividend income or as a return of capital. Distributions that represent a return of capital are accounted for by the Company as a reduction to the cost of its investment and are otherwise recognised by the Company within investment income as part of other operating income and charges when the recognition criteria are met.

Expenses

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

(v) Segment reporting

Operating segments are identified on the basis of internal reports to Senior Management about components of the Consolidated Entity that are regularly reviewed by Senior Management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to Senior Management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising five reportable segments as disclosed in Note 3 *Segment reporting*.

Information about products and services is based on the financial information used to produce the Consolidated Entity's financial statements. Information about geographical segments is based on the jurisdiction of the respective entities.

(vi) Taxation

The balance sheet approach to tax effect accounting has been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences or tax losses.

Note 44
Significant accounting policies continued

(vi) Taxation continued

Deferred tax liabilities are recognised when such temporary differences give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered, or the liabilities are settled under enacted or substantively enacted tax law.

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

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

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

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

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

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

Tax consolidation

The Consolidated Entity's Australian tax liabilities are determined according to tax consolidation legislation.

The Company, together with all eligible Australian resident wholly owned subsidiaries, comprise a tax consolidated group with the Company as the head entity. As a consequence, the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses.

The tax consolidated group recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB Interpretation 1052 *Tax Consolidation Accounting*. Under the terms and conditions of a tax funding agreement, the Company charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

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

Goods and Services tax (GST)

Where GST (or other value added tax) is not recoverable from global tax authorities, it is either capitalised to the Statement of financial position as part of the cost of the related asset or is recognised as part of other operating expenses. Where GST (or other value added tax) is recoverable from or payable to global tax authorities, the amount is recorded as a separate asset or liability in the Statement of financial position.

(vii) Financial instruments

Recognition of financial instruments

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

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

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

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

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

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

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 issued

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under AASB 9, or
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15 *Revenue from Contracts with Customers.*

Modification of financial instruments

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

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

Classification and subsequent measurement

Financial assets

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

Business model assessment

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

- how the performance of the financial assets held within that business model is evaluated and reported to the Consolidated Entity's Senior Management personnel and senior executives

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed, and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Solely payment of principal and interest (SPPI)

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

Amortised cost

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

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

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

Fair value through other comprehensive income

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

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

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

Fair value through profit or loss

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

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

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

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

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

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

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

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

Reclassification of financial instruments

The Consolidated Entity reclassifies debt financial assets when and only when its business model for managing those assets changes. Financial assets that are reclassified are subsequently measured based on the financial asset's new measurement category.

The Consolidated Entity does not reclassify financial liabilities after initial recognition.

Financial liabilities

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

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

All derivative financial liabilities are classified as HFT, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL. Refer to Note 44(x) *Derivative instruments and hedging activities* for the detailed hedge accounting policy.

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

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

Offsetting of financial instruments

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

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

As part of its trading and financing activities, the Consolidated Entity borrows and lends securities, commodities and other assets ('underlying') on a collateralised basis. The underlying that is subject to the arrangement is not derecognised from the Statement of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

These transactions include:

- reverse repurchase transactions, where the Consolidated Entity purchases an underlying under an agreement to resell
- repurchase transactions, where the Consolidated Entity sells an underlying under an agreement to repurchase.

The Consolidated Entity continually reviews the fair values of the underlying on which the above transactions are based and where appropriate, requests or provides additional collateral to support the transactions, in accordance with the terms of the respective agreements.

Reverse repurchase agreements are measured as follows by the Consolidated Entity:

- agreements that are collateralised with commodities are measured at amortised cost when they are held in a business model to collect contractual cash flows and AASB 9's SPPI criteria are met
- agreements that are held within the Consolidated Entity's cash and liquid assets portfolio are measured at FVOCI as they are held in a business model to both collect contractual cash flows and with the intention to sell
- all other reverse repurchase agreements are measured at FVTPL to reflect the Consolidated Entity's business model to realise fair value gains and losses as opposed to a business model in which the objective is to collect contractual cash flows.

Also refer to Note 37 *Measurement categories of financial instruments*.

Repurchase agreements are subsequently measured at amortised cost, except where they are DFVTPL to eliminate an accounting mismatch created by managing the agreements together with the associated reverse repurchase agreements that are measured at FVTPL.

(ix) Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets and liabilities that are classified as HFT. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised gain or loss arising from revaluing that contract to fair value as part of net trading income, except for interest income on HFT debt financial assets which is recognised in interest income. Refer to Note 44(vii) *Financial instruments*.

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

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

Note 44
Significant accounting policies continued

(ix) Trading assets and liabilities continued

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

When the Consolidated Entity becomes party to a sale contract, and the derecognition criteria are met (refer to Note 44(vii) *Financial instruments*), it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

(x) Derivative instruments and hedging activities

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

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

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

Fair values are obtained from quoted prices in active markets where available, or valuation techniques including discounted cash flow models and option pricing models, as appropriate. The accounting for derivatives is subject to the application of the day 1 profit or loss policy as described in Note 44(vii) *Financial instruments*.

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

Hedge accounting

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

Note 44
Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

	Fair value hedge	Cash flow hedge	Net investment hedge
Nature of hedge	The hedge of the fair value risk of a financial asset or non-financial asset or 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.
Nature of material hedged risks	• Interest rate risk • Commodity price risk.	• Interest rate risk • Foreign exchange risk • Commodity price risk.	• Foreign exchange risk.
Material hedged items	• Fixed interest rate financial assets and liabilities • Commodity transportation contracts.	• Floating interest rate financial liabilities • Highly probable forecast floating interest rate financial assets • Highly probable forecast foreign currency payments • Highly probable forecast commodity sales • Foreign currency denominated interest bearing financial liabilities.	• Net Investment in foreign operations.
Material hedging instruments	• Interest rate swaps • Cross currency swaps • Commodity forward contracts.	• Interest rate swaps and options • Cross currency swaps • Foreign exchange contracts • Commodity swaps and futures.	• Foreign exchange contracts • Foreign currency denominated issued debt.
Designation and documentation	At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that: • an economic relationship exists between the hedged item and the hedging instrument • credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and • the hedge ratio is reflective of the Consolidated Entity's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument.		
Accounting treatment for the hedging instrument	Fair value through the income statement, aligned to the presentation of the hedged item.	Fair value through the cash flow hedge reserve as part of OCI, and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Foreign exchange gains and losses are recognised in the Net Investment Hedge Reserve (NIHR), a separate component of FCTR in OCI.
Accounting treatment for the hedged item	Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis 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.

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Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 44
Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

<table>
<tr><th></th><th>Fair value hedge</th><th>Cash flow hedge</th><th>Net investment hedge</th></tr>
<tr><td>Accounting treatment for hedge ineffectiveness</td><td>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.</td><td colspan="2">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.</td></tr>
<tr><td>Accounting treatment if the hedge relationship is discontinued</td><td>Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an EIR basis.</td><td>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.</td><td>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.</td></tr>
<tr><td>Other accounting policies</td><td>None</td><td colspan="2">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.</td></tr>
</table>

Note 44
Significant accounting policies continued

(xi) Margin money and settlement assets and liabilities

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

(xii) Financial investments

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

Debt investment securities in this category comprise bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities.

Financial investments are initially recognised on trade date at fair value (adjusted for directly attributable transaction costs for debt investments subsequently measured at FVOCI) and subsequently measured in accordance with Note 44(vii) *Financial instruments*.

(xiii) Loan Assets

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

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 44 (vii) *Financial instruments.*

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 44(vii) *Financial instruments*.

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

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

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

Property, plant and equipment and right-of-use assets includes assets leased out under operating leases. Depreciation to allocate the difference between cost and residual values over the estimated useful life is calculated on the following bases:

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

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

Annual depreciation rates are summarised below:

Property, plant and equipment	Depreciation rates
Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements[1]	10 to 20%
Equipment	33 to 50%
Infrastructure assets[2]	2 to 12%
Aviation[3]	2 to 8%
Meters	5 to 15%
Rail cars	3 to 5%
Telecommunications	24.5 to 41.4%
Other operating lease assets	2 to 25%

Useful lives, residual values and depreciation methods are reviewed annually and reassessed in the light of commercial and technological developments. Gains and losses on disposal are determined by comparing the proceeds with the asset's carrying amount and are recognised in other income as part of other operating income and charges.

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.
(2) Includes infrastructure assets, for which depreciation is calculated on a unit of production basis.
(3) Includes aircraft, for which depreciation is calculated on a diminishing value basis.

Note 44
Significant accounting policies continued

(xiv) Property, plant and equipment and right-of-use assets continued

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.

(xv) Goodwill and other identifiable intangible assets

Goodwill

Goodwill is measured as the excess of consideration, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the business acquired. Goodwill arising from business combinations is included in intangible assets in the Statement of financial position.

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

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

Software

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

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

(xvi) Deposits

Deposits include customer deposits, business banking and home loan related deposits, deposits from financial institutions and other balances such as client monies. These deposits are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

(xvii) Other assets and liabilities

Contract assets, contract liabilities and capitalised expenses

Where the Consolidated Entity provides services to clients and the consideration is unconditional, a receivable is recognised. Where the consideration is conditional on something other than the passage of time, 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.

Note 44
Significant accounting policies continued

(xvii) Other assets and liabilities continued

Non-current assets and liabilities of disposal groups classified as held for sale

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

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

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

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

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

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 Company's Board of Directors, consideration is given to the record date when determining the date on which the provision for the dividend is recognised in the Statement of financial position as a liability, with a corresponding reduction in retained earnings.

(xviii) Borrowings

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

(xix) Due to/from subsidiaries

Transactions between the Company and its subsidiaries principally arise from the provision of lending arrangements and acceptance of funds on deposit, intercompany services and transactions and the provision of financial guarantees, and are accounted for in accordance with Note 44(iv) *Revenue and expense recognition* and Note 44(vii) *Financial instruments*. Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 44(vii)), such that the net amount is reported in the Statement of financial position.

Note 44
Significant accounting policies continued

(xx) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at either amortised cost or are DFVTPL and measured at fair value in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 44(vii) *Financial instruments*.

(xxi) Loan capital

Loan capital represents issued debt with terms and conditions that qualify for inclusion as capital under Australian Prudential Regulatory Authority (APRA) Standards.

Capital instruments are first assessed to determine whether the Consolidated Entity is required to deliver cash or another financial asset on the occurrence of a contingent event that is considered genuine and is beyond the control of both the issuer and the holder (such as Common Equity Tier 1 Trigger Events or Non-Viability Trigger Events). Where such a contingent event exists, the Consolidated Entity does not have the unconditional right to avoid delivering cash or another financial asset and the capital instrument is classified as a financial liability. The financial liability is initially measured at fair value plus directly attributable transaction costs and is subsequently measured at amortised.

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

(xxii) Impairment

Expected credit losses

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

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 13 *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:

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.

(i) 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 13 *Expected credit losses*.

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

(ii) 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.

(iii) Purchased or originated credit-impaired financial assets (POCI)

POCI financial assets are initially recognised at fair value with interest income subsequently determined using a credit-adjusted EIR, which is the EIR adjusted for ECL on initial recognition.

This ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for FLI or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit adjusted EIR, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in the income statement as a credit impairment charges/reversal.

Note 44
Significant accounting policies continued

(xxii) Impairment continued

Presentation of ECL allowances

The ECL allowances are presented in the Statement of financial position as follows:

- loan assets, loans to related body corporate entities and subsidiaries, associates and joint ventures measured at amortised cost – as a deduction to the gross carrying amount
- loan assets, loans to associates and joint ventures, and debt financial investments measured FVOCI – as a reduction in the FVOCI reserve within equity. The carrying amount of the asset is not adjusted as it is measured at fair value
- lease receivables, contract receivables and other assets measured at amortised cost – as a deduction to the gross carrying amount
- undrawn credit commitments and financial guarantees (not measured at FVTPL) – as a provision included in other liabilities.

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

Impairment of interests in associates and joint ventures

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

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

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

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

Value-in-use is calculated using pre-tax cashflow projections of operating revenue and expenses. Forecasts are extrapolated using a growth rate and discounted using a pre-tax discount rate incorporating market risk determinants, adjusted for specific risks related to the cash generating units, if any, and the environment in which it operates.

Impairment of investments in subsidiaries

Investments in subsidiaries in the Company's financial statements are reviewed annually for indicators of impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognised in other impairment charges/reversal, for the amount by which the investment's carrying amount exceeds its recoverable amount, being the higher of fair value less costs to sell and value-in-use. At each reporting date, investments in subsidiaries that have been impaired are reviewed for possible reversal of impairment. The amount of any reversal of impairment recognised must not cause the investment's carrying value to exceed its original cost.

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

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

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

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

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

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments (refer to Note 3 *Segment reporting*) and assessed for impairment.

Note 44
Significant accounting policies continued

(xxiii) Performance based remuneration

Share-based payments

The Consolidated Entity operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 32 *Employee equity participation*.

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

Equity settled awards: The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with a corresponding increase in equity with reference to the vesting period of those awards. Performance hurdles attached to Performance Share Units (PSUs) under the MEREP are not taken into account when determining the fair value of the PSUs at the grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest. On vesting, the amount recognised in the share-based payments reserve is transferred to contributed equity. For the Company, the accounting is dependent on whether the Company is compensated for its obligations under the MEREP award. To the extent that employing subsidiaries compensate the Company for the MEREP offered to their employees, a recharge liability due to subsidiaries is recognised by the Company at grant date representing the payment received in advance of the award being settled. This liability reduces over the vesting period with a corresponding increase in the share-based payments reserve. MEREP liabilities are recognised and disclosed in Note 30 *Related party information*. To the extent that employing subsidiaries do not compensate the Company for the MEREP offered to their employees', the Company reflects the provision of the equity settled award as a contribution to its subsidiary and as a result increases its investment in the subsidiary with a corresponding increase in the share-based payments reserve. On vesting, amounts recognised in the share-based payments reserve are transferred to contributed equity.

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

Profit share remuneration

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

(xxiv) Leases

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

(i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods of 12 months to 33 years and may include extension options. Leases are recognised as an ROU asset (as explained in Note 44(xiv) *Property, plant and equipment and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

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

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

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

Presentation

The Consolidated Entity presents ROU assets in Property, plant and equipment and right-of-use assets (refer to Note 15) and lease liabilities in Held for sale and other liabilities (refer to Note 23) 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.

Note 44
Significant accounting policies continued

(xxiv) Leases continued

Finance lease

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

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

Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over its useful life in accordance with the rates specified in Note 44(xiv) *Property, plant and equipment and right-of-use assets*. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment and right of-use assets.

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

(xxv) Contributed equity

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

(xxvi) Fiduciary assets and client money

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

(xxvii) Cash and bank balances

Cash and bank balances includes currency on hand, demand deposits and short-term balances with Central and other banks including unallocated precious metal balances. These balances are subsequently measured at amortised cost except unallocated precious metals which are held at FVTPL.

(xxviii) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank balances (except unallocated precious metal balances) as well as certain liquid financial investments and non trading reverse repurchase agreements that have a contractual maturity of three months or less from the date of acquisition and which are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are available to meet the Consolidated Entity's short-term cash commitments. Cash and cash equivalents exclude margin money balances, trading assets and certain client-related balances which are segregated from the Consolidated Entity's own funds and are thus restricted from use.

(xxix) 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.

(xxx) Comparatives

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

(xxxi) Rounding of amounts

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

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

(i) AASB 17 *Insurance Contracts*

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

(ii) Other amendments made to existing standards

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

Directors' declaration

Macquarie Group Limited

In the Directors' opinion:

(a) the financial statements and notes set out on pages 149 to 285 are in accordance with the *Corporations Act 2001* (Cth) including:

  (i) complying with Australian accounting standards, and

  (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2021 and their performance for the financial year ended on that date, and

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

Note 1(i) includes a statement that the Financial Report complies with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth). This declaration is made in accordance with a resolution of the Directors.

Peter Warne
Independent Director and Chairman

Shemara Wikramanayake
Managing Director and Chief Executive Officer

Sydney 7 May 2021

Independent auditor's report

To the members of Macquarie Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2021 and of their financial performance for the year then ended
- complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

What we have audited

The Consolidated Entity and Company financial report comprises:

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

Basis for opinion

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

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

Independence

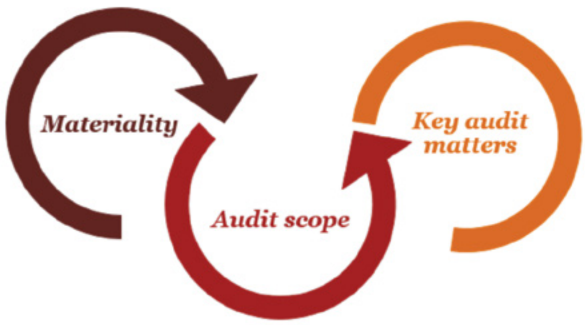
We are independent of the Company and the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including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

Our audit approach for the Consolidated Entity

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls and the industry in which it operates.

The Consolidated Entity is structured into four operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram in India, Jacksonville in the United States and Manila in the Philippines, which undertake operational activities that are important to the financial reporting processes.



Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of $182 million, which represents approximately 5% of the Consolidated Entity's profit before tax.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Consolidated Entity profit before tax because, in our view, it is the benchmark against which the performance of the Consolidated Entity is most commonly measured.

We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Consolidated Entity audit scope

Our audit focused on where the Consolidated Entity made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the four operating groups and the corporate segment. These component audit teams, in consultation with the group audit team, established an audit strategy tailored for each operating group and the corporate segment.

Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other member firms of the PwC global network to perform audit procedures ranging from an audit of financial information to specified procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn, instructed.

The work performed by the component audit teams and the overseas audit teams, together with additional audit procedures performed by the group audit team such as procedures over the Consolidated Entity's consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity's financial report as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee. The key audit matters identified below relate to the audit of the Consolidated Entity, unless otherwise noted.

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loan assets (Refer to Note 13)	
Under the credit impairment model required by AASB 9: Financial Instruments (AASB 9), losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic scenarios. The global economic outlook remains uncertain, the impact of COVID 19 has been more pronounced on certain industries, and the economic recovery from the pandemic has been markedly different around the world. As a result, significant judgement was required to be exercised by the Consolidated Entity in calculating the ECL. Specifically, this includes judgements around the use of forward-looking information, including developing macroeconomic scenarios and their associated weightings and the use of post model adjustments in the calculation of the ECL. In order to meet the ECL requirements of AASB 9, the Consolidated Entity has developed models that involve judgement including determining assumptions such as defining a significant increase in credit risk (SICR). The ECL models of the Consolidated Entity rely on numerous data elements and certain post model adjustments are applied based on the Consolidated Entity's judgement. Given the extent of judgement involved, we consider this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the ECL including controls relating to: • review, challenge and approval of certain forward-looking macroeconomic assumptions and scenario weightings, including specifically the consideration of impacts from COVID-19 • monitoring of the effectiveness of models used to support ECL estimates, and the validation of new and revised models implemented • assessment of the credit quality of counterparties • accuracy of certain critical data elements used in key ECL models, and • review and challenge forums to assess the ECL output and post model adjustments. In addition to controls testing, we also performed substantive procedures including: • using PwC credit modelling experts to assess the appropriateness of conclusions reached by the Consolidated Entity from model monitoring performed on key models. This included assessing key model components such as SICR and also involved independent reperformance of certain tests within the model monitoring performed • using PwC credit modelling experts to test the appropriateness of changes to key models • using PwC credit modelling experts to assess whether the list of critical data elements identified by the Consolidated Entity was appropriate for key models • engaging PwC economics experts to assess and challenge the appropriateness of macroeconomic scenarios developed and certain forward-looking economic data developed by the Consolidated Entity, with a particular focus on the impacts of COVID-19 in light of certain available information and consensus views • assessing the appropriateness of individual credit ratings used in ECL models to determine whether these have incorporated the impact of COVID-19 at balance date • tests of the completeness and accuracy of certain critical data elements used in key ECL models • assessing certain post model adjustments identified by the Consolidated Entity • considering the impacts on the ECL of events occurring subsequent to balance date. For credit impaired loan (stage III) provisions, we examined a sample of individual loan exposures to consider the appropriateness of provisions adopted. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.

Key audit matter	How our audit addressed the key audit matter
Impairment of interests in associates and joint ventures, intangible assets including goodwill, held for sale assets, property, plant and equipment (PPE) and right-of-use assets (Refer to Note 2, Note 14, Note 15 and Note 16)	
In accordance with AASB 136: Impairment of Assets (AASB 136), interests in associates and joint ventures, identifiable intangible assets including goodwill, PPE and right-of-use assets need to be assessed by the Consolidated Entity for indicators of impairment at the reporting date. If indicators of impairment, or reversal of impairment exist, the recoverable amount for each asset needs to be estimated. Irrespective of whether there is any indication of impairment, goodwill is required to be tested annually for impairment by comparing its carrying amount with its recoverable amount. In accordance with AASB 5: Non-current Assets Held for Sale and Discontinued Operations, held for sale assets need to be measured at the lower of their carrying amount and fair value less costs to sell. These assessments involve significant judgements such as estimating future cash flows and the rate at which they are discounted and in evaluating fair value less costs to sell. Given the extent of judgement involved in light of the continued impact and uncertainty surrounding the COVID-19 pandemic and the financial significance of impairments and impairment reversals recognised, we considered this to be a key audit matter.	We evaluated the Consolidated Entity's valuation methodologies used to estimate the recoverable amounts of material interests in associates and joint ventures, intangible assets including goodwill, held for sale assets, PPE and right-of-use assets and the process by which they were developed. For samples selected, our procedures included: • evaluating the Consolidated Entity's assessments of whether there were any indicators of impairment or whether impairment losses recognised in prior periods should be reversed • evaluating the appropriateness of the impairment assessment methodology and significant assumptions applied in calculating the recoverable amount • comparing previous cashflow forecasts to actual results to assess the ability of the Consolidated Entity to forecast accurately • assessing the appropriateness of discount rates used in valuations • assessing the competence, capability and objectivity of the external appraisers, where relevant • engaging PwC valuation experts where relevant • applying sensitivity analysis to key assumptions • assessing certain underlying data used in determining the carrying value and recoverable amount, and • testing the mathematical accuracy of the Consolidated Entity's discounted cashflow models which were used to determine the recoverable amount of the asset. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.
Valuation of financial assets and liabilities held at fair value with significant unobservable inputs (Level 3 financial instruments) (Refer to Note 38)	
The Consolidated Entity exercises judgement in valuing certain financial assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments. For the Consolidated Entity, these Level 3 financial instruments predominantly consist of trading assets, financial investments, loan assets and derivative financial instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models and inputs. Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over: • approval and validation of the models adopted • accuracy of inputs to models • the Consolidated Entity's process for testing valuations, and • governance and review. For derivative financial instruments and trading assets, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations. For a sample of financial investments and loan assets, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of the inputs used. For a sample of financial investments we assessed the sensitivity of the valuations to alternative assumptions where appropriate. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.

Key audit matter	How our audit addressed the key audit matter
IT systems and controls over financial reporting	
The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include: • the framework of governance over IT systems • controls over program development and changes • controls over access to programs, data and IT operations, and • governance over generic and privileged user accounts. Given the reliance on the IT systems in the financial reporting process and the impact on relevant controls we seek to rely on as part of our audit, we considered this to be a key audit matter.	Our procedures included evaluating the design and testing the operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we identified design and operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures. We also considered mitigating controls in order to respond to the impact on our overall audit approach.
Valuation of tax payable relating to tax uncertainties and tax receivable (Refer to Note 11 and Note 23)	
The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to and received from tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid and received. Given the extent of judgement involved, we consider this to be a key audit matter.	Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to and received from tax authorities. Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provision for tax and tax receivable. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition (Refer to Note 2)	
In some cases, judgement is required by the Consolidated Entity in relation to the timing of recognition and measurement of revenue streams, including non-routine fee income, revenue from the disposal of assets and performance fees. Further, the determination of performance fees recognition involves judgements relating to the timing and amount of variable consideration to be recognised. Given the extent of judgement involved, we considered this to be a key audit matter.	Our audit procedures included evaluating the design and testing the operating effectiveness of relevant controls relating to the recognition and measurement of fee income, revenue from disposal of assets and performance fees. In assessing the appropriateness of the recognition of revenue from fee income and performance fees, we recalculated revenue for a sample of fees based on relevant information in supporting documents including contracts, trust constitutions and management agreements. Specifically for performance fees, we also considered the nature of the underlying fund assets, the proportion of assets already realised, the returns on the assets realised to date and the potential for volatility in the valuation of the remaining unrealised assets. We performed testing to confirm the timing of revenue recognition in respect of certain transactions where sale agreements were in place at year end but the transaction had not yet been fully completed to assess the appropriateness of the recognition of revenue from the disposal of assets. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.
Carrying amount of investment in subsidiary (Company Only) (Refer to Note 17)	
At year end, the Company considered whether there were any indicators of impairment or whether impairment losses recognised in prior periods on an investment in subsidiary should be reversed. Given the impairment losses recognised in prior periods on an investment in subsidiary, an estimate of the investment's recoverable amount was calculated by determining the higher of the value-in-use and fair value less cost of disposal for the investment. The Company's calculation of the recoverable amount of the subsidiary supported the current carrying value. Given the quantum of the investment and the judgement involved in determining the recoverable amount, we considered this to be a key audit matter.	Our procedures included: • evaluating the Company's assessment of whether there were any indicators of impairment or whether impairment losses recognised in prior periods should be reversed • evaluating the appropriateness of the impairment assessment methodology and significant assumptions applied in calculating the recoverable amount • comparing previous cashflow forecasts to actual results to assess the ability of the Company to forecast accurately • engaging PwC valuation experts to assist in assessing the appropriateness of key inputs in determining the recoverable amount including applicable valuation multiples • applying sensitivity analysis to key assumptions • assessing certain underlying data used in determining the carrying value and recoverable amount, and • testing the mathematical accuracy of the Company's valuation model which was used to determine the recoverable amount of the subsidiary. We assessed the reasonableness of the Company's disclosures in the financial report.

Other information

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

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: **https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf**. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 100 to 145 of the Directors' Report for the year ended 31 March 2021.

In our opinion, the remuneration report of Macquarie Group Limited for the year ended 31 March 2021 complies with section 300A of the *Corporations Act 2001* (Cth).

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
7 May 2021

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