MACQUARIE

Macquarie Group Annual Report

Year ended 31 March 2021

Macquarie Group Limited ACN 122 169 279

Macquarie is a global financial services group operating in 32 markets in asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, specialist advice, access to capital and principal investment.

2021 Annual General Meeting

Macquarie Group Limited's 2021 AGM will be held at 10:30 am on Thursday, 29 July 2021. Details of the meeting will be sent to shareholders separately.

Cover image

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

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About

The Home of Good Borrowers

The Home of Good Borrowers campaign featured across high impact outdoor spaces nationally, increasing our share of voice and awareness and reinforcing the reasons why Australians are choosing to say I Bank with Macquarie.

Macquarie (MGL and its subsidiaries, the Consolidated Entity) is a global financial group with offices in 32 markets.

Macquarie now employs over 16,000[1] people globally across 32 markets.

EMEA ~15%

Americas ~16%

Asia ~25%

ANZ ~44%

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

About Macquarie

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

Founded in 1969, Macquarie now employs over 16,000[1] people globally, has total assets of $A245.7 billion and total equity of $A22.4 billion as at 31 March 2021.

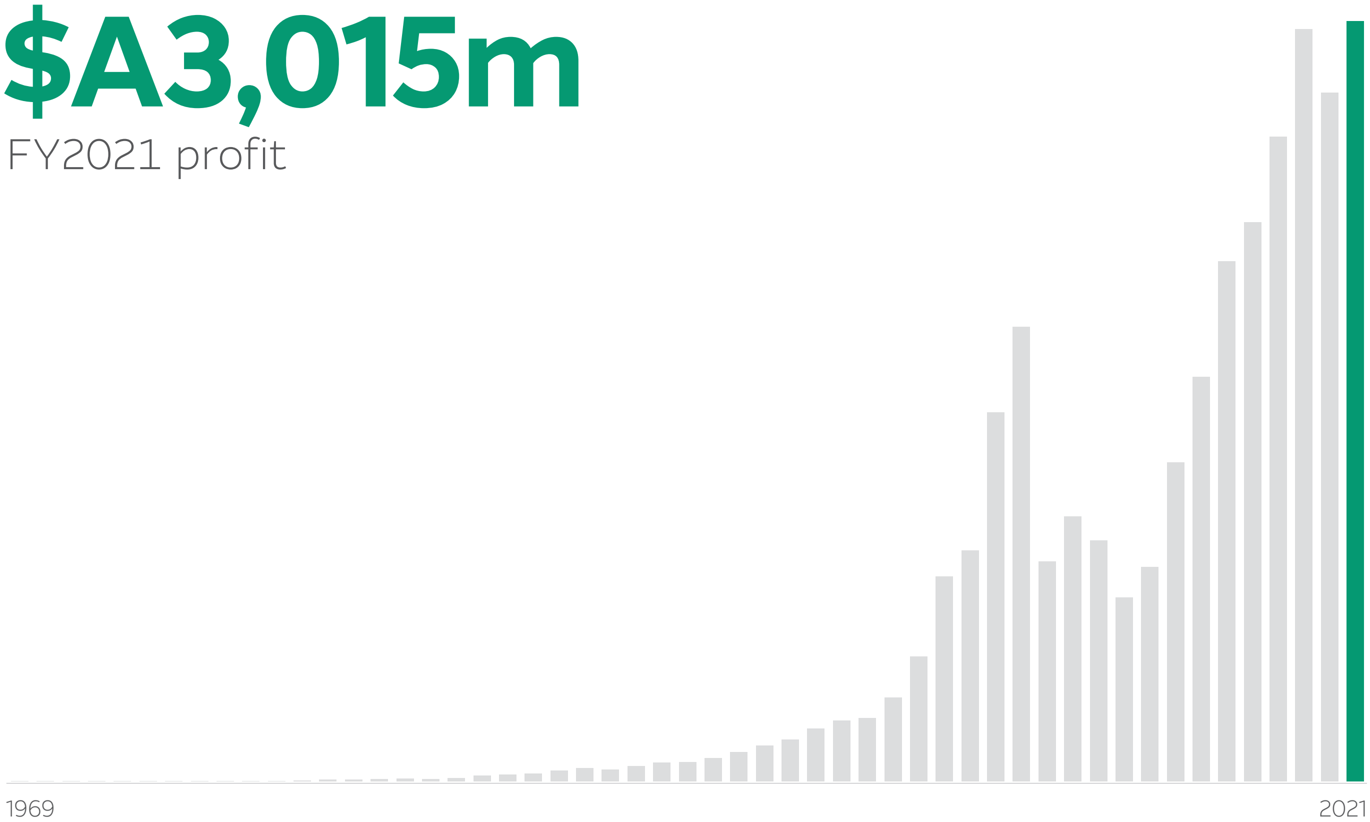
Macquarie's breadth of expertise covers asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, specialist advice, access to capital and principal investment. The diversity of our operations, combined with a strong capital position and robust risk management framework, has contributed to Macquarie's 52-year record of unbroken profitability.

Macquarie works with institutional, corporate, government and retail clients and counterparties around the world, providing a diversified range of products and services. We have established leading market positions as a global specialist in a wide range of sectors, including resources and commodities, renewables, conventional energy, financial institutions, infrastructure and real estate and have a deep knowledge of Asia-Pacific financial markets.

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

$A3,015m

FY2021 profit



> Our performance has been resilient, and our operating and support groups have remained busy supporting our clients, partners and communities, as well as our own team."

Letter from the

Chairman

When we last wrote to shareholders, the world was in the early months of the COVID-19 pandemic, the profound effects of which continued to be felt throughout Macquarie's 2021 financial year (FY2021).

Significant progress has since been made in managing the public health crisis while the speed with which vaccines have been developed is testament to the remarkable contributions made by medical science. However, we recognise that some countries are in a stronger position today than others and consequently, we anticipate the overall public health and economic effects of the pandemic will continue to be felt for some time.

Macquarie has also experienced the economic impacts of the pandemic but overall, our performance has been resilient and our operating and support groups have remained busy supporting our clients, partners and communities, as well as our own team. Shemara provides more detail about Macquarie's performance in her letter to shareholders and we outline some of our initiatives in this Annual Report.

On behalf of the Board, I commend staff for their resilience and continued focus; at the peak of global lockdowns more than 98% of staff were working remotely. In accordance with local public health orders, many staff have now returned to the office, but have done so in the context of more widespread adoption of hybrid working. This model of working is supported by the Board and Management, with significant investment in technology to ensure that staff are able to perform their duties to high standards, meet regulatory obligations and remain connected with their colleagues and clients.

Professional conduct

One of the core responsibilities of the Board and Management is ensuring the highest standards of professional conduct across all our operations, a commitment that has been in place since Macquarie's inception some 52 years ago.

During FY2021, and after extensive consultation with staff in all of our markets around the world, we re-articulated Macquarie's purpose as, 'empowering people to innovate and invest for a better future'. This statement of purpose articulates why Macquarie exists and what we do. It supports our longstanding operating principles of Opportunity, Accountability and Integrity, which express how we do business. Our purpose and principles are embedded in Macquarie's *Code of Conduct,* which sets out the expectations of Management and staff in managing their responsibilities and conducting themselves.

The standards expected of Board, Management and staff are high, and there are consequences for anyone at Macquarie who fails to meet those standards. We actively enhance our risk culture and Conduct Risk Management Framework in response to changes in our business operations, outcomes of our oversight activities and the expectations of regulators and communities. The Board and Management also regularly review and enhance our reporting, training, monitoring and surveillance activity, and there is an established Conduct Risk Management Framework in place.

Everyone at Macquarie is accountable for their conduct, and supervisors are accountable for outcomes in businesses they supervise with independent oversight by the Risk Management Group.

Environmental, social and governance

Sound environmental, social and governance (ESG) practices remain an area of focus for the Board and Management. Macquarie continued business activities that support the transition to a lower-carbon economy, and we have continued to embed ESG risk management across the organisation. The ESG section of this Annual Report and the Macquarie website provide further details on our approach.

During FY2021, the Board and Management considered Macquarie's position on a net zero carbon emissions commitment. Macquarie has been carbon neutral in its operations since 2010 and during FY2021, Macquarie Asset Management made the commitment to manage its portfolio in line with global net zero emissions by 2040. After carefully reviewing the substantial activity across Macquarie's business and operations, Macquarie Group has confirmed its commitment to reaching net zero operational emissions by 2025 and aligning financing activity with the global goal of net zero emissions by 2050. We provide more information on these commitments in this Annual Report.

Board changes

During FY2021, we welcomed Rebecca McGrath and Mike Roche to the Board. Rebecca and Mike bring considerable energy sector and corporate finance expertise respectively and they are already making a valued contribution. Shareholders will be asked to formally elect Rebecca and Mike at the 2021 Annual General Meeting.

These appointments follow the retirement of Michael Hawker and Gary Banks AO in FY2021. Gordon Cairns, who had previously advised of his intention to retire, steps down on 7 May 2021. Michael, Gary and Gordon have been outstanding colleagues over many years and on behalf of the Board, I thank them for their service to shareholders and wish them well for the future.

Ensuring that the Board is an effective shareholder steward for a business as diverse as Macquarie requires balancing experience and longevity with fresh perspectives, underpinned by diversity of expertise. I can say with absolute confidence that shareholders are well served by the Board, which is hard-working and diligent in fulfilling its responsibilities.

With the business continuing to navigate the recovery from a period of global uncertainty, and with a process of Board renewal underway, my colleagues have asked me to consider extending my tenure as Chair until Macquarie's 2022 AGM. Subject to shareholders extending my tenure by one additional year at the 2021 AGM, I have agreed to this request.

Over the course of FY2022, the Board will undertake a process of nominating a new Chair and will advise shareholders in due course. My time on the Macquarie Board has been a professional highlight. It has been a privilege to represent shareholders and to work with such an exceptional team across the Board, Management and staff. I'm proud of all that Macquarie has achieved and would be delighted to provide an extended period of continuity while more recently appointed colleagues become more familiar with Macquarie.

Dividends

The Board resolved to pay a final ordinary dividend of \$A3.35 per share (40% franked). This results in a total ordinary dividend for the year ended 31 March 2021 of \$A4.70 per share, up from \$A4.30 in the prior year.

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

Peter Warne
Independent Director and Chairman

Sydney
7 May 2021

"Macquarie's performance reflects our involvement in areas of deep structural need in the global economy and the commitment of our staff to work with clients to address opportunities and challenges in our communities."

Letter from the

Managing Director and CEO

Despite the many unexpected challenges of the last year, Macquarie staff remained focused on delivering for our clients, partners, shareholders, and the communities in which we operate. The team adapted to the changed operating environment, with most working remotely for a period and some now returned to spending time in our offices, without interruption to their activities or to client service.

Macquarie's businesses continued to perform well despite challenging market conditions, reflecting the diversity of our activities and ongoing focus on prudent risk management. For the year ended 31 March 2021, Macquarie delivered a record profit of $A3,015 million, up 10% on the prior year.

Macquarie's performance reflects our involvement in areas of deep structural need in the global economy and the commitment of our staff to work with clients to address opportunities and challenges in our communities. The following pages of this report include examples of projects aligned to our purpose of empowering people to innovate and invest for a better future.

Our annuity-style activities, Macquarie Asset Management (MAM), Banking and Financial Services (BFS) and parts of Commodities and Global Markets (CGM), had a steady year, with a combined net profit contribution of $A3,314 million, down 4% on the prior year. Annuity-style activities represented 54% of net profit contribution from operating groups.

Lower performance fees and Macquarie AirFinance income in MAM were partially offset by gains on the sale of Macquarie European Rail and the reversal of impairments. In BFS, growth in deposits, the loan portfolio and funds on platform as well as decreased credit impairment charges were partially offset by margin compression on deposits and a decrease in the vehicle finance portfolio. CGM's annuity-style activities reflected higher revenue from the Specialised and Asset Finance division but lower revenues and an increase in provisions in Commodities Lending and Financing.

Our markets-facing activities in Macquarie Capital and the remainder of CGM made a net profit contribution of $A2,783 million, up 39% on the prior year. Markets-facing activities represented 46% of net profit contribution from operating groups.

Lower fee and commission income in Macquarie Capital was partially offset by significantly higher equity capital markets activity in ANZ. Lower investment-related income due to fewer material asset realisations was partially offset by improved performance of the assets in the portfolio. The markets-facing activities within CGM generated increased revenues across the commodities platform with strong results in resources, gas and power, agriculture, and precious metals, as well as foreign exchange, interest rates and credit and equity derivatives and trading.

While our Australian franchise maintained its strong position and benefited from the relatively rapid recovery of the Australian economy, Macquarie's offshore businesses continued to perform well, with international income accounting for 68% of total income for the year ended 31 March 2021. Total international income was $A8,468 million, an increase of 5% from $A8,061 million in the prior year.

Macquarie is highly disciplined in maintaining sufficient surplus capital to meet regulatory requirements and support business growth opportunities. Macquarie's APRA Basel III capital was $A26.3 billion at 31 March 2021 and the surplus above regulatory minimum requirements was $A8.8 billion.

In light of actions recently announced by APRA regarding MBL's risk management practices and ability to calculate and report key prudential ratios, we acknowledge that continued work is required on our risk governance and operating platform and we have programs in place to strengthen capital and liquidity reporting and the risk management framework. We will work closely with APRA on these programs through a period of intensified supervision. APRA noted that the breaches are historical and do not impact the current overall soundness of Macquarie Group's capital and liquidity positions.

Management update

During FY2021, Macquarie announced a small number of senior management changes. After 16 years with Macquarie, Martin Stanley stepped down as Group Head of MAM and from the Executive Committee, effective 1 April 2021. From that date, Macquarie's Asia CEO Ben Way, who has been with Macquarie for 14 years, became Group Head of MAM and joined the Executive Committee.

From 1 July 2021, Mr Way, who will remain in Hong Kong, will be succeeded as Asia CEO by Verena Lim, Senior Managing Director in MAM in Singapore. Ms Lim will join Macquarie's Management Committee, as will Leigh Harrison, the London-based global head of MAM's infrastructure and real assets business.

After 22 years with Macquarie, Mary Reemst decided to retire from her role as Managing Director and Chief Executive Officer of MBL, from the MBL Board, and from the MGL and MBL Executive Committees, effective 1 July 2021. From that date, and subject to regulatory approvals, Mary's successor will be Stuart Green, who has been with Macquarie for 20 years in a range of roles including Head of Investor Relations and most recently Group Treasurer. Mary Reemst will continue in her role as Chair of the Macquarie Group Foundation for the remainder of 2021, working on transition alongside Macquarie's CFO, Alex Harvey, who will succeed her in 2022.

Following the successful integration of the Principal Finance business into Macquarie Capital, Florian Herold has decided to step down from the Executive Committee, effective 7 May 2021. The decision coincides with Mr Herold returning to London, where he continues to lead the global Principal Finance team and is focused on consolidating the recent momentum in its investing activity. Macquarie Capital will continue to be represented on the Executive Committee by co-heads Michael Silverton and Daniel Wong.

In the community

FY2021 was another significant year for the Macquarie Group Foundation. In response to the COVID-19 crisis, Macquarie Group allocated an additional $A20 million to the Foundation to contribute to organisations working to combat the pandemic and provide relief from its impacts, conduct research and stimulate economic recovery. To date, the Foundation has allocated $A17.7 million to 36 organisations. In early FY2022, $A1 million was committed to support COVID-19 relief in India.

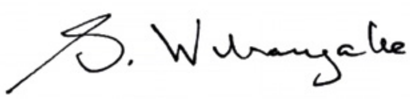
During the year, the Foundation continued to work with the five winners of Macquarie's 50th Anniversary Award, all of which progressed their health, environmental and social inclusion projects despite the challenges of COVID-19.

Inclusive of the COVID-19 allocation, funding to 50th Anniversary Award recipients, grant-making, and matching donations and fundraising efforts of our staff, together the Foundation and staff contributed $A64 million to more than 2,400 community organisations around the world, representing a record year. Since inception, total contributions stand at over $A475 million.

Outlook

We have provided the market with an outline of the factors impacting the short-term outlook for FY2022 for each of our operating groups. We maintain a cautious stance, with a conservative approach to capital, funding and liquidity that positions us well to respond to the current environment.

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



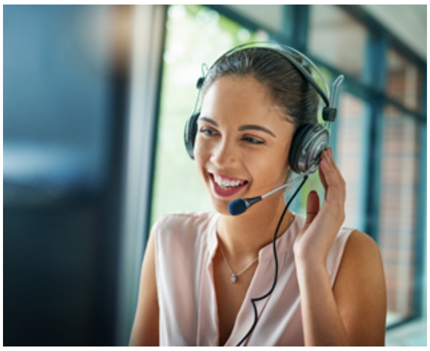
Shemara Wikramanayake
Managing Director and Chief Executive Officer

Sydney
7 May 2021

Empowering people to innovate and invest for a better future

Communities around the world have shown remarkable resilience through a year in which the COVID-19 pandemic had an impact on every aspect of life. While the health and economic challenges presented by the pandemic remain profound, there have been many examples of ingenuity and adaptability as businesses pivoted, governments collaborated, and communities rallied together.

Throughout this period, Macquarie remained focused on empowering people to innovate and invest for a better future. Our teams provided essential short-term support to clients, communities and each other, while driving forward activity to address some of the longer-term challenges facing countries around the world.



Helping clients navigate change and realise opportunity

As part of the banking industry in Australia, we quickly moved to offer lending relief and enhanced support for our personal bank customers and small business clients. At its peak, approximately 13% of customers and clients accessed support but most of our clients are now in a position where they no longer need enhanced assistance.

Across our corporate and institutional clients, we worked closely with those in the most challenged sectors on their long-term resilience and response to disruption, and by helping them raise essential finance and capital. For some, the pandemic has ultimately led to growth opportunities, either through the acceleration of disruption already taking place or the creation of new lines of business.

Our ability to respond rapidly through a period of acute disruption is reflective of our long history of partnering with our clients to address challenges and pursue growth.

Developing new social infrastructure

Macquarie advises, sponsors and invests in social infrastructure, assisting public and private entities to deliver essential services including hospitals, schools, housing and justice facilities. Social infrastructure provides access to quality, affordable social services and offers investors long-term, impactful opportunities in regulated non-profit sectors.

Over the last financial year, Macquarie teams continued to build expertise across both debt and equity investment, advancing projects that included affordable housing, free renewable energy for social housing tenants, new community medical facilities and specialist disability accommodation. Macquarie teams also invested in digital platforms that improved access to essential services such as education and healthcare during the pandemic.

> …we expect to increase investment in important emerging transition opportunities including zero emissions transport, hydrogen, carbon sequestration, nature-based solutions, and climate resilient infrastructure.

Strengthening the resilience of essential infrastructure

As the world's largest infrastructure manager with assets serving over 100 million people daily, we recognise that each portfolio company faces specific resilience risks. As stewards of these companies, on behalf of our investors and the communities they serve, we work to ensure that they are long-lasting and resilient.

In relation to climate risks, we are adapting assets to improve their resilience to temperature extremes, changing weather patterns and to increased incidence of fires and floods. In our agriculture business, we have adopted precision farming technology to produce higher yields, cut emissions and reduce environmental damage. Where Macquarie Capital is building new infrastructure, we are designing-in climate resilience from the outset.

One trend over the past year has been the acceleration of digitalisation. The move to large-scale remote working and learning, and greater reliance on e-commerce, has exponentially increased demand for faster, more reliable and more secure digital infrastructure. Capacity upgrades to our digital infrastructure assets have left them able to handle significant and structural activity increases.

Delivering solutions to reduce emissions

We are building on our leading position as a global developer, investor, financer, and manager of renewable energy projects. In addition to established technologies like wind and solar, we expect to increase investment in important emerging transition opportunities including zero emissions transport, hydrogen, carbon sequestration and offsetting, nature-based solutions, and climate resilient infrastructure.

As countries make the transition to net zero, we recognise that much of the world will depend on oil and gas to power economies and that until new, commercially viable technologies become available, these fuels will have a continued role in the provision of essential energy. We will continue to support clients in these sectors, and we are engaging with them to design both finance and technology solutions that will help them deliver a managed transition to decarbonise and reduce the emissions intensity of their activities.

Beyond the energy transition, Macquarie teams are investing to reduce emissions through zero emissions transport, industrial processes, buildings and agriculture.

Extending our global commitment to address climate change

Decarbonisation and climate resilience have been placed at the centre of countries' economic recovery plans. Some have committed to net zero carbon emissions by 2050. This requires public and private sectors to work together. Macquarie supports this and is well-placed to participate in the opportunities that arise.

Grounded in our longstanding expertise in infrastructure and energy, we have carefully assessed how Macquarie might make a more meaningful contribution to achieving a decarbonised world. We are committed to reaching net zero operational emissions by 2025 and aligning our financing activity with the global goal of net zero emissions by 2050. We provide more detail on these commitments in the ESG section of this annual report.

In our asset management business, we have started work with portfolio companies to consistently measure greenhouse gas emissions and identify emission reduction opportunities. Where we have sufficient influence, we are working with these businesses to develop plans that will put them on a pathway to reduce emissions in line with a net zero economy by 2040.

Organisation: Humana People to People India

Addressing areas of unmet need through philanthropy

Over many decades, the majority of the Macquarie Group Foundation's activities have been driven by our staff, who are best placed to identify areas of unmet need in their local communities and motivated to support the causes they feel most passionate about. In addition to financial support, staff devote their time and expertise to partnering with community organisations. The Foundation amplifies the endeavours of our staff through matched financial support and grantmaking and partnering with non-profits to build capacity and capability.

Recognising in the earliest days of the pandemic the imperative to step up philanthropic support across a range of areas of need, an additional $A20 million was allocated to the Macquarie Group Foundation specifically to combat COVID-19. To date, $A17.7 million in funding has been allocated to organisations around the world, balancing the need for urgent direct relief with longer-term research and investment, and supporting existing community partners that had to quickly respond to change and the increased demand on their services.

In early FY2022, $A1 million was committed to support COVID-19 relief in India.

Financial Highlights

FY2021 net profit

$A3,015m

↑ 10% on prior year

FY2021 net operating income

$A12,774m

↑ 4% on prior year

FY2021 operating expenses

$A8,867m

– in line with prior year

FY2021 earnings per share

$A8.43

↑ 7% on prior year

FY2021 return on equity

14.3%

↓ from 14.5% in prior year

FY2021 dividends per share

$A4.70

(40% franked)
↑ 9% on prior year

FY2021 effective tax rate

23.0%

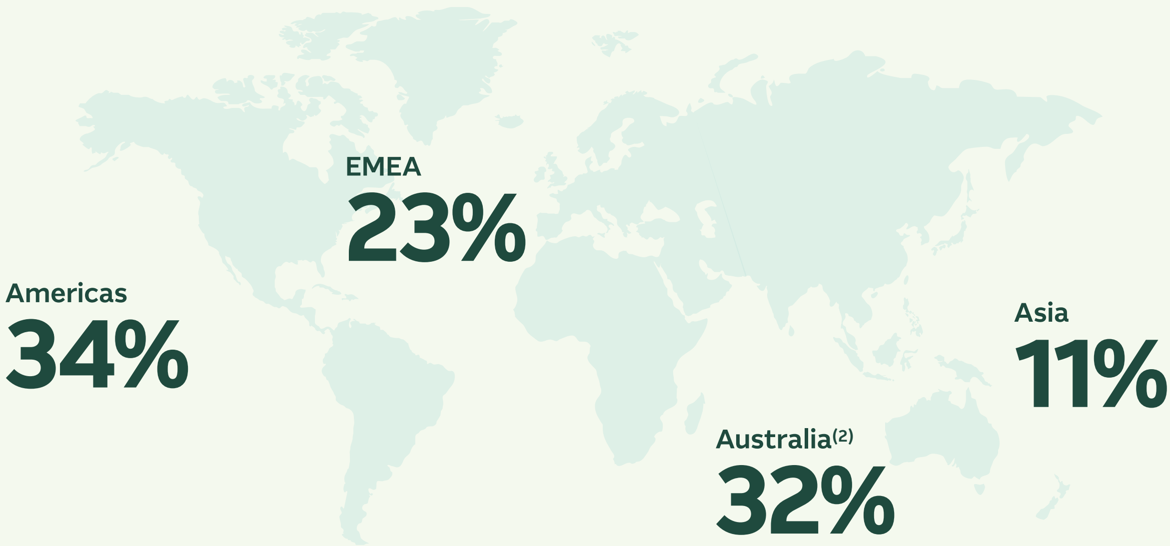
↑ from 21.0% in prior year

Assets under management

$A563.5b

↓ from $A598.9b as at 31 March 2020

FY2021 international income[1]



FY2021 net profit contribution[3] by activity

Annuity-style activities

$A3,314m

↓ 4% on prior year

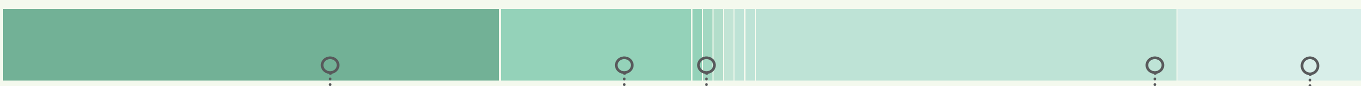
~54%

Markets-facing activities

$A2,783m

↑ 39% on prior year

~46%



Macquarie Asset Management
~34%

Banking and Financial Services
~13%

Commodities and Global Markets
~7% **~35%**

Macquarie Capital
~11%

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

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

Asset management

Banking

Advisory

Capital solutions

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

For more details on the operational performance of the Operating Groups, see slides 15 to 18 of the presentation to investors and analysts available at **macquarie.com/fy21-investor-presentation**

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

Operating Groups update

Cash Equities was transferred from Commodities and Global Markets to Macquarie Capital on 1 June 2020. Comparatives have been reclassified to reflect this reorganisation.

Central Service Groups

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

Risk Management Group (RMG)

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

Legal and Governance (LGL)

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

Financial Management Group (FMG)

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

Corporate Operations Group (COG)

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

Annuity-style businesses

Macquarie Asset Management

$A2,074m

↓ 5% on prior year

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

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

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

FY2021 highlights

MAM AUM decreased 6% to $A562.2 billion as at 31 March 2021, due to impacts from foreign exchange and a reduction in contractual insurance assets. This was partially offset by MIM market movements and investments by MIRA-managed funds.

During the period, MIRA raised $A21.8 billion in new equity, for a diverse range of funds, products and solutions across the platform. In April 2020, MIRA closed the sale of the Macquarie European Rail business.

MIM entered into an agreement to acquire Waddell & Reed Financial, Inc., and also made strategic divestitures of MIM Korea and its minority stake in Jackson Square Partners.

Medium-term

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

Banking and Financial Services

$A771m

– in line with prior year

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

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

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

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

FY2021 highlights

For the full-year ended 31 March 2021, total BFS deposits increased 26% to $A80.7 billion, the loan and lease portfolio increased 18% to $A89.1 billion and funds on platform increased 28% to $A101.4 billion.

The home loan portfolio increased 29% to $A67.0 billion driven by strong demand in lower loan-to-value ratio and owner-occupier lending tiers, while the Business Banking loan portfolio increased 13% to $A10.2 billion and Business Banking deposit volumes increased 23%. During the year, BFS expanded the Macquarie Wrap managed accounts offering with funds under administration of $A5.4 billion, up from $A3.0 billion in March 2020. BFS continued the implementation of a cloud-based portfolio management platform as part of the wealth platform transformation.

Medium-term

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

Markets-facing businesses

Commodities and Global Markets

$A2,601m

↑ 50% on prior year

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

The platform covers over 30 market segments with more than 200 products and has evolved over more than four decades to provide clients with access to markets, financing, financial hedging, physical execution, and research and market analysis.

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

FY2021 highlights

CGM's net profit contribution was strong across the platform, up 50% on the prior year. The result was reflective of increased contribution from Resources, North American Gas and Power, EMEA Gas and Power and Agriculture due to client hedging activity driven by increased volatility and commodity price movements. The FY2021 result saw increased opportunities in inventory management and trading, primarily driven by market dislocations and increased volatility in North American Gas and Power, Oil and Precious Metals in addition to gains associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements. The result also reflected improved client and trading activity in foreign exchange, interest rate and credit products; as well as increased net operating lease income driven by higher secondary income from the asset financing portfolio. The result was partially offset by reduced fee and commission income due to decreased demand for commodity risk premia products and a reduction in client brokerage activity.

CGM continues to be recognised across the industries it operates in, with a number of awards earned during the period including Environmental Products Bank of the Year, Oil and Products House of the Year and Derivatives House of the Year in the 2020 Energy Risk Awards. CGM also maintained its ranking by Platts as No. 2 physical gas marketer in North America.

Medium-term

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

Macquarie Capital

$A651m

↓ 15% on prior year

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

It also has global capability in 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.

Macquarie Capital's Equities brokerage business provides clients with access to equity research, sales, execution capabilities and corporate access.

FY2021 highlights

Macquarie Capital was ranked No.1 Global Renewables Financial Adviser in 2020 and No.1 in ANZ for both M&A and IPOs for the past decade.

Macquarie Capital acted as exclusive financial adviser to Strata Fund Solutions on its sale to Alter Domus and Joint Bookrunner on the acquisition financing. Principal Finance co-invested with FTV Capital in Strata and subsequently realised its position in a successful sale process.

Macquarie Capital continued to focus on green energy with over 250 projects under development or construction as at 31 March 2021. Green Investment Group launched a new solar energy company, Cero Generation, to take forward an 8 GW portfolio of over 150 projects across Europe as an OSS. In Australia, Macquarie Capital acted as the sole financial adviser to Snowy Hydro Limited on the over $A5 billion Snowy 2.0 expansion and associated raising of $A3.5 billion of corporate senior debt facilities.

Medium-term

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

Our purpose

Empowering people to innovate and invest for a better future.

What we stand for

Opportunity

Accountability

Integrity

The way we fulfil our purpose is defined by these three long-held principles that determine how we conduct business and guide what we do every day. Our purpose and principles and what we expect of our staff are set out in our *Code of Conduct*.

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

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

Our business strategy

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

Risk management approach

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

Strong balance sheet

Maintaining a strong and conservative balance sheet.

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

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

Business mix

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

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

Diversification

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

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

Proven expertise

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

Adjacencies

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

These include products and geographies adjacent to our established areas of expertise, supporting sustainable evolutionary growth.

Pursuit of growth opportunities

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

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

Risk management

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

Risk culture

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

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

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

Risk management framework

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

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

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

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

Macroeconomic factors

The key macroeconomic risks to Macquarie's short and medium term financial outlook noted on page 32 are:

Market conditions

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

The value of the Australian dollar

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

Potential regulatory changes

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

Funding and liquidity

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

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

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

Group performance

Overview

Profit attributable to ordinary equity holders of $A3,015 million for the year ended 31 March 2021 increased 10% from $A2,731 million in the prior year.

	FULL YEAR TO		
	31 Mar 21 $Am	31 Mar 20 $Am	*Movement %*
Net operating income	**12,774**	12,325	4
Operating expenses	**(8,867)**	(8,871)	(<1)
Income tax expense	**(899)**	(728)	23
Loss attributable to non-controlling interests	**7**	5	40
Profit attributable to ordinary equity holders	**3,015**	2,731	10

For more details on the financial performance of the Operating Groups, see section 3 Segment Analysis of the Management Discussion and Analysis available at **macquarie.com/fy21-mda**

Annuity-style businesses

Non-Banking Group

Macquarie Asset Management (MAM)

$A2,074m

↓ **5% on prior year**

- Decreased net operating lease income driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and the sale of Macquarie European Rail in the current year.
- Decreased share of net profits from associates and joint ventures predominantly due to an equity accounted loss from Macquarie AirFinance as well as lower net profits from the sale of underlying assets within equity accounted investments.
- Decreased performance fees following a strong prior year.
- Decreased other fee and commission income, largely due to lower income from private capital markets, True Index products and transaction fees.

Partially offset by:

- increased net income on equity and debt investments driven by the sale of Macquarie European Rail and decreased credit and other impairment charges, driven by a partial reversal of the impairment previously recognised on MIRA's investment in Macquarie Infrastructure Corporation (MIC).

Banking Group

Banking and Financial Services (BFS)

$A771m

– **In line with prior year**

- Higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes.
- Decreased credit impairment charges driven by improvement in current and expected macroeconomic conditions compared to the prior year as a result of COVID-19.

Offset by:

- higher employment expenses including increased headcount to support volume growth and clients impacted by COVID-19, as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

Markets-facing businesses

Macquarie Capital[1]

$A651m

↓ **15% on prior year**

- Lower net income on equity, debt and other investments due to fewer material asset realisations compared to prior year.
- Lower fee and commission income due to lower mergers and acquisitions fee income and debt capital markets fee income partially offset by higher equity capital markets fee income.

Partially offset by:

- lower share of net losses from associates and joint ventures due to changes in the composition and improved performance of investments in the portfolio
- higher net interest and trading income due to lower funding costs, higher interest income resulting from the growth in the debt portfolio and lower mark-to-market losses compared to prior year
- lower operating expenses driven by the structural change in the prior year to refocus the Equities division on the Asia-Pacific region, active cost management throughout FY2021 across Macquarie Capital resulting in lower headcount and lower employment expenses, and lower travel and entertainment expenses due to COVID-19.

Commodities and Global Markets[2] (CGM)

$A2,601m

↑ **50% on prior year**

- Strong results across the commodities risk management platform including increased contribution from Resources, North American Gas and Power, EMEA Gas and Power and Agriculture due to client hedging activity driven by increased volatility and commodity price movements.
- Increased opportunities in inventory management and trading primarily driven by market dislocations and increased volatility in North American Gas and Power, Oil and Precious Metals in addition to gains associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements.
- Improved client and trading activity in foreign exchange, interest rate and credit products.
- Increased net operating lease income driven by higher secondary income from the asset financing portfolio.

Partially offset by:

- reduced fee and commission income due to decreased demand for commodity risk premia products and a reduction in client brokerage activity following a strong prior year.

(1) Certain activities of the Equities business are undertaken from within the Banking Group.
(2) The Non-Banking Group includes certain activities of CGM.

Net operating income

Net operating income of $A12,774 million for the year ended 31 March 2021 increased 4% from $A12,325 million in the prior year. Higher Net interest and trading income and lower Credit and other impairment charges were partially offset by lower Fee and commission income and Net operating lease income.

Net interest and trading income

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
5,677	4,720

↑ 20% on prior year

- Increased opportunities in inventory management and trading driven by market dislocations and increased volatility, as well as timing of income recognition on Oil and Gas storage contracts and transport agreements in CGM.
- Growth in average deposits and loan portfolio volumes in BFS.
- Lower interest expense in MAM driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and a decrease in receivables.

Partially offset by:

- margin compression on deposits and lower vehicle finance portfolio volumes in BFS
- lower income in Corporate primarily due to greater accounting volatility from changes in the fair value of economic hedges in the prior year.

Fee and commission income

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
5,176	5,837

↓ 11% on prior year

- Lower performance fees on a strong prior year in MAM.
- Lower mergers and acquisitions fee income in Macquarie Capital.
- Reduced demand for commodity risk premia products and reduced client brokerage activity in CGM.
- Base fees broadly in line in MAM.

Net operating lease income

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
466	745

↓ 37% on prior year

- Lower income in MAM driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and the sale of Macquarie European Rail in the current year.

Partially offset by:

- higher secondary income from the asset financing portfolio in CGM.

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

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
(3)	95

↓ significantly on prior year

- Losses from Macquarie AirFinance, driven by the impact of COVID-19 on aircraft leasing income and related aircraft impairments in MAM.

Partially offset by:

- lower share of net losses in Macquarie Capital due to changes in the composition and improved performance of investments in the portfolio.

Credit and other impairment charges

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
(524)	(1,040)

↓ 50% on prior year

- Lower credit and other impairment charges recognised across the Consolidated Entity compared to the prior year reflecting improvement in the current and expected macroeconomic conditions.

Other operating income and charges

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
1,982	1,968

↑ 1% on prior year

- Gain on sale of Macquarie European Rail in MAM.

Partially offset by:

- fewer material asset realisations compared to the prior year and increased activity in relation to the development of green energy projects in Macquarie Capital.

Operating expenses

Total operating expenses of $A8,867 million for the year ended 31 March 2021 was broadly in line with $A8,871 million in the prior year with decreases across Brokerage, commission and trading-related fee expenses and Other operating expenses, largely offset by increases in Employment expenses and Non-salary technology expenses.

Employment expenses

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
5,517	5,323

↑ 4% on prior year

- Increase in performance-related profit share expense mainly as a result of the improved performance of the Consolidated Entity.
- Higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19.
- Higher average headcount in Central Service Groups to support business growth, technology projects and ongoing regulatory compliance.

Partially offset by:

- favourable foreign exchange movements
- lower average headcount in Macquarie Capital including the structural change in the prior year to refocus Equities on the Asia-Pacific region.

Brokerage, commission and trading-related fee expenses

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
879	964

↓ 9% on prior year

- Lower Wealth management expenses in BFS.
- Lower equities activity in EMEA and Asia in CGM.

Non-salary technology expenses

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
781	749

↑ 4% on prior year

- Higher cloud consumption, software license and maintenance costs as well as IT application costs to support business activity.

Partially offset by:

- favourable foreign exchange movements.

Other operating expenses and Occupancy

FULL YEAR TO	
31 Mar 21 $Am	31 Mar 20 $Am
1,690	1,835

↓ 8% on prior year

- Reduced travel and entertainment expenses across the Consolidated Entity driven by COVID-19.
- Favourable foreign exchange movements.

Partially offset by:

- the recognition of certain transaction and other charges in Corporate.

Income tax expense

Income tax expense of $A899 million for the year ended 31 March 2021 increased 23% from $A728 million in the prior year. The effective tax rate for the year ended 31 March 2021 was 23.0%, up from 21.0% in the prior year.

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

Financial position

Balance sheet

The Consolidated Entity's Statement of financial position was impacted during the year ended 31 March 2021 by changes resulting from business activities, Group Treasury management initiatives, developments with respect to COVID-19 and macroeconomic factors including the appreciation of the Australian dollar against major currencies.

Total assets

	AS AT	
	31 Mar 21 $Am	31 Mar 20 $Am
	245,653	255,802

↓ 4% on 31 March 20

In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total assets, the principal drivers for the decrease in the Consolidated Entity's total assets were as follows:

- derivative assets of $A20.6 billion as at 31 March 2021 decreased 55% from $A45.6 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- interests in associates and joint ventures of $A4.2 billion as at 31 March 2021 decreased 49% from $A8.3 billion as at 31 March 2020 primarily due to the disposal of certain associates during the year
- margin money and settlement assets of $A14.4 billion as at 31 March 2021 decreased 12% from $A16.4 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in margin placed with financial institutions by CGM
- held for sale assets of $A0.3 billion as at 31 March 2021 decreased 81% from $A1.6 billion as at 31 March 2020 primarily due to the subsequent sale of certain assets during the current year
- cash collateral on securities borrowed and reverse repurchase agreements of $A36.7 billion as at 31 March 2021 decreased 3% from $A37.7 billion as at 31 March 2020 primarily due to a decrease in reverse repurchase agreements in CGM partially offset by an increase in Group Treasury reverse repurchase agreements following lower Operating Group funding requirements.

These decreases were partially offset by:

- loan assets of $A105.0 billion as at 31 March 2021 increased 12% from $A94.1 billion as at 31 March 2020 primarily due to growth in the home loan portfolio partially offset by a decrease in the vehicle finance portfolio in BFS and a decrease in the corporate and commercial lending portfolio in CGM
- cash and bank balances of $A18.4 billion as at 31 March 2021 increased 90% from $A9.7 billion as at 31 March 2020 primarily due to an increase in surplus cash placed on overnight deposit with the Reserve Bank of Australia (RBA)
- trading assets of $A21.7 billion as at 31 March 2021 increased 28% from $A16.9 billion as at 31 March 2020 primarily due to an increase in precious metal and oil inventories in CGM.

Total liabilities

	AS AT	
	31 Mar 21 $Am	31 Mar 20 $Am
	223,302	234,018

↓ 5% on 31 March 20

In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total liabilities, the principal drivers for the decrease in the Consolidated Entity's total liabilities were as follows:

- derivative liabilities of $A17.6 billion as at 31 March 2021 decreased 54% from $A38.4 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- borrowings of $A9.8 billion as at 31 March 2021 decreased 43% from $A17.1 billion as at 31 March 2020 primarily due to the net repayment of debt facilities and disposal of borrowings, together with related assets, to an associate
- debt issued of $A61.0 billion as at 31 March 2021 decreased 6% from $A64.6 billion as at 31 March 2020 primarily due to the repayment of bondholder notes issued by securitisation vehicles in BFS partially offset by the issuance of short-term debt in Group Treasury.

These decreases were partially offset by:

- deposits of $A84.2 billion as at 31 March 2021 increased 25% from $A67.3 billion as at 31 March 2020 primarily due to an increase in retail and business banking deposits in BFS
- cash collateral on securities lent and repurchase agreements of $A4.5 billion as at 31 March 2021 increased significantly from $A2.3 billion as at 31 March 2020 primarily due to the draw down of the Term Funding Facility from the RBA by Group Treasury and increased stock lending transactions in CGM
- loan capital of $A9.4 billion as at 31 March 2021 increased 27% from $A7.4 billion as at 31 March 2020 primarily due to the net issuance of capital instruments and subordinated debt during the year.

Total equity

	AS AT	
	31 Mar 21 $Am	31 Mar 20 $Am
	22,351	21,784

↑ 3% on 31 March 20

The increase in the Consolidated Entity's equity was predominantly attributable to the increase in retained earnings, net of the amortisation of share-based payment arrangements during the year, of $A2.3 billion. This was partially offset by a decrease in the foreign currency translation and net investment hedge reserve of $A1.7 billion following the appreciation of the Australian dollar against major currencies, and redemption of the Macquarie Income Securities of $A0.4 billion.

Funding

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

Macquarie has a funding base that is stable with minimal reliance on short-term wholesale funding markets. As at 31 March 2021, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits, hybrids and equity.

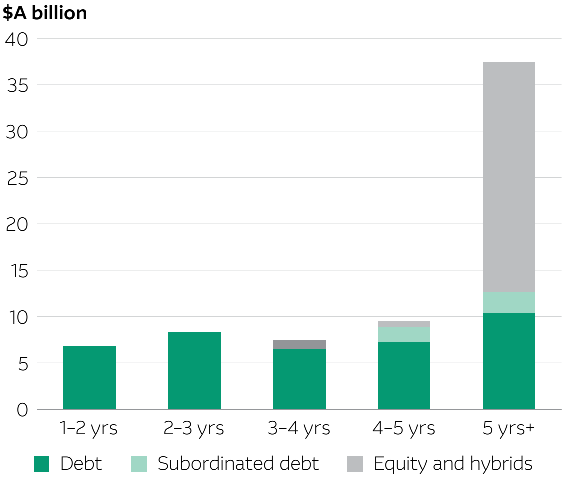
The weighted average term to maturity of term funding maturing beyond one year[1] was 4.8 years as at 31 March 2021.

4.8 years

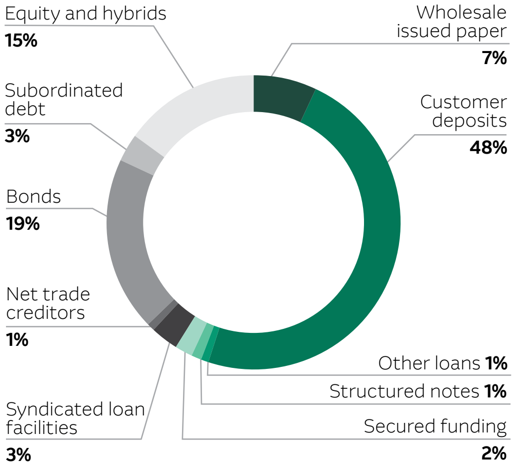
The weighted average term to maturity of term funding maturing beyond one year at 31 March 2021

Term funding profile

Detail of drawn funding maturing beyond one year



Diversity of funding sources



Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2020, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2020 and 31 March 2021:

		Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Issued paper	– Senior and subordinated	6.2	5.1	**11.3**
Loan facilities	– MGL loan facilities	–	3.9	**3.9**
Secured funding	– Term securitisation and other secured finance	2.6	0.7	**3.3**
	– RBA Term Funding Facility[2]	1.7	–	**1.7**
Hybrids	– Hybrid instruments	0.7	0.7	**1.4**
Total[3]		**11.2**	**10.4**	**21.6**

Macquarie has continued to develop its major funding markets and products during the year ended 31 March 2021.

(1) Including drawn RBA Term Funding Facility (TFF), excluding equity which is a permanent source of funding, and securitisations.
(2) Initial Allowance drawn as at 31 March 2021. MBL has $A1.3 billion of undrawn TFF Supplementary Allowance and had access to $A4.6 billion of TFF Additional Allowance as at 31 March 2021.
(3) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance and include undrawn facilities (does not include undrawn accessible TFF Allowances).

$A8.8b
Group capital surplus

Capital

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

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

Transactions internal to Macquarie are eliminated.

Macquarie remains well capitalised with APRA Basel III Group capital of $A26.3 billion at 31 March 2021, with a Group surplus of $A8.8 billion ($A11.6 billion on a Harmonised[1] Basel III basis).

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

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

On 1 April 2021, APRA announced actions required regarding MBL's 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.

As at 31 March 2021, the Bank Group had the following capital adequacy ratios:

Bank Group Level 2 Basel III ratios as at 31 March 2021	Harmonised Basel III	APRA Basel III
Common Equity Tier 1 Capital Ratio	16.2%	12.6%
Tier 1 Capital Ratio	18.1%	14.3%
Leverage Ratio	6.3%	5.5%

For further information relating to the capital adequacy of Macquarie, refer to section 6.0 Capital of the Management Discussion and Analysis at **macquarie.com/fy21-mda**

Outlook

We continue to maintain a cautious stance, with a conservative approach to capital, funding and liquidity that positions us well to respond to the current environment.

The range of factors that may influence our short-term outlook include:

- the duration of COVID-19, speed of the global economic recovery and extent of government support for economies
- market conditions including significant volatility events and the impact of geopolitical events
- potential tax or regulatory changes and tax uncertainties
- completion of period-end reviews and the completion rate of transactions
- the geographic composition of income and the impact of foreign exchange.

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

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02

Governance

Storegga, Shell St Fergus, United Kingdom

CGM has announced further investment in Storegga, a United Kingdom carbon reduction and removal company. The investment will help fund Storegga's Acorn Project and plans for a Direct Air Capture facility.

Corporate Governance

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

MGL's corporate governance practices have been consistent with the 4th edition of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* throughout the year.

Macquarie is a global financial services group operating in 32 markets in asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, specialist advice, access to capital and principal investment.

Macquarie's revised purpose statement 'Empowering people to innovate and invest for a better future' explains why we exist We believe that by empowering people we will achieve our shared potential.

The way we fulfil our purpose is defined by our principles of Opportunity, Accountability and Integrity. These principles guide Board, management and staff conduct and it is expected that they all meet these standards and deal honestly and fairly with our clients, counterparties and regulators. There are appropriate consequences for anyone who fails to meet our standards.

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

Identify and realise opportunity for clients, community, shareholders and our people	**Promote the long-term profitability of Macquarie while prudently managing risk**	**Drive superior and sustainable shareholder value over the long term**	**Meet stakeholder expectations of sound corporate governance**

What We Stand For: Opportunity, Accountability and Integrity

Prudently managing risk

Align staff and shareholders' interests

Responsibility to clients, funders, communities

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

Board oversight

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

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

In FY2021 there were 43 formal Board and Board Committee meetings. At these meetings a total of approximately 620 items of business were presented by over 500 presenters who were not members of the Board and Macquarie's Executive Committees. Between formal meetings management provided the Board with material business and other updates as well as information in response to requests from Board members.

Workshops scheduled during FY2021 included presentations on cultivating culture at Macquarie, human centred design and Macquarie's purpose, global regulatory reporting, hydrogen as a source of renewable energy, recovery and resolution planning, stress testing, market risk, regulatory change, management of non-financial risk and cybersecurity.

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

> From March 2020, the Board transitioned to enabling virtual attendance at all Board and Board Committee meetings, workshops and meetings with management, in response to COVID-19 restrictions.

Board members believe that informal conversations with staff are important in assessing the culture within Macquarie and seeing Macquarie's purpose at work. Board members generally attend various staff functions in Australia and conduct two overseas trips to Macquarie offices each year. Due to international travel restrictions, the Board harnessed the use of technology by holding virtual visits with the US, EMEA and Asia offices. These visits helped to emulate the in-person experience for the Board with presentations from regional staff covering regional, group and strategy updates, people and culture and Macquarie's purpose in practice, and presentations from external speakers. During these virtual visits the Board engaged with approximately 120 staff presenters at all levels of seniority. Each visit brought together staff from various locations within the regions, increasing and enhancing the Board's opportunity for engagement with staff.

Professional Conduct

Macquarie's culture, as represented by our long-held principles, may be summarised as follows:

Opportunity	**We are entrepreneurial.** Our people come from diverse backgrounds and are empowered to work together to pursue innovative ideas, to solve problems and challenge conventional thinking. We work hard and with enthusiasm and everyone has the opportunity to achieve to their full potential. We have a learning mindset, and continually evolve our expertise and recognise and reward performance.
Accountability	**We take pride and ownership of the long-term outcomes we deliver for our clients and shareholders, our communities and each other.** We manage risk to ensure these outcomes are sustainable and invest our time and capital to contribute to a better future. We take ownership of the performance of our endeavours and seek to quickly identify and respond to emerging issues and trends.
Integrity	**We operate with care and professionalism.** We work collaboratively to amplify our impact and consider the effect of our decisions on others. We have the courage, and are encouraged, to speak up with our ideas, when we make a mistake or see something that doesn't seem right. We respect the law, community expectations, our regulators, shareholders, clients and customers and each other.

The Board oversees compliance with key policies that are intended to instil a culture of acting lawfully, ethically and responsibly. An overview of the key policies that apply to our staff, such as the *Whistleblower Policy* and *Anti-bribery and Corruption Policy*, is provided in Macquarie's *Code of Conduct*. Material incidents and breaches relating to those policies and the *Code of Conduct* are reported to the Board through the relevant Board Committee.

Corporate Governance

Continued

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

Board oversight

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

Conduct and Culture

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

Business strategy	Financial and non-financial risk management	Pay for performance
Assess ability of strategy to adapt to markets and deliver sound client and community outcomes within Board approved risk appetite and related limits.	Approve Macquarie's *Risk Management Strategy* and *Risk Appetite Statement*, monitor material risks faced by Macquarie and review how they are managed.	Approve remuneration policies that align the interests of staff and shareholders to deliver sustained results for our customers, clients and community.
Review budget and funding and capital management strategy to deliver on business strategy.	Monitor Macquarie's risk management framework, including its compliance framework.	Remuneration outcomes reflect an assessment of a range of factors including risk management, compliance and behavioural measures to promote good conduct and commitment to the *Code of Conduct* and *What We Stand For.*

FY2021 Governance activities

During FY2021, the Board's governance activities included:

- continuing Board renewal and succession planning, including the appointment of two Non-Executive Directors (NEDs), Rebecca McGrath and Mike Roche
- continuing oversight as management responded to the impact of increased expectations and actions from Macquarie's regulators across the industry, including on non-financial risk with particular attention to matters relating to governance, culture, remuneration and accountability
- engaging and meeting with key regulators
- meeting with shareholders and proxy advisors as part of Macquarie's ongoing engagement to discuss matters relating to Macquarie's business performance, governance and remuneration
- continuing cross-committee information sharing through Board and Board Committee Chair meetings and specific reporting on non-financial risk matters considered by the Board Governance and Compliance Committee (BGCC) to the Board Risk Committee (BRiC)
- enhancing coordination of oversight of risk among the Board Committees by extending a standing invitation to the Chair of the BGCC and the Chair of the BRiC for meetings with the Chair of the Board Audit Committee (BAC) and the Head of Internal Audit to discuss Internal Audit Report findings ahead of each scheduled BAC meeting
- approving Macquarie's revised purpose statement and refreshed *Code of Conduct*
- a triennial independent review of the appropriateness, effectiveness and adequacy of the risk management framework for MGL and Macquarie Bank Limited (MBL), a subsidiary of MGL
- continuing integration of the Banking Executive Accountability Regime (BEAR) since its commencement with respect to MBL, from 1 July 2019.

The Board's response to COVID-19

At Macquarie we have been agile in adapting our approach to a rapidly changing environment and our longstanding approach to crisis planning has proven that our systems and processes have been resilient, reflecting Macquarie's long-term investment in technology.

As a global organisation with offices across Australia[1], the Americas, EMEA and Asia, the Board is accustomed to the use of technology to connect with regional attendees at Board and Board Committee meetings. While the COVID-19 restrictions had an impact on convening in-person Board and Board Committee meetings, the Board leveraged existing meeting technology to host virtual meetings.

The Board engaged in overseeing Macquarie's response to COVID-19 which included:

- monitoring the impact of COVID-19 on Macquarie's changing risk profile
- considering the impact of COVID-19 on Macquarie's financial performance and position, capital requirements and payment of dividends to shareholders
- overseeing Macquarie's response to the COVID-19 pandemic relating to:
  - **employees:** staff safety and well-being, systems and processes for ongoing remote working and long-term investment in technology and flexible working culture, and investment in leadership capability, technology and the workplace to respond to the evolving culture of work and promote greater flexibility
  - **clients:** initiatives introduced and delivered to support retail and SME banking clients, including working closely with clients in the most challenged sectors on long-term resilience and response to disruption, and active support to clients in all regions in raising essential finance and capital
  - **portfolio companies:** ongoing work with MIRA and Macquarie Capital portfolio companies, including projects under construction to ensure business continuity, financial resilience and employee well-being, and maintaining essential community services and connected best practice across assets, industries and regions
  - **community:** $A20 million allocation to the Macquarie Group Foundation to support community organisations helping to combat the effects of COVID-19.

A gradual return to office is underway in 90% of Macquarie's locations and in numbers that allow for social distancing. The Board has begun convening in-person Board and Board Committee meetings with social distancing measures observed.

(1) Includes New Zealand.

Corporate Governance

Continued

Corporate Governance framework

Macquarie's Code of Conduct

The Board approved *Code of Conduct*, which applies to Macquarie's NEDs and staff:

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

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

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

Risk governance

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

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

The Board annually approves Macquarie's *Risk Management Strategy* and *Risk Appetite Statement*. The BRiC assists the Board by providing oversight of Macquarie's risk management framework and advising the Board on Macquarie's risk appetite, risk culture and risk management strategy.

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

During each year, including the most recent year, the Board monitored the operation of Macquarie's risk management framework to satisfy itself that the framework continues to be sound and that Macquarie is operating with due regard to the risk appetite set by the Board. Key components of the framework are reviewed by the relevant Risk Management Group (RMG) divisions and the results are reported to the Board. The Internal Audit Division reviews the compliance with, and effectiveness of, Macquarie's risk management framework. The rolling three-year internal audit plan covers all material elements of the framework on a rotational basis.

The risk management framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie that applies to all Macquarie's Operating and Central Service Groups (including MBL and its subsidiaries (Bank Group)). The Bank Group maintains its own governance structure that is responsible for the sound and prudent management of the Bank Group, with due consideration to the interests of deposit holders.

Oversight of remuneration

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

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

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

The **Remuneration Report** contains further information on:

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

External auditor performance and independence

At least annually, on behalf of the Boards of MGL and MBL, the BAC reviews:

- **the external auditor engagement:** The BAC annually reviews the terms of the engagement and assesses the performance, quality and effectiveness of the external auditor.
  The BAC recommends to the Board the appointment of a new, or removal of the existing, external auditor
- **the external auditor's independence:** Before the approval of the interim and year-end financial reports, the BAC reviews the independence of the external auditor, PricewaterhouseCoopers (PwC).

Auditor independence

Macquarie's *Auditor Independence Policy* requires BAC approval, or between meetings the approval of the BAC Chair for subsequent ratification by the BAC, for non-audit work performed by the external auditor if the proposed service falls outside the scope of pre-approved services or the proposed engagement fee exceeds the policy's local currency threshold.

The policy, which reflects Australian legal requirements, also requires that Macquarie's lead auditor and review auditor be rotated every five years unless the Board grants approval to extend the term for up to a further two years.

Ms Kristin Stubbins of PwC has been Macquarie's lead auditor since FY2020. She attended the Annual General Meeting (AGM) held during the reporting period and was available to answer questions about the conduct of the audit, and the preparation and content of the auditor's report.

Macquarie's auditor provides a declaration to the BAC at the time of Macquarie's interim and year-end financial reports, that no prohibited non-audit services have been provided. The external auditor is also required to declare in their audit report that they are independent of MGL and its subsidiaries in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (including Independence Standards) that are relevant to its audit of the financial report in Australia.

The BAC Charter and the External Auditor Policy Statement describe key aspects of Macquarie's *Auditor Independence Policy* and external auditor review process, and are available at **macquarie.com/corporate-governance**

Review of the quality and effectiveness of the external auditor's performance

The BAC conducts an annual review of the quality and effectiveness of the external auditor, including qualifications, expertise, resources and performance of the external auditor, PwC. The process involves assessing PwC's performance against ASIC's audit quality guidance, obtaining feedback from the Board and senior stakeholders across various Macquarie finance and business teams, and obtaining and reviewing feedback from PwC on the results of any internal or other external audit quality reviews relating to the audit. A written report summarising the results of the review and feedback from the Board and senior stakeholders across Macquarie finance and business teams is presented to, and discussed at, a BAC meeting and separately discussed with PwC.

Based on the results of this year's annual performance and independence reviews, in May 2021 the BAC recommended to the Board that PwC continue in its role as Macquarie's external auditor.

Board evaluation and consideration

In FY2021, the Board exercised its continuing oversight of the performance of the external auditor. The Board members provided feedback forming part of the annual performance review of the external auditor considered by the BAC to assess their effectiveness and service quality. In addition, the Board conducted a comprehensive global review of the appointment processes for an external auditor to determine whether any change to the appointment process was required. As a result, the Board agreed to a number of changes to the appointment processes for the external auditor which will be conducted annually.

Based on that assessment, the results of the auditor independence review, the appointment process review and recommendation of the BAC, in May 2021 the Board agreed that PwC should continue as Macquarie's external auditor.

Board and management

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

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

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

MGL's Constitution and Board Charter are available at **macquarie.com/corporate-governance**

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

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

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

Board Committees

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

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

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

Allocation of responsibilities between Board Committees

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

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

Details of the Directors' qualifications, experience, Committee membership and meeting attendance at Board and Board Committee meetings is contained in the **Directors' Report**

Corporate Governance

Continued

Commitment to shareholders and an informed market

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

Macquarie has a continuous disclosure policy that is incorporated in its *Continuous Disclosure & External Communications Policy*. This policy includes a Continuous Disclosure Committee, which may be convened to consider matters that may require disclosure to ASX in accordance with Macquarie's continuous disclosure obligations.

All external communications which include any price sensitive material for public announcement, annual and interim result announcements, release of financial reports, presentations to investors and analysts and other prepared investor presentations for Macquarie will, in accordance with the *Continuous Disclosure & External Communications Policy*:

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

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

The Board receives copies of material market announcements promptly after they have been released by ASX.

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

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

As part of Macquarie's commitment to keep its investor base informed, management presents at various investment conferences and conducts investor visits and meetings (including virtual) throughout the year. All material investor or analyst presentations are lodged with ASX ahead of the presentation and made available on Macquarie's website.

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

Macquarie's website

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

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

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

Shareholder meetings

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

MGL typically holds its AGM in July each year.

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

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

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

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

Due to the COVID-19 pandemic, Macquarie decided in the interests of the health and safety of shareholders, staff and other stakeholders, to hold MGL's 2020 AGM online. Shareholders were provided with various alternatives to participate in the AGM, including by watching the AGM live through a facility that enabled shareholders to vote and to ask questions or make comments online and a dial-in teleconference to listen to the meeting live and to ask questions on the telephone but not vote.

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

The Corporate Governance Statement is current as at 6 May 2021 and has been approved by the Board.

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

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

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

Diversity and Inclusion

Our commitment

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

In FY2021, we reaffirmed our commitment to building a diverse workforce that reflects the communities in which we operate. Our leadership teams in each Operating and Central Service Group and region have developed D&I strategies to realise tangible results aligned to our *Workforce Diversity Policy*. Progress towards achieving Macquarie's FY2021 D&I objectives is disclosed in this report.

Macquarie is committed to:

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

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

Diversity and Inclusion objectives

Holding ourselves to account is critical to demonstrating our commitment to D&I progress. During FY2021 responsibility for reviewing and approving the Diversity and Inclusion Report was re-allocated from the Board Governance and Compliance Committee to the Board Remuneration Committee (BRC) to align with the BRC's oversight of our key people-related strategies. The *Workforce Diversity Policy* provides that each year the BRC will set measurable objectives for increasing the diversity of Macquarie's workforce and maintaining a culture of respect and inclusion.

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

Macquarie's BRC has endorsed the FY2021 D&I objectives as set out below.

Our diverse people

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

Workforce composition:

- increase representation of under-represented groups across our workforce
- maintain gender balance on Intern and Graduate programs
- increase representation of under-represented groups at the senior leadership levels of Executive Committee, Division Head and Senior Executive
- increase diversity of our Board of Directors, including always having at least 30% gender diversity.

Diversity practices:

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

Progress FY2021

Our ongoing commitment to achieving gender balance is demonstrated by the year-on-year increase in female representation across Macquarie's total workforce. In FY2021, Macquarie's Senior Executives comprise a greater proportion of females than in preceding years. 46% of Macquarie's Board of Directors are female. A reduction in female representation at Division Head level in FY2021 was due to changes in organisational structure with a slightly greater proportion of senior women than men changing reporting lines which had an impact on the categorisation of their role. Whilst Division Head representation is dependent on reporting line structure, the year-on-year increase in female Senior Executives, which includes Division Directors and Executive Directors, demonstrates the growing pipeline of senior women in Macquarie.

Diversity and Inclusion

Continued

The table below outlines the proportion of women employed globally at Macquarie over the last five years.

As at 31 March	2017 %	2018 %	2019 %	2020 %	2021 %
Board of Directors	33.3	30.0	36.4	36.4	**45.5**
Executive Committee	25.0	25.0	25.0	27.3	**27.3**
Division Head(1)	21.6	23.5	23.9	24.6	**23.0**
Senior Executive(2)	15.6	17.2	19.1	19.9	**20.5**
Macquarie Workforce	39.2	39.8	40.1	41.0	**42.0**

The majority of all roles filled globally during FY2021 had at least one female candidate on the shortlist and one or more female Macquarie staff on the interview panel. Women continue to be hired in greater proportion than the underlying female application rate. Macquarie maintained gender balanced Intern and Graduate programs in FY2021.

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

Female and male turnover have remained comparable.

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

Macquarie's global return to work rate was 97% in FY2021 and high retention rates continue to be achieved for staff who have taken parental leave.

Macquarie encourages staff to share their cultural background so we may better understand the diversity of our workforce. We continue to focus on attracting candidates with broad inherent and acquired diversity, and we continue to invest in new recruitment channels to expand our reach beyond traditional financial services sectors. As examples, to better connect and engage with talent from under-represented ethnic groups, Macquarie partnered with Jopwell, Seizing Every Opportunity, and BLK Capital Management in the US, and continued participation in the CareerTrackers and CareerSeekers internship programs in Australia, placing 39 students during FY2021. In the UK and Australia, Macquarie's Graduate recruitment team ran a Female Business Series with a goal of encouraging female university students to explore a career in finance. In India, Macquarie continued its partnership with Asha to provide internship opportunities to university students from economically disadvantaged backgrounds.

Our inclusive culture

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

Behavioural inclusion:

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

(1) Division Head refers to critical roles across Macquarie. It typically includes executives two layers down from the CEO.
(2) Senior Executive refers to Macquarie's combined Division Director and Executive Director population.

Structural inclusion:

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

Progress FY2021

With the majority of staff working remotely in FY2021, Macquarie moved quickly to transition our development programs to a virtual setting. Macquarie expanded on its inclusive leadership training with an additional focus on equipping managers with knowledge and skills to maintain inclusive environments whilst leading teams remotely. The shift to virtual training has allowed us to connect more regularly with employees in all of our offices around the globe. In our 2020 staff survey, 92% of employees stated that they felt just as or more included in their teams than they did before working remotely as a result of COVID-19.

Whilst hybrid working has long been part of Macquarie's working practice, the COVID-19 environment has enhanced the diverse ways in which we connect with each other. Resources and workshops were provided to staff throughout FY2021 to facilitate best practices for remote working, particularly for those working from home whilst managing caring responsibilities. In our 2020 staff survey, 92% of employees stated that they felt just as or more productive at work than they did before COVID-19.

Macquarie has adopted hybrid working as part of the evolving culture of work, and subject to local regulations, the majority of Macquarie's employees seek to work more flexibly than they did before COVID-19. Macquarie recognises that working flexibly means different things to different people and exists in many forms. Macquarie empowers staff to manage their work and time to suit their own roles, the needs of their teams, and achieve their career and personal goals.

Cultural diversity has been a priority for our leaders and Employee Network Groups (ENGs) around the world for several years. Following the heightened attention on racial injustices across the world that commenced in the US, before leading to similar movements around the globe, Macquarie accelerated initiatives to ensure we are building an organisation that takes real steps towards racial equity and full inclusion for all colleagues. New initiatives were put in place to enhance our focus on equitable career progression and development opportunities for all staff. In many markets, small group forums on racial equity and social justice were held to facilitate conversations on current and historical issues impacting Black communities and the corporate work environment. Staff were encouraged to share personal stories or observed experiences in these forums, as well as through open dialogue with leaders. Resources were provided to enable leaders to facilitate conversations about race. Managers at all levels are also being provided with greater access to training to help our leaders to be better advocates and foster a culture of belonging. Our multicultural ENGs, made up of members and allies, played an active role in supporting and advocating for our colleagues from under-represented groups. In the Americas, the very nuanced impacts affecting our Black employees and the community led to the launch of the Black Employees at Macquarie (BE@M) ENG, in addition to the existing multicultural ENG (Unity).

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

Diversity and Inclusion

Continued

Across our regions and groups, we have programs and initiatives to develop a culture of sponsorship to support our talent from under-represented groups into leadership roles.

Macquarie's ENGs span culture and heritage, families, First Nations, gender, LGBTQ, race and ethnicity, veterans and wellness, and provide staff with opportunities to exchange ideas, build relationships and support Macquarie's D&I strategy. The ENGs led staff in their regions in recognising days of significance throughout the year.

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

Workforce data is regularly analysed and provided to senior managers so they may assess the equity of people decisions, the inclusiveness of practices in their teams and to identify where additional action is needed. Senior managers are also held accountable for achieving inclusion objectives. In FY2021:

- remuneration outcomes were reviewed to ensure pay equity for like roles and performance across all Operating and Central Service Groups and regions. No significant differences in remuneration outcomes were found to exist between males and females for like roles and performance
- a higher proportion of women completed the *Macquarie Masterclasses*, Macquarie's new leadership development series, compared to the proportion of women at Executive Director-level
- promotion decisions and outcomes were reviewed and analysed to identify any gender discrepancies. Promotion rates of males and females to Director levels have remained comparable.

Our clients and community

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

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

Progress FY2021

Macquarie is committed to fostering a diverse and inclusive workplace for its own staff and seeks to instil this commitment within its assets under management when possible. For example, in the MAM business, MIRA is focused on progressing D&I initiatives at the asset level and equipping its portfolio board directors and portfolio company leaders with resources and training to foster an inclusive environment and set measurable diversity objectives.

As part of our procurement strategy, Macquarie includes sustainability and supplier diversity requirements within tender documents. In FY2021, Macquarie spent over $A12 million with minority-owned businesses in our tier one and tier two supply chain.[3]

(3) Includes qualified businesses from traditionally under-represented groups such as companies owned and operated by minorities, women, Indigenous Australians and small businesses. Tier one is defined as spend incurred via diverse suppliers directly contracted by Macquarie. Tier two is defined as spend incurred via fourth parties meeting the diverse supplier definition, indirectly supporting goods and services delivered to Macquarie.

Macquarie is proud to be a partner and sponsor of organisations across the diversity sector, including those that support students from under-represented groups. In Australia, staff completed secondments with Indigenous organisations through our partnership with Jawun. Through our First Nations ENG, Macquarie supports the Girls Academy at the Clontarf Aboriginal College, Melbourne Indigenous Transition School and Gawura School in Sydney. In Asia, Macquarie has continued its partnership with The Women's Foundation and Girls Go Tech Program to encourage girls to pursue STEM (Science, Technology, Engineering and Mathematics) subjects. In the US, Macquarie established a Racial Equity Fund which, over a three-year period, will donate $US1 million to support community groups working to promote racial equity in the US. In the UK, Macquarie's Graduate team partnered with the Bright Network to develop a coaching program for Black, Asian and Minority ethnic students, aimed at increasing the number of students applying to internships.

In FY2021 Macquarie was recognised for its commitment and progress in creating an inclusive workplace for its diverse staff across the globe. In the UK, Macquarie is currently one of the few financial services firms to feature as a Top 75 employer in the Social Mobility Foundation's *Social Mobility Index,* a national benchmark on diversity and inclusion, and Macquarie maintained its ranking of 33rd in the UK Stonewall *Workplace Equality Index*, a national benchmark on LGBTQ workplace inclusion. In the US, Macquarie received a score of 100% on the Human Rights Campaign Foundation *2021 Corporate Equality Index* for LGBTQ inclusion. In Asia, Macquarie was named a Silver Employer in India's Workplace Equality Index and in Japan's PRIDE Index for its efforts in creating an inclusive environment for LGBTQ staff. Macquarie ranked in the top 100 Best Companies for Women in India (BCWI). Macquarie joined The Valuable 500, a global collective focused on disability inclusion. In Australia, Macquarie was accredited as a Carer Friendly Organisation with Carers + Employers, and we continued our partnership with Heads Over Heels to help provide female entrepreneurs with access to strategic networks.

Further information on D&I is available at
macquarie.com/diversity-and-inclusion

Diversity and Inclusion awards and partnerships

Environmental, Social and Governance

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

ESG approach

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

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

ESG governance

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

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

External stakeholder interests
Risks and opportunities identified by the business

ESG focus areas

Environmental and social risk management

612
transactions
assessed under our *Environmental and Social Risk (ESR) Policy*

Climate change

Alignment to net zero by 2050

$A6.64
invested in renewable energy for every $A1 invested in conventional energy(1)

Environmental and social financing

30 GW
of green energy assets in development as at 31 March 2021(2)

14 GW
of green energy assets in operation or under management as at 31 March 2021(2)

Sustainability in direct operations

100%
renewable electricity by 2025

Emissions per capita reduced by

84%
from FY2010 baseline (71% reduction from FY2020)

Carbon neutral since 2010(3)

(1) Includes (i) banking book equity investments fair valued through profit or loss; and (ii) investments in which Macquarie has significant influence or joint control (investments in associates and joint ventures). Excludes investments held through consolidated subsidiaries and off balance sheet equity commitments.
(2) GW of green energy assets reflect 100% generating capacity of each asset, not the proportion owned/managed by Macquarie.
(3) Covers scope 1 and scope 2 emissions, and business travel.

About these disclosures

Macquarie's FY2021 ESG disclosures have been prepared in accordance with the GRI Standards: Core option. The ESG disclosures comprise relevant sections of Macquarie's 2021 Annual Report and Macquarie's website.

The content of the disclosures is presented to align with Macquarie's ESG focus areas, which are reviewed annually and selected as most relevant to Macquarie based on business insights, secondary research, market benchmarking, and stakeholder analysis.

Full details of the focus areas and a GRI Index table are available at **macquarie.com/esg**

Client experience

Partnerships Gold Award 2020 for Financial Advisor of the Year and Sponsor/ Developer of the Year

2020 MFAA Excellence Awards for Major Lender of the Year

Mozo Experts Choice Awards 2021 for Everyday and Savings Bank of the Year, Kick Start Savings, No Strings Savings, Excellent Banking App, Internet Banking and Exceptional Everyday Account

2020 Energy Risk Asia Awards for Environmental Products House of the Year, Asia

People and workplace

2,428
learning events(4)

>98%
of our people working remotely during COVID-19 (at peak)

Business conduct and ethics

Tailored training, workshops and leadership sessions provided to over

9,000
staff(5)

Community

Over

$A64m
donated by Macquarie staff and the Foundation in FY2021 ($A475 million since inception in 1985)(6)

$A20m
allocated to Foundation to combat the effects of COVID-19

Further information can be found on pages 72 to 75 of this Annual Report

(4) Including virtual and face-to-face forums.
(5) Tailored content focused on conduct, supervision in a hybrid working environment, integrity, speaking up and psychological safety. Macquarie also requires all staff globally to undertake mandatory online *Code of Conduct* training.
(6) Comprises Macquarie employees' donations and fundraising; Foundation matching support for employees' donations and fundraising; Foundation donations to commemorate employees attaining 10 year and 25 year anniversaries at Macquarie; Foundation grants to non profit organisations to recognise 12 months of board service by a Macquarie employee; and Macquarie and Foundation grants to community organisations (including Year 2 donations for the 50th Anniversary Award and COVID-19 donation fund) in the 12 months to 31 March 2021.

Environmental and social risk management

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

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

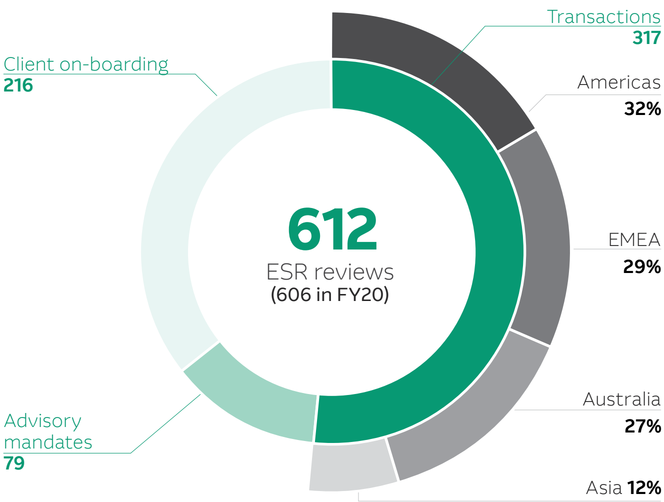
The ESR team coordinates a diverse range of ESG activities across business groups and regions, including developing and implementing Macquarie wide and business-specific policies, conducting transaction reviews, providing advice on ESG risks and opportunities and facilitating training. The ESR team sits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

ESR in transactions

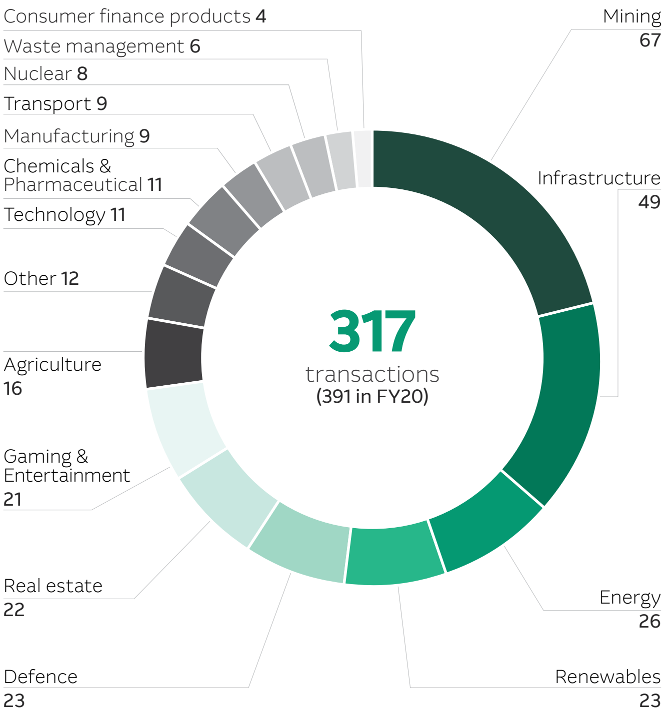
Environmental and social risks are managed through the implementation of the *ESR* and *Work Health and Safety (WHS)* policies, which are based on international standards.(7) These are updated periodically to address opportunities for improvement and emerging issues.

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

ESR Policy referrals



Transactions assessed under the ESR Policy by sector



(7) 'Occupational health and safety management systems – Requirements with guidance for use' ISO 45001:2018 and 'Environmental management systems – Requirements with guidance for use' ISO 14001:2016.

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

144

staff received ESR and WHS training in FY2021[8]

1,499

staff received specialist Human Rights training in FY2021

Human rights

Macquarie recognises the duty of States to protect human rights and the responsibility of businesses to respect human rights. Macquarie supports fundamental human rights as set out in the Universal Declaration of Human Rights and core ILO Conventions.

Macquarie has a framework of polices and processes in place to identify and mitigate potential and actual human rights, including modern slavery, impacts resulting from our business activities and the relationships connected to those activities.

This year, we produced our fifth modern slavery and human trafficking statement, and first joint statement under the *UK Modern Slavery Act 2015* and the *Australian Modern Slavery Act 2018 (Cth)*.

Work health and safety in investments

Macquarie acknowledges that WHS risks are inherent in our investments and recognises, supports, and promotes the right of every worker to return home safely from their workplace. We have zero tolerance for loss of life or serious injuries or illnesses sustained in, or resulting from, the work environment, as set out in our *WHS Policy*.

In line with our updated Macquarie-wide WHS vision, we continued to facilitate WHS improvements for operating assets in which Macquarie has an equity interest or manages on behalf of a fund. Our comprehensive safety framework is built around culture and leadership, governance and assurance. It involves:

- promoting clear WHS expectations with our business partners
- identifying key WHS risks and conducting due diligence prior to investment
- training our people to support the governance of WHS risks
- monitoring and reviewing WHS performance regularly
- investigating incidents that did or had the potential to result in serious injuries
- sharing lessons learnt and best practices across our business groups and regions
- ongoing reviews and audits.

COVID-19 has had a significant impact on the health and safety risk in our investments and on the way Macquarie engages with their management. Examples of how we have responded to these challenges include:

- investment of significant resources in the immediate response and on an ongoing basis to support the implementation of additional precautions required to protect the workforce and public (e.g. social distancing and hygiene factors)
- maintaining awareness of COVID-19 restrictions and their impact on front-line delivery by sharing best practices and lessons learned across regions and business groups
- introduction of virtual site visits to show support and engage with the workforce in the absence of face-to-face meetings and ability to travel to site.

Macquarie will continue to regularly discuss best practices and lessons learnt in the ongoing response to COVID-19.

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

Macquarie's Modern Slavery Transparency Statement can be downloaded from **macquarie.com/esg**

(8) Includes risk managers and those in specific business groups with greatest potential exposure to environmental, social and WHS risks.

Climate change

Climate change is one of the most complex and critical challenges facing the world, and the finance sector has a vital role to play in efforts to limit global warming. For almost two decades, Macquarie has worked with governments and clients to drive the energy transition and advance solutions to climate challenges.

Supporting the transition to a net zero economy

We are committed to reaching net zero operational emissions by 2025 and aligning our financing activity with the global goal of net zero emissions by 2050.[9] This is consistent with our purpose of 'Empowering people to innovate and invest for a better future'.

We have built expertise in investing directly in climate mitigation and adaptation and in supporting our clients and portfolio companies to decarbonise their activities. Our activity spans the supply and financing of renewable energy, including green Power Purchase Agreements (PPAs), storage, firming, transmission and distribution solutions; risk and capital solutions in transition, green and lower carbon fuels and metals; asset finance for zero emission transportation, smart meters, energy efficiency and onsite generation; precision agriculture; and carbon offsetting. Our leading advisory business supports clients to raise capital, invest and align their portfolios with the transition to a net zero economy.

In the past year, we have made further progress in partnership with our clients. Our asset management business announced plans to manage its portfolio in line with global net zero emissions by 2040. Our principal investment business is developing over 30 GW of new renewable energy projects across four continents. And our commodities and global markets business has created new products to offset the carbon impact of commodities like oil and gas.

As global commitments to tackling climate change accelerate, and in keeping with our culture of innovation and evolution, we are strengthening our own commitment on climate in four key areas.

First, we are strengthening our support for clients and portfolio companies to manage the transition to net zero and achieve their decarbonisation ambitions.

In our asset management business, we have started work with portfolio companies to consistently measure greenhouse gas emissions and identify emission reduction opportunities. Where we have sufficient influence, we will work with these businesses to develop plans that will put them on a pathway to reduce emissions in line with a net zero economy by 2040.

More broadly, we are working with our clients to achieve a managed transition to net zero. We recognise that much of the world will depend on oil and gas to power economies and that until new, commercially viable technologies become available, these fuels will have a continued role in the provision of essential energy. We will continue to support clients in these sectors, and we are engaging with them to design both finance and technology solutions that will help them deliver a managed transition to decarbonise and reduce the emissions intensity of their activities.

Second, we are increasing our investment in climate mitigation and adaptation solutions.

This builds on our leading position as a global developer, investor, financer, and manager of renewable energy projects. In addition to our leading role in established technologies like wind and solar, we expect to increase investment in important emerging transition opportunities including zero emissions transport, hydrogen, carbon sequestration, nature-based solutions, and climate resilient infrastructure.

Third, we will align the emissions of our financing activities with the objective of enabling and accelerating the world's pathway to net zero by 2050. As part of this commitment, we will measure and set interim and long-term science-based emissions targets for our financing activities, prioritising our efforts on clients and partners in high emission sectors and the role that Macquarie will play in accelerating their pathways to net zero.

We recognise that the financial sector does not currently have fully established methodologies and tools to measure and manage emissions across all types of financing activities and sectors. We will work to expand our approach as industry practice develops and continue to collaborate with our peers to evolve and shape measurement standards.

As previously indicated, we have reduced our limited remaining equity and lending exposures to the coal sector, which are expected to run off by 2024.

Finally, we will continue to reduce the emissions of our own business operations. We have maintained carbon neutrality across our offices, data centres and business travel since 2010 and, consistent with our 2025 Sustainability Plan, we are committed to reaching net zero operational emissions by 2025, including targets to reduce energy use and meet all of our operational needs from renewable sources.

We will outline more detail in each of these four areas by publishing a Macquarie Net Zero Plan by the end of 2022, and annual progress reports thereafter.

Advocacy and engagement

Macquarie continues to support global efforts to better understand the impact of climate change on society, our clients and our business. This involves a diverse range of activity including engaging clients and assets; research projects into areas such as reducing agricultural emissions with CSIRO; active engagement in initiatives like the Task Force on Climate-related Financial Disclosures (TCFD); and collaborating with other financial institutions through the Climate Finance Leadership Initiative (CFLI), Sustainable

(9) Operational emissions include scope 1 and scope 2 emissions, and emissions from business travel.

Markets Initiative (SMI) and broader multi-stakeholder initiatives like the Global Commission on Adaptation (GCA). Throughout FY2021 Macquarie took part in a range of global and national initiatives including: the Global Adaptation Summit, the Australian Government's Technology Investment Roadmap, and the launch of the UK Government's ten-point plan to tackle climate change and deliver the UK's ambitious net zero commitments.

Through these and other engagements, Macquarie is working to pursue opportunities to advance mitigation and adaptation solutions and improve our understanding of the risks associated with climate change.

More broadly, our industry experts continue to work with governments, non-government organisations and industry groups to build international capacity in the green finance sector and promote confidence among investors to finance green assets. Globally, last year, we took an active role in over 120 industry initiatives and conferences, and advisory groups establishing common international standards for Sustainable Finance.

Task Force on Climate-related Financial Disclosures (TCFD)

Alongside the action being taken by our businesses, Macquarie continues to support the important work of the TCFD and is actively implementing its recommendations.

In July 2020, we published a detailed report outlining our progress towards TCFD implementation. The report provides details of the transition and physical risk heat mapping and scenario analysis that was completed in 2020.

Scenario analysis

We continue to build on the physical and transition risk heat mapping undertaken in FY2020 for our lending and equity portfolios under 1.5°C and 3–4°C scenarios. Our approach for FY2021 focuses on better understanding the physical climate risk impacts (chronic and acute) to our infrastructure equity investments in the utilities, oil and gas sectors. We continue to evolve our approach to scenario analysis to support integration into our existing stress testing activities.

We have also commenced an assessment of the operational resilience of our business operations to physical climate risks. This analysis of our strategic locations will support long-term business continuity and resilience planning.

This section includes a summary of our climate-related disclosures. A more detailed report will be published as analysis progresses during the FY2022 year.

FY2021 energy sector exposures

$A6.64 invested in renewable energy for every $A1 invested in conventional energy as at 31 March 2021.(10)

In supporting clients and economies through a managed transition, we also note that global projections of power generation indicate an ongoing role for gas to complement renewable energy. Macquarie has played a leading role in increased deployment of renewables and the wider decarbonisation of the global economy.

Particular focus was placed on trying to address the various challenges that remain to full transition including energy storage, land use, the need for a greater number of investible projects and greater levels of investment in adaptation and resilience projects. In FY2021 these efforts continued globally, see pages 60–63 of this Annual Report.

The table below provides Macquarie's equity and loan portfolio exposures to the coal, oil, gas and renewables sectors as at 31 March 2021.

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

	FY20		FY21	
	Loan assets(11) $Ab	Equity investments(10) $Ab	Loan assets(11) $Ab	Equity investments(10) $Ab
Oil	0.5	0.1	0.3	0.1
Gas	0.4	–	0.2	–
Coal	0.2	–	0.1	–
Renewable energy	–	1.0	–	0.6

More detailed information is available in our TCFD report which can be downloaded from **macquarie.com/esg**

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

(10) Includes (i) banking book equity investments fair valued through profit or loss; and (ii) investments in which Macquarie has significant influence or joint control (investments in associates and joint ventures). Excludes investments held through consolidated subsidiaries and off balance sheet equity commitments.
(11) Includes drawn loan assets held at amortised cost adjusted to exclude certain items such as assets that are funded by third parties with no recourse to Macquarie, operating leases, asset finance and short-term financing such as inventory financing.

Environmental, Social and Governance

Continued

TCFD Implementation Summary

	Climate change governance	Strategy
Progress to end of FY2020	• Board responsibility for approving ESG framework and key ESG policies. • BGCC oversight and monitoring of effectiveness of ESG framework, including approach to climate change risk management. • Internal Global Green Committee, established in 2017 and led by Senior Management, promotes and coordinates climate change mitigation and adaptation opportunities. • Climate Risk Steering Committee reporting to CRO, oversees approach to climate scenario analysis.	• Engaged in activities related to climate change and the low carbon transition for over a decade (refer pages 60–63 for key milestones). • Pursued a sustainability strategy in direct operations, including a commitment to operate on a carbon neutral basis since 2010 and a commitment to source 100% renewable energy for our offices by 2025. • Supported a range of global and national strategies on climate, led by third parties, including the Climate Finance Leadership Initiative and the Global Commission on Adaptation.
Progress during FY2021	• Evolved governance structures to support relevant regulatory guidelines on climate-related risks. • Enhancing and embedding climate considerations within existing risk management framework.	• Made a series of new investments in climate mitigation and adaptation spanning established and new technologies including: onshore and offshore wind, solar, waste-to-energy, battery storage, hydrogen, carbon capture and storage, combined heat and power, smart meters and ultra-low emission transport. • Macquarie Asset Management (MAM) announced a plan to manage its portfolio in line with net zero emissions by 2040. • Green Investment Group (GIG) published its third Progress Report announcing that it had arranged or invested over £6.9 billion in green projects since the business was acquired by Macquarie in 2017 and is developing a 30 GW portfolio of new projects. • Commodity and Global Markets (CGM) further extended its leadership in environmental markets with the world's first shipment of carbon-neutral oil. • Hosted annual Green Energy Conference attended by 1,000 stakeholders and clients.
Focus beyond FY2021	• Continue to enhance and embed climate considerations within existing risk management framework. • Continue to enrich Board and executive insight into and visibility of climate-related risks and opportunities.	• Align our business operations and financing activities with the global goal of net zero emissions by 2050. • Deploy balance sheet and funds under management to develop and invest in projects that support the energy transition. • Provide a range of products and services to support our clients to make progress towards their decarbonisation goals. • Support our clients and portfolio companies to strengthen the climate resilience of infrastructure assets. • Engage in a range of cross industry initiatives leading up to the UN COP26 summit. • Continue to build internal expertise and capacity to support the global energy transition into new markets and across new technologies. • Evolve approaches for integration into business strategy planning. • Source 100% renewable energy for Macquarie premises by 2025 in line with our RE100 commitment. • Establish a new Climate Intelligence Unit to support and inform Macquarie's engagement and growth in issues related to climate change and the energy transition.

(12) Covers scope 1 and scope 2 emissions, and business travel.
(13) The reduction in investment in FY21 is a reflection of fewer large projects reaching final investment decision (FID) during the year. This is in part a timing issue and also reflects GIG's growing focus on earlier stage investment during the development phase.
(14) GW of green energy assets reflect 100% generating capacity of each asset, not the proportion owned/managed by Macquarie.
(15) LEED Gold, BREEAM Good, 5 Star Green Star or equivalent.

Risk management	**Metrics**
• Incorporated climate-related risks into environmental and social risk and credit analysis for carbon intensive sectors. • Established approaches to transition risk analysis in the oil, gas, coal and power generation sectors of our lending and equity portfolios. • Included climate change risk within Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*. • Generated physical and transition climate risk vulnerability heat maps for lending and equity portfolios across sectors and geographies. • Conducted scenario risk analysis of lending and equity portfolios for the oil, gas, coal and power generation sectors, representing transition pathways to 1.5°C, 2°C and 4°C warming by 2100. • Analysed physical risk of Macquarie's mortgage portfolio, representing pathways to 1.5°C and 4°C warming by 2100.	• Consistently invested and arranged capital into renewable energy and energy efficiency: $A9.0b in FY2020, $A7.9b in FY2019, $9.5b in FY2018. • Carbon neutral since 2010[12].
• Analysing physical risk of Macquarie's equity portfolio for the utilities, oil and gas sectors, representing pathways to 1.5°C and 4°C warming by 2100, in progress. • Assessing vulnerability and resilience of our business premises to physical climate risks, in progress.	• $A3.1 billion invested or arranged in green energy projects in FY2021[13]. • 30 GW of green energy assets in development as at 31 March 2021[14]. • 14 GW of green energy assets in operation or under management as at 31 March 2021[14]. • FY2021 emissions per capita reduced by 84% from FY2010 baseline (71% reduction from FY2020). • FY2021 absolute emissions reduced by 82% from FY2010 baseline (69% reduction from FY2020).
• Continue integration of climate-related risks through our risk management framework. • Refine climate scenario analysis and evolve approaches to integrate into broader stress testing. • Evolve strategic response to vulnerability and resilience of our business premises to physical climate risks.	• A further 20% reduction in electricity use by 2023 (from 2014 baseline). • Source 100% renewable energy for Macquarie premises by 2025 in line with our RE100 commitment. • 80% of employees in sustainably rated premises by 2025[15]. • Ongoing enhancement of TCFD disclosures to be consistent with all relevant Task Force recommendations.

Environmental and social financing

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

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

Our capabilities

Finance and develop

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

Advise

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

Manage

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

Research

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

Trade

- Emission allowances, compliance and voluntary carbon offsets and renewable energy certificates.
- Equity and debt financing of carbon offset generating projects with Sustainable Development Goal co-benefits.
- Inventory financing for environmental markets.
- Derivative financing for renewable energy projects.
- Environmental risk management solutions.

Finance, develop and advise

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

When Macquarie acquired the Green Investment Bank in 2017, forming the Green Investment Group (GIG), we made a commitment to invest £3 billion in green energy projects by 31 December 2020. Since the acquisition, the GIG has remained true to its original mission, with £4.7 billion invested or arranged in green energy projects in the UK and Europe and £6.9 billion invested globally by the target date.

Through the GIG, a signatory to the UN Principles for Responsible Investment (PRI) and Equator Principles, Macquarie is dedicating a growing proportion of our resources to early-stage project development to help bridge the gap of development stage funding and accelerate the global energy transition. Currently, GIG is progressing 30 GW of development projects and is focused on delivering that pipeline into construction and expanding on it.

We are a leader in green impact reporting for public disclosure and our Carbon Score methodology has been combined with BloombergNEF's (BNEF) renewable energy project data to assess the positive carbon impact of wind and solar assets on the BNEF platform.

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

Manage

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

This year, MAM has announced its commitment to invest and manage its portfolio in line with global net zero emissions by 2040, ten years ahead of the deadline to achieve the goals of the Paris Agreement. This announcement included a range of commitments that will reduce emissions across the MAM portfolio and build sustainable long-term value for the benefit of portfolio companies, clients and the communities in which it operates.

To support this, Macquarie Infrastructure and Real Assets (MIRA) implemented initiatives including training and actions to improve carbon and energy reporting from its fund portfolio companies.

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

$A23.2b renewable energy assets under management as at 31 March 2021(16)

$A3.1b assets managed under MIM's targeted Responsible Investment strategies

$A6.0b funds managed in line with MIM's clients' specific ESG goals and screening preferences

Research

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

We also hosted virtual investor calls focused on climate change, forced labour, divestment, hydrogen, cybersecurity, circular economy as well as other sustainability themed events.

3

Top three rating for Australian ESG research by institutional investors in 2020 Peter Lee survey

In Europe, Macquarie has a strategic partnership with Kepler Cheuvreux, a UN PRI signatory. The partnership provides our clients with access to a larger pool of alternative energy research.

In Asia, we are responding to increased client demand for ESG research with an expanded ESG team that works alongside our existing equity and macro research teams. In 2020, we expanded our proprietary corporate governance screens across our entire Asian coverage, and we are currently in the process of rolling out our sector based sustainability scores across Asia.

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

Trade

The trading business within CGM provides wholesale energy market access and hedging for a wide range of renewable energy suppliers, retailers and producers, such as waste to energy and biomass power plants. CGM enables clients to hedge their increasing exposure to global carbon emissions products. It actively implements sustainability and decarbonisation solutions for clients and assets.

In late 2020, CGM arranged and executed on behalf of Oxy Low Carbon Ventures, LLC the world's first major petroleum shipment for which greenhouse gas emissions associated with the entire crude lifecycle were offset.

The business has made several investments in renewable projects, such as Xpansiv CBL Holding Group, the first significant data and commodities platform that generates data on several factors including human and natural capital, enabling greater transparency to support trading in sustainable commodities.

More detailed information is available at **macquarie.com/esg** and **mirafunds.com/sustainability**

(16) Includes equity and debt investments.

Our work in action

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

This year, in response to the growing interest in green investment across Japan, we issued a $US300 million Samurai loan facility, including a $US150 million green tranche. Proceeds from the green tranche will support eligible green projects globally that provide clear green benefits under Macquarie's Green Finance Framework. The green tranche will adopt the four pillars identified in the Green Loan Principles published by the Asia Pacific Loan Market Association (APLMA).

More detailed information is available in the latest Green Finance Impact Report which can be downloaded from **macquarie.com/esg**

Developing and managing renewable energy projects

Macquarie had 13,800 MW of green energy assets in operation or under management at 31 March 2021, spanning established technologies like wind, solar and energy-from-waste.[17] New projects are also integrating emerging technologies like utility scale storage, floating offshore wind and hydrogen.

For example, GIG recently launched a new European solar energy company, Cero Generation, which will develop and construct utility-scale and on-site generation projects, as well as integrated energy storage solutions, across Europe.[18] Its current 8 GW portfolio containing over 150 projects makes it one of the largest solar development portfolios in the region.

In Korea, GIG has partnered with Total to develop a portfolio of floating offshore wind projects totalling an initial 2.3 GW. The portfolio will support the delivery of the Korean Government's New Deal plan and target to deliver 12 GW of offshore wind by 2030 and represents GIG's first major investment in floating offshore wind technology.

In February 2021, another partnership with Total successfully secured the seabed lease rights to develop a 1.5 GW offshore wind project located off the UK's east coast. This represents a significant early-stage investment which will enable GIG's considerable expertise and technical capability to support the project's full development lifecycle.

CGM has taken a minority equity stake in Storegga Geotechnologies Limited (Storegga), which has been established to deliver carbon capture and storage (CCS), hydrogen and other energy transition projects. With deep sector expertise, CGM provides strategic support to Storegga's ongoing projects, including one of the UK's first CCS projects known as Acorn CCS. This project will repurpose existing oil and gas infrastructure and a depleted gas reservoir to store carbon dioxide from the St Fergus Gas Terminal in Northern Scotland and other emitter customers.

Building on this, the next stage, known as the Acorn Hydrogen project, will include the infrastructure to remove the carbon from natural gas supplied from the North Sea and introduce hydrogen to the UK gas supply, cutting carbon emissions from homes, transportation, and industry.

In early 2021, CGM executed a market first power derivative by entering into a virtual storage contract with Hydro Tasmania, one of the largest owners and operators of hydro generation in the east coast Australian power market. The transaction involved the execution of a derivative designed to hedge hydro generation by guaranteeing a minimum spread between the high and the low spot prices on any given day in Victoria, Australia. Providing price spread certainty for assets which can both discharge and recharge in the market at their discretion, the transaction paves the way for standardised instruments designed to hedge a broader class of storage assets, be it pumped hydro or utility scale batteries, unlocking further wind and solar development within the grid.

GIG is actively driving solutions for decarbonisation by aggregating demand and capital to develop projects involving hydrogen and other clean fuel technologies. For example, GIG, together with gas network company SGN, have commissioned an engineering consultancy to prepare a feasibility study for a hydrogen super-hub in the Port of Southampton, UK.

MIRA raised more than €1.6 billion for investment in renewable energy with the final close of Macquarie GIG Renewable Energy Fund 2 (MGREF2), exceeding its target of €1 billion. MGREF2 will invest in a diversified portfolio of assets including platforms and construction and operational stage wind and solar projects in Western Europe and other core markets. The fund's contribution to the low carbon transition was a key driver of investor interest in the strategy, with many seeking exposure to assets that drive positive environmental change.

Financing affordable housing in the UK

An undersupply of housing, coupled with high property prices relative to wages, continues to drive the need for affordable and social housing in the UK. MAM has been financing the UK's affordable housing sector and local authorities, with approximately £700 million invested in these sectors on behalf of our clients over the past five years.

MAM recently completed a transaction that delivers 50 affordable homes for rent in south-east London.

The properties, which Beehive Affordable Homes acquired with financing provided by MAM, are a mixture of sizes and are located across the London Borough of Bromley and the surrounding areas. The London Borough of Bromley has agreed to rent the properties from Beehive Affordable Homes on a long-term basis to help meet local affordable housing needs with an option to acquire them for £1 at the end of the agreement. Beehive Affordable Homes and MAM are exploring opportunities to replicate the model across the country, working closely with local authorities to help meet their affordable housing needs.

(17) MW of green energy assets in operation or under management reflect 100% generating capacity of each asset, not the proportion owned/managed by Macquarie.
(18) Cero is a GIG portfolio company, operating on a stand-alone basis.

Adapting infrastructure for climate resilience

As a global leader in infrastructure and energy, supporting the long-term climate resilience of our projects and businesses is central to our approach to investment and asset management.

In January, Macquarie co-hosted a session on infrastructure at the Climate Adaptation Summit organised by the Global Commission on Adaptation, of which Macquarie CEO, Shemara Wikramanayake, is a founding Commissioner.

Additionally, Macquarie is designing climate resilience into new infrastructure and investing in operating procedure changes, physical enhancements, and specialised resiliency features to manage climate-related risks at our assets and those of our clients.

Following a successful pilot, Macquarie's UK Climate Investments (UKCI) and its co-shareholders approved a £1.2 million investment to install robotic waterless cleaning technology at the vehicle's Bhadla Solar park in Rajasthan. The technology will adapt the plant, which is located in a water-stressed region, for the expected future impacts of climate change. By reducing the plant's reliance on already scarce water, this innovative technology will ensure that the solar farm continues to operate efficiently whilst increasing the availability of water for use by local communities and farmers.

In Australia, bushfires have long been a natural hazard and can pose a significant danger to the environment, property and people. MIRA is supporting Endeavour Energy in utilising geospatial analysis from light detection and ranging (LiDAR) data, to assess and quantify the risk of bushfires from vegetation near its network. This enables a more targeted and efficient vegetation maintenance program and as a result a more proactive management of bushfire risk.

In Europe, Macquarie is supporting the resilience of major infrastructure. MIRA is supporting Finland's second largest electricity network operator, Elenia, to bury 25,000km of its power line network to protect it from more severe and frequent weather events, while Macquarie Capital acted as sole financial advisor and debt arranger to the Blankenburg Connection. The project involves construction of a 950m-long immersed tunnel below the Scheur River, which crosses the area's main flood protection dam. The team assists its construction partners to meet strict legal requirements, reinforce existing flood prevention infrastructure and ensure that the project will be able to resist future water level rises.

Helping our clients on their decarbonisation pathways

Macquarie provides sustainability and decarbonisation solutions for clients and assets. As part of MAM's commitment to invest and manage its portfolio in line with global net zero emissions by 2040, a decarbonisation project was launched for Australian portfolio companies which saw several of them establish their baseline greenhouse gas emissions footprint and identify initiatives to achieve sustained emissions reductions over time. Endeavour Energy, for example, has identified an initiative with the potential to reduce a significant portion of its scope 2 emissions which are largely due to line losses. The initiative would involve the installation of Ecojoule Energy's EcoVAR units that would help regulate voltage swings on the network, thereby lowering line losses and its carbon emissions footprint.

In late 2020, Macquarie arranged and executed the world's first major petroleum shipment for which greenhouse gas emissions associated with the entire crude lifecycle were offset. The delivery of two million barrels of carbon-neutral oil was arranged for Oxy Low Carbon Ventures, LLC, a US-based international energy company focused on advancing low-carbon technologies. The bundling of high-quality carbon offsets with crude oil is an immediately executable solution that Macquarie hopes will catalyse a market for climate-differentiated commodities and drive investments in longer-term, industrial-scale decarbonisation strategies.

GIG has partnered with Siemens to launch Calibrant Energy, a joint venture that offers comprehensive onsite Energy as a Service (EaaS) solutions at no up-front cost for its customers. Calibrant Energy offers a unique combination of technical, operating, and risk management expertise that enables customers to access the benefits of on-site energy systems with a new level of simplicity. Calibrant's on-site energy solutions seek to deliver immediate cost savings, cost certainty, resilience and low-cost energy grid augmentation. Calibrant's technologies will include solar, integrated solar-battery solutions, hybrid systems, standalone batteries, microgrids, combined heat and power and centralised heating and cooling infrastructure upgrades.

The Energy, Renewables and Sustainability (MERS) division within CGM's Specialised and Asset Finance business has deep expertise across metering, distributed energy, zero emission mobility and sustainable waste solutions. Supporting a major Australian real estate trust, MERS developed a Solar Power Purchase Agreement to design, install, and manage solar systems for a number of retail shopping centres across Australia. Installations commenced in December 2019 with the last site in the initial tranche due to come online in mid-2021. The installed capacity will total 2.8 MW in size, generating 4 GWh of zero-carbon, renewable electricity and reducing the client's carbon emissions by approximately 2,800 tonnes per year. In addition to achieving emission reduction targets, the solution is also significantly reducing electricity costs compared to sourcing from traditional energy retailers.

MERS has also delivered more than five million and funded over ten million smart and advanced meters to date in the UK. The roll-out of smart meters in the UK is a key enabler to a more efficient energy system, allowing customers to reduce their energy costs and emissions by managing their own energy consumption. By working with partners, Macquarie provides an end-to-end service solution for the provision, installation and funding of smart gas and electricity meters – enabling smaller suppliers to roll out this energy saving technology.

Environmental, Social and Governance

Continued

Sustainability in direct operations

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

Macquarie's 2025 Sustainability Plan articulates our corporate sustainability commitments with specific and measurable targets across environmental and social pillars.

Emissions from energy use and business travel

This year, Macquarie's absolute emissions decreased by 69% from FY2020 attributed to a reduction in Scope 2 and 3 emissions. This is largely due to the impact of the COVID-19 pandemic on our global office occupancy levels as well as our business travel. Scope 1 emissions are not considered to be material, comprising less than 2% of Macquarie's total operational emissions.[19]

FY2021 Scope 2 emissions reduced 26% from FY2020. While this can be largely attributed to reduced occupancy levels due to COVID-19, we have also continued our focus on energy use in all Macquarie premises globally. This included retrofit and new full fitout projects that have delivered more energy efficient premises and our IT cloud transformation strategy that enables rationalisation of servers.

Macquarie's RE100 commitment is to source 100% of global electricity from renewable power by FY2025. In FY2021, we reached 34% of global electricity from renewable power, up from 18% in FY2020. We expect to see a more significant increase in FY2022 and FY2023.

Macquarie's FY2021 Scope 3 emissions decreased by 99% compared with FY2020 due to travel restrictions in place since March 2020. In FY21, we adopted more sophisticated virtual conferencing and collaboration tools and will continue to encourage their use to help reduce the need for business travel.

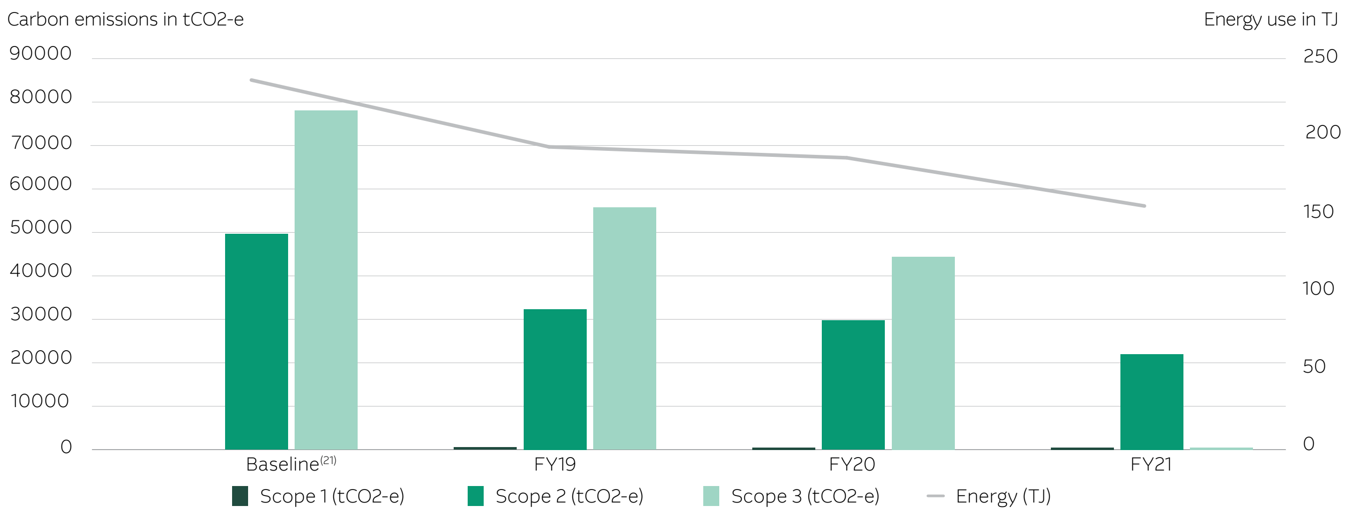
Sustainable buildings

Macquarie's corporate offices are fitted with water and energy efficient fittings and fixtures and are continually monitored for energy performance, environmental quality and staff comfort. In FY2021, Macquarie's Seoul office achieved a LEED Gold rating for its fitout. Macquarie's new global headquarters, currently being developed in Sydney, achieved a 6-Star Green Star Design rating. At the end of FY2021, 69% of Macquarie staff occupied a sustainability rated office.[20]

Carbon neutrality

Since 2010, Macquarie has maintained our carbon neutral commitment by working to reduce and offset emissions. In FY2021, to meet this commitment, Macquarie purchased and retired a portfolio of Australian Carbon Credit Units (ACCUs) and other voluntary carbon offsets that meet the Verified Carbon Standard and Climate, Community and Biodiversity Standard. The projects were selected based on quality and verifiable emissions reductions. Supported by the sale of carbon credits on international markets, they provide solutions to reduce carbon emissions in each of the regions in which Macquarie operates.

Carbon and energy data for FY2021[21]



(19) PwC has provided limited assurance over selected information for the FY2021 reporting period as detailed in its independent assurance report available on Macquarie's website. The assurance report includes a table outlining Macquarie's carbon and energy data for FY2010 to FY2021 as well as a definition of the different scopes.
(20) Minimum 5 Star Green Star, LEED GOLD or BREEAM GOOD rating.
(21) Note that the baseline for Scope 2 electricity emissions is FY2009 while, due to data availability, the baseline for Scope 3 business travel emissions is FY2010.

Resource efficiency

We continue to raise staff awareness and improve recycling rates across our regional headquarters. In all major Sydney offices and our London headquarters, we reached an average recycling rate of 35%. Office closures and reduced occupancy during FY2021 have impacted our waste data collection and verification. This is scheduled to resume as our people return to office.

In FY2021, paper use decreased by 82% compared to FY2020 due to an increase in remote working. Paper use data is collected across the majority of Macquarie's offices, representing approximately 90% of Macquarie staff. Managed print has been implemented in 100% of Macquarie's offices. In FY2021, electronic signatures were enabled for our supplier contracts. The environmental impacts of paper use are also being addressed through an ongoing commitment to use certified sustainable or recycled paper stock.

In FY2021, we initiated a review of global electronic waste providers and introduced requirements for certifications to ensure electronic waste is managed in a responsible manner.

Sustainable procurement

In FY2021, Macquarie continued to implement a risk-based approach to environmental and social due diligence in our supply chain. We refreshed Macquarie's *Principles for Suppliers* and published them in seven languages to better enable Macquarie to engage across our supply chain. In addition, Macquarie includes environmental and social risk requirements within commercial agreements and tender documents.

Over the last three years, over 1,300 strategic suppliers responded to Macquarie's ESG questionnaire developed to assess their ESG credentials. We continued to communicate our *Principles for Suppliers* and implemented an independent risk-based assurance programme which involved an in-depth assessment and onsite meetings with suppliers exposed to high human rights risks based on country of operation and service category.

Macquarie is committed to maintaining collaborative supplier relationships. In FY2021, this included engaging with key suppliers on the impacts of COVID-19 on their operations and where possible, seeking mutually beneficial outcomes for both parties. This involved, but was not limited to, extending contracts, supporting suppliers during lockdowns and ensuring COVID-19 impacts to workers were considered in the independent assurance programme.

Macquarie's approach towards identifying and mitigating the risk of modern slavery within our supply chain and business operations is set out in our Modern Slavery Transparency Statement as described on page 55.

In FY2021, Macquarie spent over $A12 million with minority-owned businesses in our tier one and two supply chain.[22]

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

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

Macquarie's Modern Slavery Transparency Statement can be downloaded from **macquarie.com/esg**

(22) Includes qualified businesses from traditionally under-represented groups such as companies owned and operated by minorities, women, Indigenous Australians and small business. Tier 1 is defined as spend incurred via diverse suppliers directly contracted by Macquarie. Tier 2 is spend incurred via fourth parties meeting the diverse supplier definition, indirectly supporting goods and services delivered to Macquarie.

Client experience

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

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

Client engagement

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

Macquarie Capital's diverse mix of advisory, capital markets and principal investing capabilities results in a broad array of client and stakeholder interactions, ranging from close and collaborative relationships with partners and co-investors to more intermittent and transaction-focused contact. The team regularly collates formal and informal feedback to help us evaluate the strength of our client relationships and identify opportunities for improvement and innovation.

CGM is a client focused business, concentrating on deepening relationships through a continued understanding of our clients' changing needs. We regularly engage clients to seek feedback and gain insights with the intention of adapting our offering where required. An example of this is the outreach program initiated in May 2020, when CGM undertook a series of conversations with clients to understand their experiences during COVID-19, bringing the voice of the clients to CGM's strategy development.

To deliver an enhanced client experience and drive further collaboration, MAM reorganised its business into four global divisions and announced its intention to transition to a single MAM brand. These changes will enable MAM's integrated client solutions team to further simplify how its suite of alternatives, equities, and fixed income capabilities are presented to clients. MAM's operations, technology, and data teams were also brought together, with the new function providing greater global coordination to ongoing investments designed to enhance the client experience.

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

This year we have rolled out online cultural competency training for some client-facing people in BFS across Australia. The program, which was developed by an Australian Indigenous business specialising in cultural competency training, is designed to introduce participants to Indigenous people, culture and history while providing practical knowledge and skills to work more effectively with Indigenous people.

Supporting clients in times of need

To build staff capability in responding to clients who may be experiencing personal challenges, BFS has delivered workshop training on dealing with difficult situations to all our client facing people in the past year. We have also partnered with an external outreach service provider offering holistic support to referred clients.

Our response to COVID-19

From the outset of the COVID-19 outbreak, Macquarie responded quickly to implement a series of comprehensive measures to support clients, partners and communities impacted by the pandemic.

BFS delivered relief to impacted clients by implementing a lending product payment pause, temporarily ceasing collections activity, reducing rates on business loans and participating in Early Release of Super and SME Guarantee Scheme support initiatives by the Australian Government. This was enabled by broad communication with our clients and a focus on reducing manual processes though digitising forms, removing manual signatures and improving secure online self-service options for clients. BFS' Agile practices allowed our people to transition to remote working without disruption to client service. Following these enhanced support measures, most clients have now resumed regular payments.

MAM continues to adapt its client engagement strategy in response to the pandemic to ensure its clients remain informed about the performance of their investments and the broader investment landscape. Regular reporting for the majority of MAM's infrastructure and real asset funds continued to be supplemented with additional briefing calls, fund updates, direct engagement, thought leadership, and a new regular webinar series. Key client engagement activities, such as the Annual General Meetings for MAM's flagship strategies, were also held in a virtual format.

CGM's businesses adapted to the changing environment by supporting clients and looking for enhanced ways to help clients restructure their businesses and rebalance their portfolios. CGM worked closely with clients in the most challenged sectors on their long-term resilience and response to disruption. The Specialised and Asset Finance business provided access to lending relief to over 30,000 SME clients globally to help support business cash flows and sourced computer equipment for North American educators.

Macquarie Capital has also been providing expertise, advice and capital solutions to help our clients and partners to navigate COVID-19 and the related market disruption – from strategic advisory and capital raising to supporting our clients' continued growth and transformation in key sectors reshaped by COVID-19, such as healthcare and education. In addition to adapting to the pandemic, some of our portfolio companies are also directly contributing to the fight against COVID-19, from vessels delivering essential supplies and supporting hospital ships to our online education companies providing free access to millions of children during the height of the pandemic. In the US, Macquarie Capital's portfolio company Dovel Technologies directly participated in government research initiatives to fight COVID-19 through its support of the National Institutes of Health (NIH). It also ran one of the US government's grants programs which helped to deliver billions of emergency dollars to citizens and organisations in need.

Fair and efficient resolution of issues

Reflecting our commitment to our clients, Macquarie Bank Limited subscribes to the Australian Banking Association 2019 Banking Code of Practice.

Macquarie has a robust complaint management framework across our retail banking business to ensure client complaints are resolved quickly and fairly. BFS teams analyse complaint data to understand the root causes of complaints so they can be addressed at their source, with oversight from senior management. In FY2021, 97% of BFS complaints were resolved within five business days, up from 91% in the previous year.

Macquarie's Customer Advocate is independent of the operating, risk and support groups including our internal dispute resolution teams and reports directly to the CEO. The Customer Advocate's role is to:

- promote fair and reasonable customer complaint outcomes
- minimise the risk of future problems by reviewing key customer themes and new product approvals to identify opportunities to enhance products, services, systems and processes
- provide a customer-centric voice when making recommendations to improve customer experience.

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

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

The Banking Code of Practice can be downloaded at **macquarie.com/banking-code**

People and workplace

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

Leadership, talent and culture

In FY2021, an initiative to review and reconsider Macquarie's purpose statement was undertaken. Over an 11-week period, 800+ staff shared perspectives to inform this refreshed purpose. Following this extensive consultation, Macquarie's revised purpose statement was articulated, endorsed by the CEO, the Executive Committee and Board, and launched during the 2020 Annual Staff Meetings. The new purpose, 'Empowering people to innovate and invest for a better future', has now been embedded throughout the organisation, and feedback from staff has shown that it resonates with and inspires our people.

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

86% of Macquarie's 325 Executive Directors are currently completing or have completed the Macquarie Executive Director Leadership Program (EDLP)

The EDLP builds the capability of leaders to better understand their impact and to inspire and develop others. It also equips them to address the pace and complexity of change and to cultivate and support a culture of innovation. While the ongoing delivery of EDLP was paused for the majority of 2020 due to the impact of the pandemic, delivery has continued in a virtual format in 2021.

To meet the evolving needs of our leaders, a new series of virtual Masterclasses was launched in FY2021. The Masterclasses focus on equipping our Executive Directors with the skills and tools needed to navigate the opportunities and challenges associated with leading through COVID-19. A series of complementary virtual Masterclasses was subsequently launched for our Division and Associate Directors.

244 attendees across the six Masterclasses offered to Executive Directors in FY2021, and

1,725 attendees across the four Masterclasses offered to Associate and Division Directors in FY2021

Following a FY2020 project analysing the attributes and experiences required by our future leaders, the new Macquarie Leadership Standards were launched in FY2021. These Standards were developed based on extensive research and incorporated feedback from our people, our Executive Directors, Macquarie's Board and our Executive Committee. These Standards provide greater consistency and transparency in our expectations of Executive Directors and have been adopted as the new criteria for Executive Director promotions.

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

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

The global pandemic and the rapid move to remote working has accelerated the use of technology to deliver virtual classroom learning. Our Learning and Development teams were able to offer over 119 courses in a new virtual format in FY2021. This was achieved through the onboarding of new suppliers and the conversion of existing course content to virtual formats, which provided a more accessible learning and development experience for our staff.

2,428 learning events in FY2021[23], with

89% delivered virtually

During the employee onboarding and orientation process, Macquarie offers a series of learning and development activities (including events hosted by the CEO) designed to communicate and embed the Macquarie culture and reinforce the ongoing importance of meeting behavioural expectations and effective risk management across all our businesses and regions. Globally, over 2,000 staff completed *Success at Macquarie* virtually as part of Macquarie Orientation in FY2021.

(23) Including virtual and face-to-face forums.

Goal setting, providing ongoing feedback, and having regular performance and career development discussions are a key part of performance measurement and talent management at Macquarie. In addition to providing regular feedback throughout the year, Macquarie requires all staff to have at least one formal Year in Review, or appraisal session, with their manager.

Workplace health, safety and wellbeing

Macquarie recognises the value of effective WHS performance as an integral part of how we successfully manage our business. We seek to operate zero harm environments through maintaining high WHS standards and performance across all our activities globally. We promote an integrated approach to safety and wellbeing matters and encourage our staff to speak up on any actual or potential health and safety issues, including matters relating to inappropriate behaviour such as sexual harassment or other form of harassment, discrimination, bullying or victimisation.

Our recently updated WHS vision seeks to build and promote safe workplaces which enable and empower people to do their best work. This commitment is underpinned by a comprehensive safety framework built around culture and leadership, governance, and assurance. Staff are provided with training and resources to promote positive safety practices. Staff consultation forums inform the implementation and effectiveness of these policies, systems, and risk controls.

0.2 Lost Time Injury Frequency Rate (LTIFR) in the year ended 31 March 2021[24]

The safety and wellbeing of our people remains at the centre of our response to COVID-19. Through our security operations we continuously monitor and assess changes in government regulations to inform decision-making. Our Crisis Management Teams evaluates local health information and legal and regulatory obligations to ensure our policies and practices remain compliant. Our people are informed of our safety requirements through staff briefings and office-specific communications.

In response to the external changing environment, we offer financial support to all staff for ergonomic office chairs and technology peripherals to enhance their remote working environment. We provide resources to assist people leaders to manage remote working teams. Additional online training provides staff with education on "Work Health and Safety While Working from Home", including strategies to support both physical and mental wellbeing.

Macquarie's holistic wellbeing program, *Macquarie Plus*, provides a comprehensive range of initiatives and benefits designed to equip our people with the tools and resources to own their wellbeing. The delivery of wellbeing initiatives pivoted to provide equitable opportunity to staff, with the program maintaining its focus through digitalised and in person content allowing for flexible engagement. With a strong focus on encouraging our people to balance all aspects of their lives. *Macquarie Plus* comprises four key elements:

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

7.5% global voluntary turnover rate[25]

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

Diversity & Inclusion

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

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

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

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

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

Business conduct and ethics

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

Macquarie's revised purpose 'Empowering people to innovate and invest for a better future' represents *why* we exist and *what* we do. We believe that by empowering people – our colleagues, clients, communities, shareholders and partners – we will achieve our shared potential.

Macquarie's Risk Culture and Conduct team is responsible for developing and maintaining frameworks for risk culture and conduct risk, and monitoring and reporting on the implementation of those frameworks across Macquarie. As part of their role, the team:

- assesses the risk culture across the group and provides oversight of its alignment to Board expectations
- challenges and advises Macquarie teams on how to enhance risk culture maturity
- assesses, challenges and advises on the effective identification, evaluation, and management of conduct risk.

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

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

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

Tax transparency

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

More detailed information on Macquarie's approach to tax transparency is available at **macquarie.com/fy21-tax-transparency**

Political engagement and public policy

Macquarie believes we need to be engaged and understand the evolving policy, political and regulatory environments in Australia and other jurisdictions in which we operate, as these factors impact our business as well as our clients' businesses.

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

Macquarie contributes to public policy in the markets in which we operate in the following ways:

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

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

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

In the year ended 30 June 2020, Macquarie's political contributions in Australia totalled $A251,230 comprising: $A127,680 to the Liberal Party of Australia; $A112,550 to the Australian Labor Party; and $A11,000 to the National Party. Contributions were to meet the costs of memberships of political party business forums, attendance at events and party conference corporate days, and sponsorship of events. Macquarie did not make any direct donations.

It is not Macquarie's practice to contribute monies to political parties in other jurisdictions.

Data privacy and security

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

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

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

Macquarie Group Foundation

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

$A475m[(1)]
contributed since inception

2,400+[(2)]
non-profit organisations supported

$A20m
allocated to responding to the COVID-19 crisis

During an unprecedented year, Macquarie employees and the Foundation responded with empathy and generosity. In FY2021 $A64 million[(3)] was contributed to over 2,400 non-profit organisations around the world by Macquarie employees and the Foundation, making this a record year. Through donations and fundraising efforts by employees and matching by the Foundation, together with the Foundation's annual grant-making program, over $A475 million[(1)] has been contributed to thousands of community organisations around the world since inception.

The Foundation's focus on the communities where Macquarie employees live and work enables a better understanding of local needs, and helps to leverage employees time, expertise and networks for greater social impact. In FY2021 employees continued to volunteer their time in a variety of ways, including pro bono work and board positions.

Many employees provide their time and skills to non-profit organisations aligned to the Foundation's global grant-making focus area of supporting social and economic opportunities for young people.

By pivoting towards virtual volunteering throughout FY2021, Macquarie employees continue to be highly engaged in global initiatives such as Foundation Week, as well as regional initiatives including Mentoring Week in the Americas, Community Day in Asia, Australian Business and Community Network (ABCN) programs in ANZ and Social Mobility Week in EMEA.

During the sixth annual Foundation Week – a campaign where non-profits receive bonus matching of amounts raised up to $A5,000 by Macquarie teams – more than $A5.4 million was distributed to over 208 non-profit organisations around the world. Employees organised more than 230 events across 41 Macquarie offices, many of which supported Foundation grant partners. By hosting 85% of events virtually, Macquarie employees ensured the non-profit organisations they're passionate about still received the support they needed.

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

Responding to crisis

In response to the COVID-19 crisis, Macquarie Group announced an allocation of $A20 million to the Foundation to make donations to a number of organisations working to combat the disease and provide relief from its impacts. The Foundation has focused on recipients addressing areas of immediate and medium-term need.

To date $A17.7 million in total has been allocated to 36 organisations. $A2 million has been allocated to two Australian research projects, $A7.2 million has been allocated across 24 non-profits internationally that focused on direct relief efforts and most recently $A8.5 million has been allocated to 10 organisations that are supporting workers and businesses in restarting economic activity.

For example, through funding received from the COVID-19 donation fund, edX created the 'Macquarie Scholarship Program' for economic recovery by supporting online learning courses and programs for low-income and under-represented groups of learners. Economic recovery grants have also been allocated to organisations including Local Initiatives Support Corporation (LISC) in the Americas, Regional Opportunities Australia in ANZ, Investing in Women in Asia and the London Community Response Fund in EMEA.

Alongside the COVID-19 pandemic, 2020 also saw a heightened focus on societal inequalities, with particular action demanded on longstanding racial injustice in the United States and around the world. As part of Macquarie's response, the Macquarie Americas Management Committee partnered with the Foundation to create the Racial Equity Fund. The Fund supports community groups working on solutions towards racial equity, with a working group of Macquarie employees engaged in nominating potential recipients as well as educating and engaging employees on the issue.

One organisation supported through the Racial Equity Fund is the Robin Hood Foundation. Macquarie's funding supports Robin Hood's Power Fund, an initiative to fund and elevate non-profit leaders of colour working to increase economic mobility for New Yorkers living in poverty.

(1) Since inception in 1985.
(2) In the 12 months to 31 March 2021.
(3) Contribution figures comprise Macquarie employees' donations and fundraising; Foundation matching support for employees' donations and fundraising; Foundation donations to commemorate employees attaining 10-year and 25-year anniversaries at Macquarie; Foundation grants to non-profit organisations to recognise 12 months of board service by a Macquarie employee; and Macquarie and Foundation grants to community organisations (including COVID-19 donation fund and Year 2 donations for the 50th Anniversary Award) in the 12 months to 31 March 2021.

Grant-making focus for social impact

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

Many of the grant partner organisations engage Macquarie employees through mentoring, career development and employability programs. These organisations include the Double Discovery Center at Columbia University in the Americas, Raise Mentoring in ANZ, Asha India Foundation in Asia and Dallaglio RugbyWorks in EMEA.

Throughout FY2021, the Foundation provided flexible funding arrangements and access to additional funding to enable grant partners respond to the challenges of the pandemic.

Macquarie 50th Anniversary Award

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

Throughout FY2021, the five winners adapted to these challenging times and continued to progress their projects. For example, Last Mile Health, a national health assistance program in Liberia, was able to deploy over 3,800 frontline health workers and served more than 770,000 people since 2019 whilst also assisting with the local COVID-19 response in Malawi and Ethiopia. The Ocean Cleanup, working to rid the world's oceans of plastic, successfully launched a new River Interceptor in the Dominican Republic stemming the flow of plastic before it gets out to sea.

Over 70 Macquarie employees from around the world volunteered to join the Macquarie 50th Anniversary Award Ambassador Network this year, putting their hand up to work alongside these organisations and drive key initiatives.

For more information on the Macquarie 50th Anniversary Award winners, visit **macquarie.com/50award**

Macquarie Sports

In FY2021, Macquarie Sports clinics were heavily impacted by the pandemic, and responded with two key initiatives. Macquarie Sports extended 2020 funding to 31 March 2021 to allow an extra three months for sporting partners to get through the COVID-19 restrictions, restart their programs and utilise the funding provided to them.

Macquarie Sports also redeployed funding to selected sporting partners to enable them to enhance an existing program or commence a new program.

Macquarie employees selected Wheelchair Sports NSW/ACT to receive a $A25,000 grant to deliver a second annual residential Junior Wheelies Camp. The Macquarie Sports Advisory Committee also selected a further two organisations to receive $A25,000 each: Sportwell's Hydrothon All-Female Surf Sports Clinics (focused on bushfire-affected surf clubs on the far south coast of NSW) and Water Polo NSW's Girls Making Waves program (focused on regional communities).

In early 2021 many Macquarie Sport clinics have resumed with appropriate COVID-19 safe protocols in place.

Macquarie Group Collection

For the first time the Macquarie Group Collection's (the Collection's) ninth annual 2020 Macquarie Group Emerging Artist Prize and Exhibition was held virtually. In order to support more emerging artists during these challenging times, eight artists were selected as winners. This year saw a record number of submissions, attendance at the launch event and social media activity.

The Collection also supported the Indigenous Art Code's 'Our Art Is Our Lifeline' national media campaign, which aimed to support the Indigenous art industry through the global crisis and promote fair and ethical trading.

The Collection has been supporting emerging Australian artists for over 30 years by acquiring and displaying their works in Macquarie offices around the world. The Collection features art in all media, around the theme *The Land and its Psyche,* reflecting the diversity of the Australian landscape as seen through the eyes of its artists. Now comprising more than 850 works selected by a volunteer committee of Macquarie employees and a curatorial expert, the Collection is on display in around 40 Macquarie offices worldwide.

FY2021 contribution amount

Total Macquarie spend (including matching of staff contributions)	Staff contribution (estimation based on Foundation match funding)
$A51,770,000	**$A11,845,000**

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

Macquarie Group Foundation

$A20 million COVID-19 donation fund

To date, we have allocated **$A17.7m** in total to **36** organisations

Direct relief

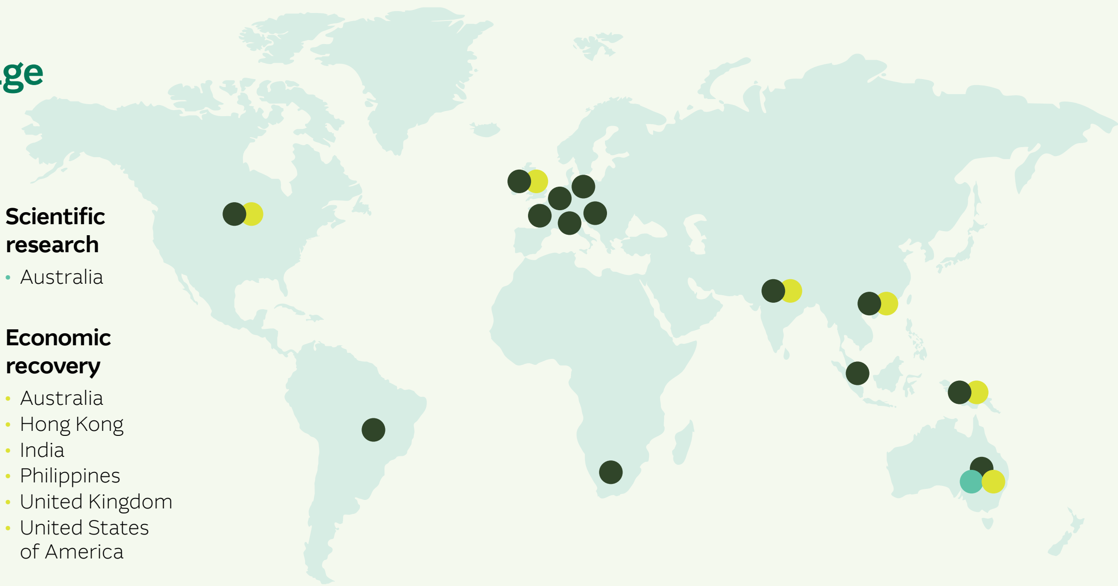
$A7.25m

has been allocated across 24 non-profits internationally that are focused on direct relief efforts including:

Macquarie's funding helped address critical food security needs across The Global FoodBanking's network of more than 900 foodbanks in 40 countries, including meals for children as many schools around the world remain closed.

Funding supported the International Rescue Committee's (IRC) COVID-19 preparedness and response programs in over 40 countries. From sharing crucial information in Italy to training health care workers in Syria to continuing vital work with refugees in the US, the IRC teams are on the ground responding to the outbreak every day.

Global coverage



Direct relief
- Australia
- Austria
- France
- Germany
- Hong Kong
- India
- Luxembourg
- Philippines
- Singapore
- South Africa
- South America
- Switzerland
- United Kingdom
- United States of America

Scientific research
- Australia

Economic recovery
- Australia
- Hong Kong
- India
- Philippines
- United Kingdom
- United States of America

Scientific research

$A2m

donated to two renowned Australian research institutes:

Burnet Institute
Medical Research. Practical Action.

Funding contributed to the large-scale Optimise Study on isolation/quarantine and physical distancing, providing evidence to government, community organisations and key health service groups to assist in restoring economic and recreational activities whilst keeping new infections at a low level.

Doherty Institute

Funding contributed to the international Australasian COVID-19 Trial (ASCOT), which aims to identify the best treatments for COVID-19 that will reduce mortality or the need for mechanical ventilation in hospitalised, but not yet critically ill patients.

Economic recovery

$A8.5m

to ten organisations that are supporting workers and businesses in restarting economic activity including:

INVESTING IN WOMEN
SMART ECONOMICS
AN INITIATIVE OF THE AUSTRALIAN GOVERNMENT

An initiative of the Australian Government, funding established the 'Macquarie Investing in Women RISE Fund', enabling impact investors to unlock private sector and other investments for women's SMEs, stimulating job creation and providing access to critical services in hard-hit markets in Philippines.

LISC

Funding is providing Local Initiatives Support Corporation (LISC) with grants directed to small business owners for their most urgent relief and rebuilding needs. Funding will be directed to minority-owned small businesses, located in underserved communities in New York, Houston and Philadelphia, which are experiencing economic hardship, and have traditionally been left out of business relief programs.

Main image: LISC COVID-19 direct relief
Top: Asylum Seekers Centre COVID-19 staff and volunteers at the temporary foodbank
Bottom: Goonj COVID-19 staff making family relief kits

Risk Management

Risk governance at Macquarie

Role of the Board

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

Role of Management

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

Three lines of defence

Macquarie's approach to risk management adopts the 'three lines of defence' model in which risk ownership responsibilities are functionally independent from oversight and assurance:

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

Risk management framework

Overview

Macquarie's risk management framework is the totality of systems, structures, policies, processes and people within Macquarie that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. Material risks are those that could have a material impact, financial or non-financial on Macquarie. Macquarie's material risks include aggregate, asset, conduct, credit, environmental and social (including climate change), equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic, tax, and work health and safety risks. The risk management framework applies to all Operating and Central Service Groups.

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

Key components

Core risk management principles

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

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

Risk Management Group

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

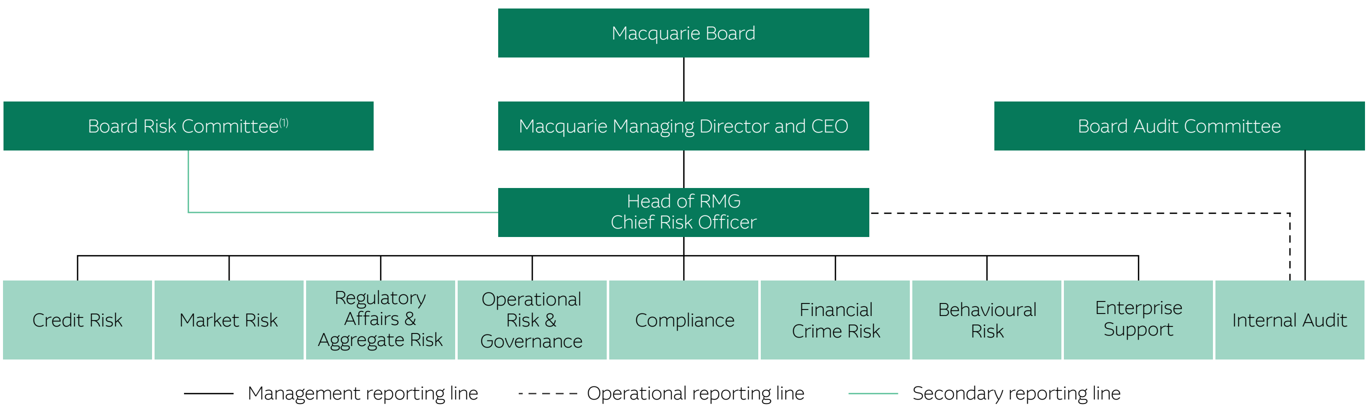
RMG's oversight of risk is based on the following five principles:

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

Internal audit

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

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



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

Risk Management

Continued

Risk appetite management

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

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

Risk tolerances

Risk tolerances have been established to ensure that we only accept risks that are consistent with our risk appetite.

Financial risks

Limits translate risk appetite principles into hard constraints, being the Global Risk Limit that constrains Macquarie's aggregate level of risk as well as granular limits for specific financial risks.

Macquarie sets the Global Risk Limit with reference not only to capital but also to earnings so that in a prolonged, severe downturn, earnings and surplus capital are sufficient to cover losses and maintain market confidence in Macquarie. The potential financial impact of a non-financial risk event is also included in the Global Risk Limit.

Macquarie operates under a strict principle of 'no limits, no dealing'. Compliance with specific limits is monitored by the business and RMG. These granular limits are set to allow the Businesses to achieve their near-term plans while promoting a reassessment of the opportunity and associated risks as the limit is approached.

Non-financial risks

We seek the highest standards in addressing non-financial risks. Macquarie monitors and reports on a range of metrics for non-financial risks that provide a measure of our risk profile for these risks.

These metrics provide a basis for analysis and communication of risk, for forcing explicit consideration of the risk profile, raising awareness of risks and facilitating debate and actions in relation to potential future risks.

Further explanation on Environmental, Social and Governance (ESG) and Work Health and Safety risks in particular is set out in the **ESG** section of this report.

Policies

Policies are key tools for ensuring that risks taken are consistent with Macquarie's risk appetite. They are designed to influence and determine all major decisions and actions, and all activities must take place within the boundaries set by them.

New product and business approval process

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

This formal process is designed so that the proposed transaction or operation can be managed. All relevant risks are reviewed to ensure they are identified and addressed prior to implementation. These risks are also monitored on an ongoing basis. The approvals of RMG, Financial Management Group, Legal and Governance and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement.

Stress testing

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

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

Risk culture

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

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

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

Setting behavioural expectations

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

Leading and executing

Management implements behavioural expectations through:

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

Monitoring, measuring and reporting

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

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

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

Remuneration and consequence management

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

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

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

Conduct risk

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

Such behaviour, actions or omissions may include:

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

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

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

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

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

Risk Management

Continued

Market and credit risk

Year end performance indicators

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

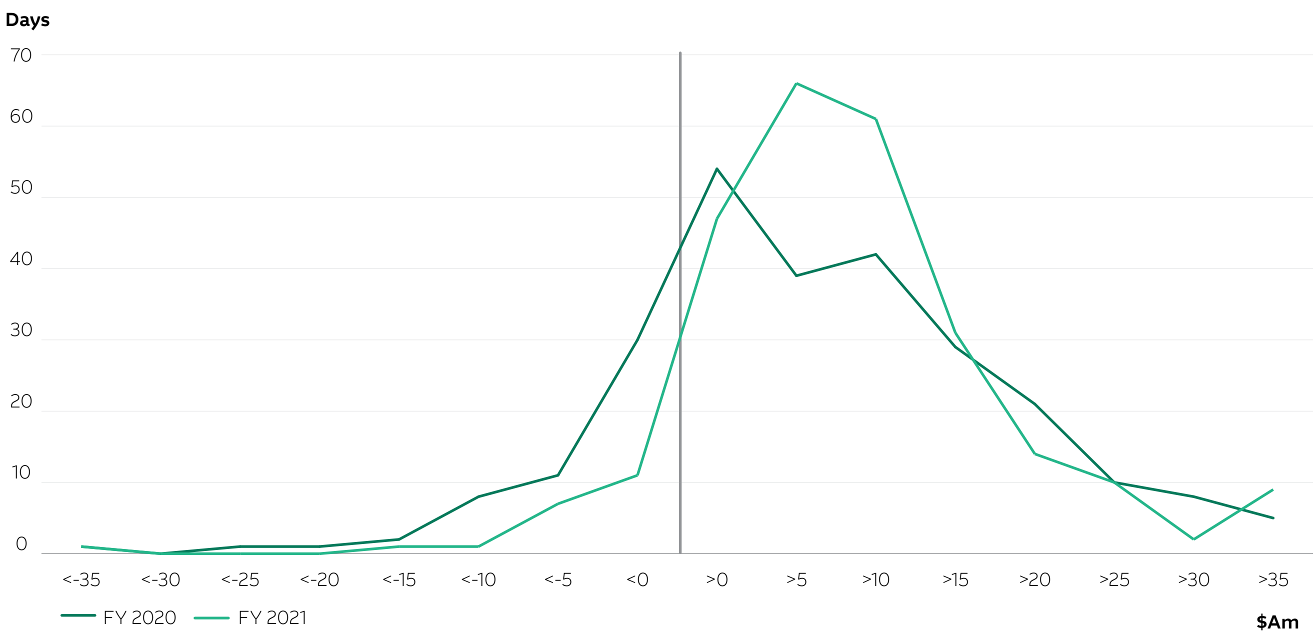
Trading revenue

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

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

Macquarie's trading results over time have shown consistent profits and low volatility. This is evident in the graph below and reflects the client-based nature of trading activities. In FY2021 Macquarie made a net trading profit on 240 out of 261 trading days (2020 results: 208 out of 262 trading days) and trading loss profiles were consistent with previous years.

Daily trading profit and loss

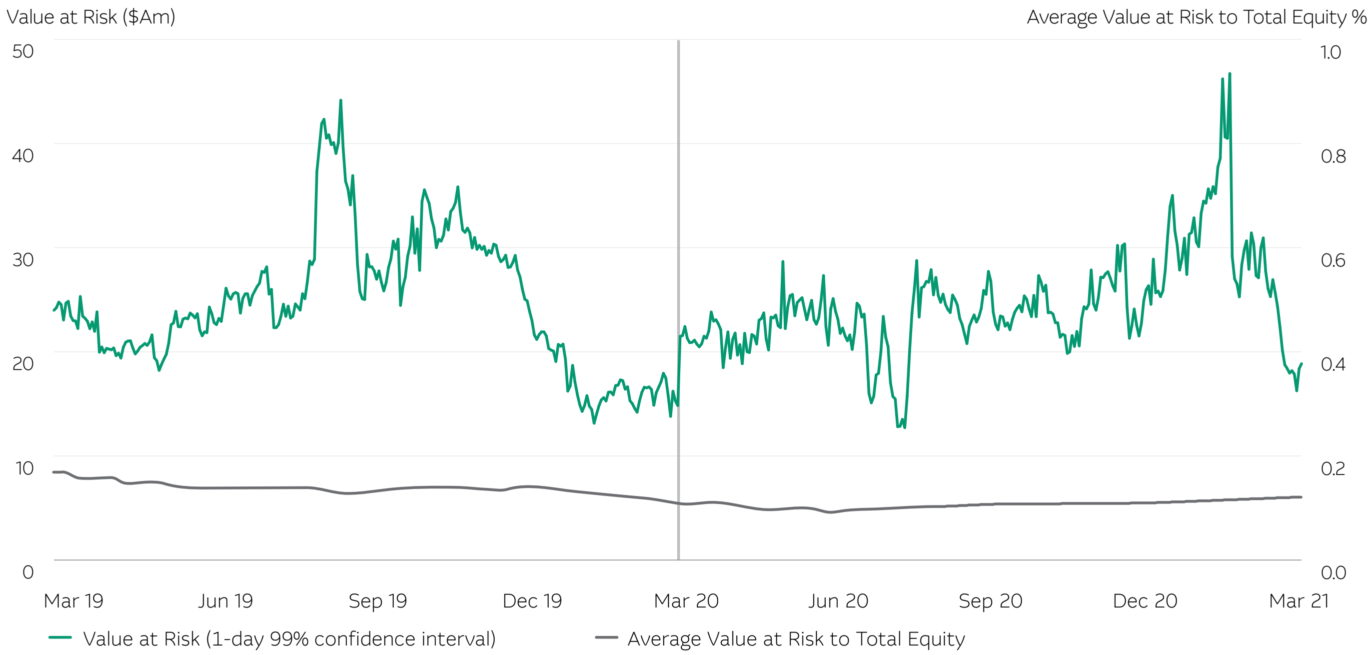


Value at Risk (VaR)

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

Macquarie's market risk remained in line with the previous year, driven by higher market volatility along with commodity exposure driven by oil and gas activity. VaR reached a maximum towards the end of the year as a result of the extreme cold weather in the US. VaR remains modest in comparison to capital and earnings, representing less than 0.2% of total equity.

Aggregate VaR



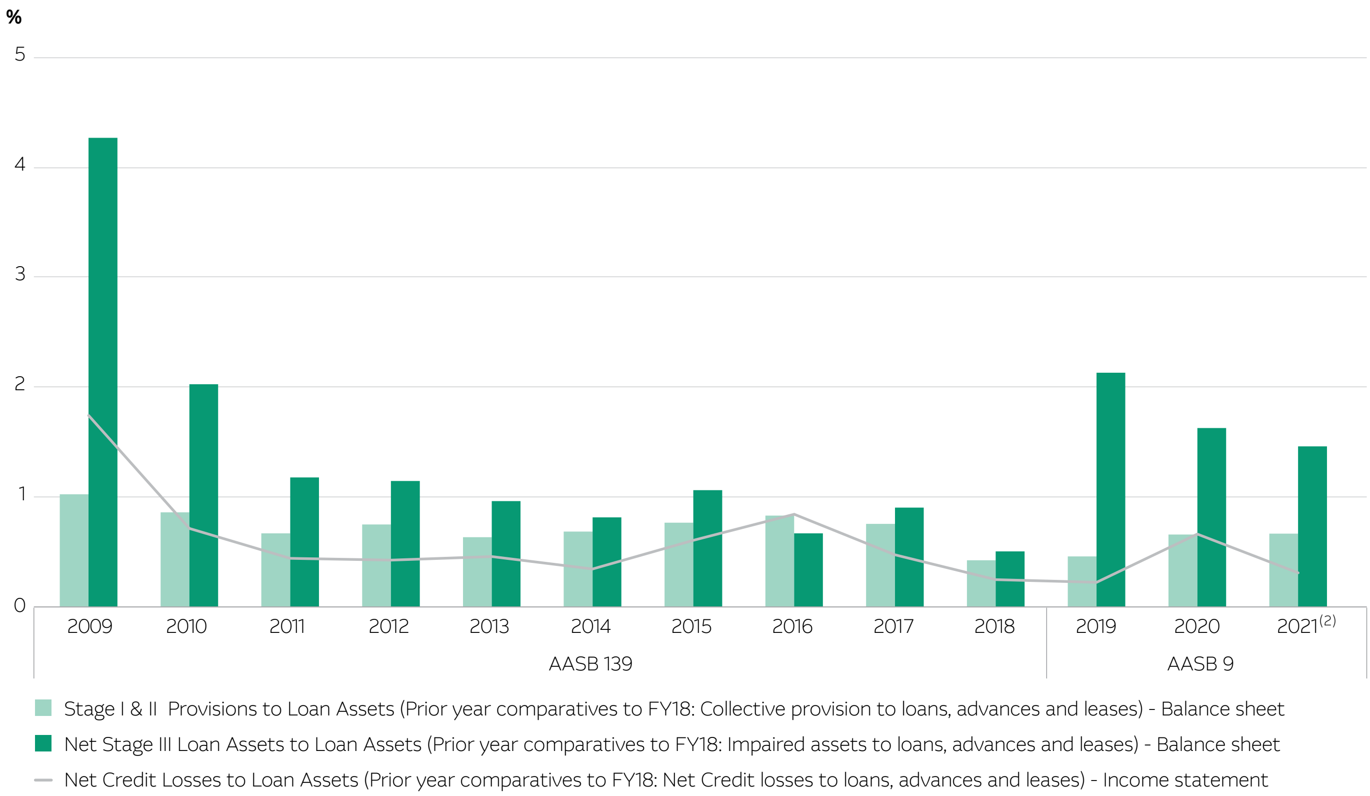
Loan impairment review

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

For AASB 9 disclosures refer to Note 36.1 *Credit risk* to the financial statements including disclosure of loan asset exposures by stage of credit performance. Note 13 *Expected credit losses* to the financial statements discloses expected credit losses on loan assets by stage of credit performance. The 2021 numbers presented below are calculated with reference to this information. Loan assets categorised as Stage III in terms of AASB 9 are defined as 'credit impaired'. As noted, AASB 9 did not require the restatement of comparative information, and for that reason the comparative numbers in the graph below have not been restated.

Underlying credit quality in FY2021, as indicated by Stage I & II provisions and credit losses, has remained broadly consistent compared to FY2020. The level of Stage I & II provisions to loan assets and net credit losses to loans assets is primarily caused by the deterioration of market conditions and market uncertainty, as a result of COVID-19 (as disclosed in the Notes to the financial statements).

Ratio of Provisions and Credit Impaired Loan Assets to Loans Assets



Notes to prior year comparatives[3]

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

(2) The decrease in the ratio of Net Stage III Loan Assets to Loan Assets during FY2021 is attributable to the growth in the mortgage portfolio and the carrying value of loans within Stage III remaining relatively comparable to the prior year.
(3) The information for the financial years ended 31 March 2009-2021 is based on results using the Australian Accounting Standards that were effective and adopted by the Consolidated Entity at the reporting dates. Reporting periods have been restated only to the extent as required by the accounting standards. The financial reporting periods may hence not be fully comparable with one another as a result of changes in accounting standards' requirements.

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FREEWIRE

03

Directors' Report

FreeWire Boost Charger, United States

Part of the Macquarie Capital Venture Studio portfolio, FreeWire Technologies is a leading manufacturer of next-generation electric vehicle (EV) charging and battery-integrated power solutions for grid edge applications.

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Directors' Report

For the financial year ended 31 March 2021

The Directors of MGL submit their report with the financial report of the Consolidated Entity and of the Company for the year ended 31 March 2021.

Directors

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

Independent Directors

P.H. Warne, Chairman

J.R. Broadbent AC

G.M. Cairns

P.M. Coffey

M.J. Coleman

D.J. Grady AO

R.J. McGrath

M. Roche

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Director

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

Other than Ms McGrath and Mr Roche, the Directors listed above each held office as a Director of MGL throughout the financial year ended 31 March 2021. Ms McGrath and Mr Roche joined the Board of Directors as Independent Directors effective from 20 January 2021.

Mr G.R. Banks retired as an Independent Director on 30 July 2020 and Mr M.J. Hawker retired as an Independent Director on 30 September 2020. Mr G.M. Cairns retires as an Independent Director on 7 May 2021.

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

Details of the qualifications, experience and special responsibilities of the Directors and qualifications and experience of the Company Secretaries at the date of this report are set out on pages **92 to 98** of this report

Principal activities

The principal activity of MGL during the financial year ended 31 March 2021 was to act as a Non-Operating Holding Company (NOHC) for the Consolidated Entity. The activities of the Consolidated Entity were those of a global financial group providing banking, financial, advisory, investment and funds management services. In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2021 and 31 March 2020, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2021 was $A3,015 million (2020: $A2,731 million).

Dividends and distributions

Subsequent to the year ended 31 March 2021, the Directors have resolved to pay a final ordinary dividend of $A3.35 per share, 40% franked based on tax paid at 30% ($A1,211 million in aggregate). The final ordinary dividend is payable on 2 July 2021.

On 22 December 2020, the Company paid an interim ordinary dividend of $A1.35 per share, 40% franked ($A486 million in aggregate) for the financial year ended 31 March 2021.

On 3 July 2020, the Company paid a final ordinary dividend of $A1.80 per share, 40% franked ($A637 million in aggregate) for the financial year ended 31 March 2020.

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

State of affairs

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

Operating and financial review

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

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

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

Directors' equity participation and other relevant interests

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

	EQUITY PARTICIPATION			OTHER RELEVANT INTERESTS	
Name and position	MGL ordinary shares	RSUs held in MEREP(1)	PSUs held in MEREP(1)	Direct and Indirect Interests	Number held
Executive Voting Director					
S.R. Wikramanayake	945,793	350,417	107,110	MAFCA Investments Pty Ltd ordinary shares	2,000,000
Independent Directors					
J.R. Broadbent	16,250	–	–	Macquarie Group Capital Notes 3 (MCN3)	7,177
				Macquarie Group Capital Notes 4 (MCN4)	4,000
				Macquarie Bank Capital Notes 2 (BCN2)	1,500
G.M. Cairns	12,734	–	–	–	–
P.M. Coffey	8,739	–	–	Walter Scott Global Equity Fund units	408,699.89
M.J. Coleman	7,324	–	–	Macquarie Group Capital Notes 5 (MCN5)	2,000
D.J. Grady	9,895	–	–	MCN3	390
				MCN4	500
				MCN5	100
				BCN2	366
R.J. McGrath	349	–	–	–	–
M. Roche	2,000	–	–	–	–
G.R. Stevens	4,809	–	–	–	–
N.M. Wakefield Evans	7,111	–	–	–	–
P.H. Warne	14,933	–	–	–	–

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

(1) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in Note 32 *Employee equity participation* disclosure to the financial statements in the Financial Report.

Board and Board Committee meetings and attendance

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

Number of meetings	Regular Board meetings(2) 11	BAC meetings(2) 7	BGCC meetings(2) 5	BNC meetings(2) 5	BRC meetings(2) 6	BRiC meetings(2) 5	Special Board Meetings(2) 4
P.H. Warne	11/11	–	–	5/5	6/6	5/5	4/4
S.R. Wikramanayake	11/11	–	–	–	–	–	4/4
G.R. Banks(3)	4/4	–	1/1	1/1	3/3	1/1	1/1
J.R. Broadbent	11/11	–	–	5/5	6/6	5/5	4/4
G.M. Cairns	11/11	–	–	5/5	6/6	5/5	4/4
P.M. Coffey	11/11	7/7	–	5/5	6/6	5/5	4/4
M.J. Coleman	11/11	7/7	5/5	5/5	–	5/5	4/4
D.J. Grady	11/11	–	5/5	5/5	6/6	5/5	4/4
M.J. Hawker(4)	4/5	2/2	–	1/1	3/3	1/1	1/2
R.J. McGrath(5)	3/3	–	2/2	2/2	–	2/2	–
M. Roche(6)	3/3	–	–	2/2	1/1	2/2	–
G.R. Stevens	11/11	7/7	–	5/5	–	5/5	4/4
N.M. Wakefield Evans	11/11	7/7	5/5	5/5	–	5/5	4/4

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

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

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

(2) Number of meetings attended by the member/total number of meetings eligible to attend as a member. Some of the Special Board Meetings were called at short notice and not all Board members were able to attend.
(3) Mr Banks retired from the Board as an Independent Voting Director on 30 July 2020.
(4) Mr Hawker retired from the Board as an Independent Voting Director on 30 September 2020.
(5) Ms McGrath was appointed to the Board as an Independent Voting Director, and as a member of the Board Risk Committee and Board Nominating Committee, effective from 20 January 2021. She was appointed as a member of the Board Governance and Compliance Committee effective from 1 February 2021.
(6) Mr Roche was appointed to the Board as an Independent Voting Director, and as a member of the Board Risk Committee and Board Nominating Committee, effective from 20 January 2021. He was appointed as a member of the Board Remuneration Committee effective from 1 February 2021.

Directors' and officers' indemnification and insurance

Under MGL's Constitution, MGL indemnifies all past and present directors and secretaries of MGL and its wholly-owned subsidiaries (including at this time the Directors named in this report and the Secretaries), against certain liabilities and costs incurred by them in their respective capacities. The indemnity covers the following liabilities and legal costs (subject to the exclusions described as follows):

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

This indemnity does not apply to the extent that:

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

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

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

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

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

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

To the extent permitted by law, MGL has agreed to reimburse its auditor, PricewaterhouseCoopers (PwC), for any liability (including reasonable legal costs) PwC incurs in connection with any claim by a third party arising from MGL's breach of the letter of engagement dated 23 June 2020.

Environmental regulations

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

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

Non-audit services

Fees paid or payable to PwC, being the auditor of the Consolidated Entity, for non-audit services during the year ended 31 March 2021 total $A11.9 million (2020: $A9.0 million). Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 41 *Audit and other services provided by PwC* in the Financial Report.

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

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

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

Rounding of amounts

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

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

Events subsequent to balance date

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

Peter Warne
Independent Director and Chairman

Shemara Wikramanayake
Managing Director and Chief Executive Officer

Sydney
7 May 2021

Auditor's independence declaration

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

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

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

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

Kristin Stubbins
Partner

PricewaterhouseCoopers

Sydney
7 May 2021

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

Liability limited by a scheme approved under Professional Standards Legislation.

Directors' experience and special responsibilities

Peter H Warne

BA (Macquarie), FAICD

Age: 65
Resides: New South Wales

Independent Chairman of MGL and MBL since April 2016

Independent Voting Director of MGL since August 2007

Independent Voting Director of MBL since July 2007

Mr Warne is Chairman of the BNC and a member of the BRC and BRiC

Experience

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

He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006, he became a Director of ASX Limited, a position he held to 2020. Mr Warne has previously served as Chairman of ALE Property Group from 2003 to 2017 and OzForex Group Limited (now trading as OFX Limited) from 2013 to 2016. He was a Director of New South Wales Treasury Corporation from 2012 to 2020, where he served as Chairman from 2019 to 2020.

Listed company directorships (last three years)

- Director, ASX Limited (July 2006–September 2020)

Other current directorships/appointments

- Board member, Allens
- Member, ASIC Corporate Governance Consultative Panel

Shemara R Wikramanayake

BCom LLB (UNSW)

Age: 59
Resides: New South Wales

Managing Director and Chief Executive Officer of MGL since December 2018

Executive Voting Director of MGL and MBL since August 2018

Experience

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

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

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

Other current directorships/appointments

- Board member, Institute of International Finance
- Founding Commissioner, Global Commission on Adaptation
- Founding Member, Climate Finance Leadership Initiative
- Member, University Research Commercialisation Scheme
- Member, Technology Investment Advisory Council

Jillian R Broadbent AC

BA (Maths & Economics) (Sydney)

Age: 73
Resides: New South Wales
Independent Voting Director of MGL and MBL since November 2018

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

Experience

Jillian Broadbent has extensive investment banking industry knowledge and markets expertise, including a deep knowledge of risk management and regulation in these areas. She also has considerable executive management and listed company board experience.
Ms Broadbent spent 22 years at Bankers Trust Australia until 1998, initially as an economic strategist and then as executive director responsible for risk management and derivatives in foreign exchange, interest rates and commodities.
Ms Broadbent was also a Member of the Reserve Bank of Australia Board between 1998 and 2013 and has previously served as Chair of the Board of Clean Energy Finance Corporation, and as a director of ASX Limited, SBS, Coca Cola Amatil Limited, Woodside Petroleum Limited, Qantas Airways Limited, Westfield Management Limited and Woolworths Group Limited.

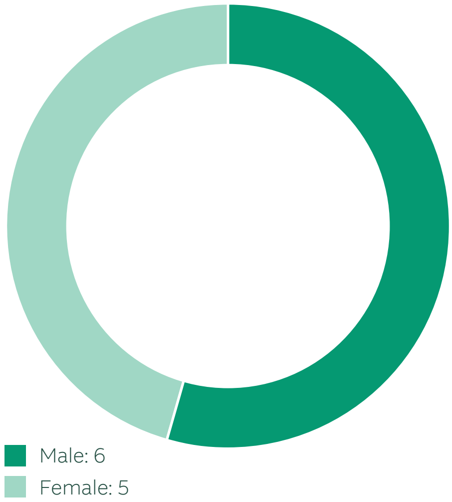
Listed company directorships (last three years)

- Director, Woolworths Group Limited (January 2011–November 2020)

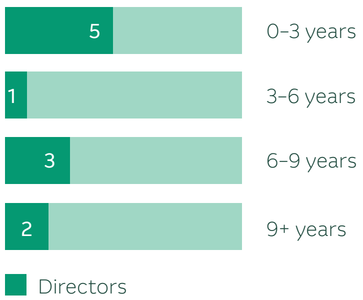
Other current directorships/appointments

- Director, National Portrait Gallery of Australia
- Director, Sydney Dance Company

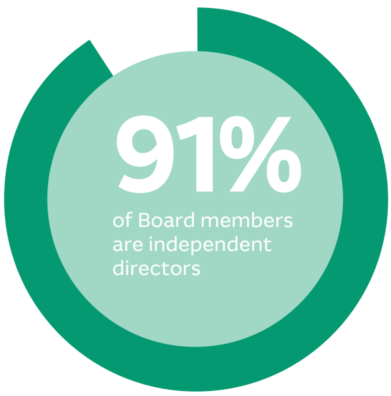
Gender diversity



Board tenure



Board independence



Gordon M Cairns

MA (Hons) (Edin)

Age: 70
Resides: New South Wales
Independent Voting Director of MGL and MBL since November 2014
Mr Cairns is a member of the BNC, BRC and BRiC

Experience

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

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

Listed company directorships (last three years)

- Chairman, Woolworths Group Limited (since September 2015)
- Chairman, Origin Energy Limited (October 2013–October 2020); (Director June 2007–October 2020)

Other current directorships/appointments

- Director, World Education Australia

Philip M Coffey

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

Age: 63
Resides: New South Wales
Independent Voting Director of MGL and MBL since August 2018
Mr Coffey is a member of the BAC, BNC, BRC and BRiC

Experience

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

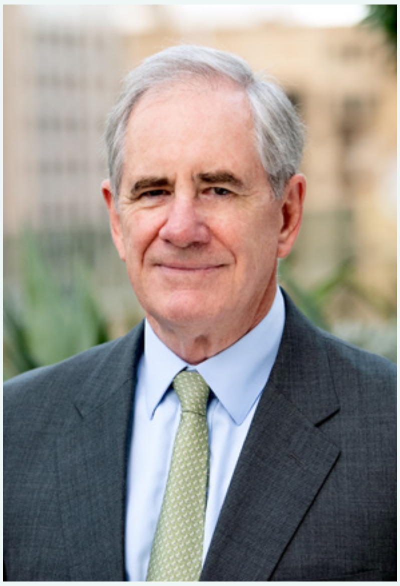
He has successfully led operations based in Australia, New Zealand, the United States, the United Kingdom and Asia, and has extensive experience in financial markets, funds management, balance sheet management and risk management. He began his career at the Reserve Bank of Australia and has also held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

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since January 2017)

Other current directorships/appointments

- Director, Clean Energy Finance Corporation



Michael J Coleman

MCom (UNSW), FCA, FCPA, FAICD

Age: 70
Resides: New South Wales
Independent Voting Director of MGL and MBL since November 2012

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

Experience

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

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

Listed company directorships (last three years)

- Chairman, Bingo Industries Limited (since March 2017)

Other current directorships/appointments

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

Diane J Grady AO

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

Age: 72
Resides: New South Wales
Independent Voting Director of MGL and MBL since May 2011

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

Experience

Diane Grady has extensive international experience in a variety of industries having spent 25 years as a full-time independent director of public companies and not-for-profit boards and as a partner with McKinsey & Co where for 15 years she consulted with clients in financial services, insurance, retailing, telecommunications, consumer goods and manufacturing industries.

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

Other current directorships/appointments

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

Directors' experience and special responsibilities

Continued

Rebecca J McGrath

BTP (Hons) (UNSW), MAppSc (ProjMgt) (RMIT), FAICD

Age: 56
Resides: Victoria

Independent Voting Director of MGL and MBL since January 2021

Ms McGrath is a member of the BGCC, BNC and BRiC

Experience

Rebecca McGrath is an experienced professional company director and Chairman, with substantial international business experience. She spent 25 years at BP plc. where she held various executive positions, including Chief Financial Officer Australasia and served as a member of BP's Executive Management Board for Australia and New Zealand.

Ms McGrath has served as a director of CSR Limited, Big Sky Credit Union and Incitec Pivot Ltd, and as Chairman of Kilfinan Australia. She is a former member of the JP Morgan Advisory Council. She has attended executive management programmes at Harvard Business School, Cambridge University and MIT in Boston.

Listed company directorships (last three years)

- Chairman, OZ Minerals Limited (since May 2017); Director (since November 2010)
- Director, Goodman Group (since April 2012)
- Director, Incitec Pivot Limited (September 2011–December 2020)

Other current directorships/appointments

- Chairman, Scania Australia Pty Limited
- Director, Investa Wholesale Funds Management Limited
- Director, Kilfinan Australia
- President, Victorian Council, Australian Institute of Company Directors
- Member, National Board, Australian Institute of Company Directors
- Member, ASIC Corporate Governance Consultative Panel

Mike Roche

BSc (UQ), GAICD, FIA (London), FIAA

Age: 68
Resides: New South Wales

Independent Voting Director of MGL and MBL since January 2021

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

Experience

Mike Roche has over 40 years' experience in the finance sector as a highly skilled and experienced provider of strategic, financial, mergers and acquisitions, and capital advice to major corporate, private equity and government clients. He held senior positions with AXA Australia as a qualified actuary and Capel Court/ANZ Capel Court.

Mr Roche spent more than 20 years at Deutsche Bank and was Head of Mergers and Acquisitions (Australia and New Zealand) for 10 years where he advised on major takeovers, acquisitions, privatisations, and divestments. He stepped down as Deutsche Bank's Chairman of Mergers and Acquisitions (Australia and New Zealand) in 2016. He was a member of the Takeovers Panel for two terms from 2008 to 2014.

Listed company directorships (last three years)

- Director, Wesfarmers Limited (since February 2019)

Other current directorships/appointments

- Director, MaxCap Group Pty Ltd
- Director, Six Park Asset Management Pty Ltd
- Director, Te Pahau Management Ltd
- Trustee Director, Energy Industries Superannuation Scheme Pty Ltd
- Managing Director, M R Advisory Pty Ltd
- Member, ADARA Partners Corporate Advisory Wise Counsel Panel
- Co-founder and Director, Sally Foundation

Glenn R Stevens AC

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

Age: 63
Resides: New South Wales

Independent Voting Director of MGL and MBL since November 2017

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

Experience

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

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

Other current directorships/appointments

- Board member, NSW Treasury Corporation
- Director, Anika Foundation
- Director, Lowy Institute
- Member, Investment Committee, NWQ Capital Management
- Deputy Chair, Temora Aviation Museum

Nicola M Wakefield Evans

BJuris/BLaw (UNSW), FAICD

Age: 60
Resides: New South Wales

Independent Voting Director of MGL and MBL since February 2014

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

Experience

Nicola Wakefield Evans is an experienced Non-Executive Director and corporate finance lawyer. As a lawyer, Ms Wakefield Evans has significant Asia-Pacific experience and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jacques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors.

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

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since September 2013)

Other current directorships/appointments

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

Directors' experience and special responsibilities

Continued

Company secretaries' qualifications and experience

Dennis Leong

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

Company Secretary since October 2006

Experience

Dennis Leong is an Executive Director of Macquarie and has had responsibility for Macquarie's company secretarial requirements, general and professional risks insurances and aspects of its employee equity plans. He has over 27 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Simone Kovacic

BBus LLB (Hons) (UTS), LLM (Sydney)

Assistant Company Secretary since June 2020

Experience

Simone Kovacic is a Division Director of Macquarie, having joined in 2009. Simone has company secretarial responsibilities and provides governance and corporate advice. She has over 20 years of experience as a corporate lawyer at Macquarie and in private practice at Freehills, now Herbert Smith Freehills, and Skadden, Arps, Slate, Meagher & Flom LLP in the US.

Ida Lawrance ceased to be an Assistant Company Secretary of MGL on 29 May 2020.

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> We appreciate the exceptional effort made by our staff during a very difficult year. Their response embodies Macquarie's purpose and core principles."

Letter from the

Chair of the Board Remuneration Committee

On behalf of the Board, I am pleased to present the 2021 Remuneration Report and my first as Chair of the Board Remuneration Committee (BRC).

The financial year 2021 (FY2021) has seen challenging market conditions associated with the ongoing impact of the COVID-19 pandemic. Our customers, clients and the broader community have all been affected on various levels. Our focus has been on ensuring the health and well-being of our staff and their families, and supporting our clients and the broader community.

During this time and amid physical changes to the working environment, Macquarie's culture and long-term focus on building leadership capability and resilience in technology have provided a platform from which our staff have continued to respond to client needs. We appreciate the exceptional effort made by our staff during a very difficult year. Their response embodies Macquarie's purpose and core principles.

Macquarie has demonstrated great resilience against this challenging backdrop, and our purpose and culture have guided staff through these times. Our strong financial results and returns to shareholders in FY2021 reflect the diversity of our businesses and our ability to support our clients and adapt to a rapidly changing external environment.

- Net profit after tax (NPAT) is up 10% compared to FY2020.
- Return on Equity (ROE) of 14.3% is stable compared to FY2020's 14.5%.
- Earnings per share (EPS) of 842.9 cents per share is up 7% compared to the prior year.

Shareholders were impacted in FY2020 with a reduced dividend in line with regulatory expectations. The FY2021 full-year dividend is up 9% compared to the prior year.

Pay for performance

Our longstanding and consistent approach to remuneration has served us well and has been a key driver of our sustained success as an international organisation. Staff are rewarded based on their performance against a wide range of financial and non-financial considerations. This approach aligns the interests of staff and shareholders and allows us to deliver positive outcomes over the long-term for our customers, clients and the broader community. The Board believes that it is critical that Macquarie maintains its strong entrepreneurial culture that incentivises innovation and drives sustained success.

The Board is always mindful of the external focus on overall remuneration levels and spends considerable time each year determining remuneration outcomes for the CEO and Executive Key Management Personnel (KMP). We recognise the range of expectations and have made decisions that we believe take into consideration the perspectives of all stakeholders. This report has been prepared to provide transparency around the considerations informing our decisions.

On 1 April 2021, APRA announced actions required regarding MBL's 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.

The Board acknowledges the seriousness of the APRA findings and has reflected this in its determination of remuneration outcomes. This has been through a reduction in the PSU allocations for Executive KMP and the imposition of additional qualifying conditions on the release of a portion of their retained profit share. The qualifying conditions relate to the timely and satisfactory remediation of the APRA findings.

Remuneration outcomes

FY2021 remuneration outcomes reflect:

- this year's achievements against a range of financial and non-financial factors, some of which are discussed below
- the importance of our people and retaining key talent to encourage innovation and pursue growth opportunities
- an alignment to the outcomes delivered to shareholders
- risk management, compliance and conduct outcomes.

We have firstly considered the financial results of Macquarie overall as well as each Operating Group. Against a challenging backdrop, all Operating Groups have been profitable this year. These results reinforce the value of the diversification which we have built into each of our businesses.

In determining the CEO's remuneration, we have considered her strong leadership through the challenges of COVID-19. She has also advanced a process of reorganising Macquarie's Operating Groups and renewing the Executive Committee, positioning the business for future opportunities.

We have also considered a number of factors, which the Board views as critical to Macquarie's ongoing success. These include cross-group collaboration, the continued focus on people and culture, the ongoing investment in technology, progress against Diversity and Inclusion (D&I) initiatives, risk management and Macquarie's response to COVID-19. Further details are set out on page 118 of this Report.

The BRC receives extensive reporting on remuneration outcomes across Macquarie and, in addition to the CEO and Executive KMP, individually reviews and approves the remuneration of Banking Executive Accountability Regime (BEAR) Accountable Persons, staff who hold regulated roles, Designated Executive Directors[1] and other senior staff (generally direct reports of Executive KMP), and has reviewed overall total remuneration levels across each business to ensure appropriate distribution of remuneration across the organisation. The BRC has also considered the compensation expense to income ratio as a guide as to whether the share of profits distributed to staff and shareholders is reasonable.

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

- CEO awarded profit share has increased 14% on the prior year to $A19.85 million
- total Executive KMP awarded profit share is up 8% to $A106.9 million
- reflecting the APRA findings, PSU allocations for Executive KMP have been reduced and additional qualifying conditions have been imposed on the release of a portion of their retained profit share
- in FY2020, in light of the economic uncertainty due to COVID-19, retention rates for the CEO and Executive KMP were increased to 100%. This year, they have been reset to levels more in line with 2019.

(1) Executive Directors who have a significant management or risk responsibility in the organisation.

About Governance Directors' Report Financial Report Further Information

Remuneration Report

Continued

Culture, accountability and remuneration

Macquarie's evolution is driven by our people who are guided by our core principles of Opportunity, Accountability and Integrity. These principles remain pivotal to our culture and effectively guide our staff in balancing risk and reward and making decisions that realise opportunities for the benefit of our clients, our shareholders, our people and the communities in which we operate.

The BRC and the Board are able to assess Macquarie's culture in many ways, including through staff survey results, human capital reporting, risk culture reporting and strategy presentations, as well as through personal observation of management and staff behaviours and actions. The BRC coordinates with the Board Risk Committee (BRiC) and Board Governance and Compliance Committee (BGCC) to achieve an integrated approach to remuneration that reflects prudent and appropriate risk considerations.

The remuneration framework supports our principles by motivating staff to be innovative, to build businesses and to be accountable for their decisions, behaviours and their associated risk management, customer and reputational consequences.

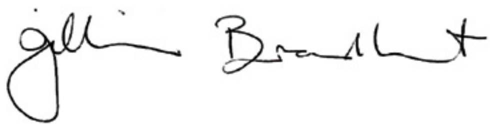
Strong risk management is a fundamental part of everyone's role at Macquarie. Staff understand that they are rewarded for their performance, including their identification and management of risk. They also understand that there are consequences for non-compliance with Macquarie's behavioural expectations.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

In FY2021, there were 97 (FY2020: 164) matters involving conduct or policy breaches (for example, *Code of Conduct*, appropriate workplace behaviour, risk management and technology breaches) that resulted in formal consequences including termination of employment or a downward adjustment to their profit share. The remote working environment was a key factor in the decline in the number of matters this year. For example, fewer in-person interactions contributed to a reduction in instances of conduct failing to meet appropriate workplace behaviour standards. Consistent with prior years, we have disclosed further details regarding these matters (refer to page 111).

Regulatory environment

During the year, APRA released the revised draft of the Prudential Standard CPS 511 *Remuneration*, which requires an increased focus on non-financial risks. We engaged with APRA during the year with regard to the proposed requirements and continue to participate in the consultation process, including on the recently released draft Prudential Practice Guide CPG 511 *Remuneration*. We support APRA's policy position and recognise that this is an evolving area as regulators and organisations seek to define and assess best practice.

I look forward to receiving your views and support at the 2021 Annual General Meeting.



Jillian Broadbent

Chair
Board Remuneration Committee

Sydney
7 May 2021

Remuneration framework

This section explains the link between Macquarie's purpose and its remuneration objectives and principles, and how these are reflected in the remuneration framework.

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

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

This approach has been fundamental in ensuring we can continue to attract, motivate and retain exceptional, entrepreneurial and ethical people across the global markets in which we operate. We hire world-class people in 32 highly competitive markets. These people come from, and compete in, various industry sectors (including hedge funds, private equity firms, global investment banks, fund managers, advisory boutiques, commodity houses and other banks, as well as industries that are not specific to banking or financial services, for example, technology, accounting and engineering) across many jurisdictions.

The table below shows the link between Macquarie's purpose and the remuneration objectives and principles.

Macquarie's purpose:

Empowering people to innovate and invest for a better future

Opportunity Accountability Integrity

Remuneration objectives

Macquarie's remuneration framework aims to:

- deliver strong company performance over the short and long-term whilst prudently managing risk
- attract, motivate and retain exceptional people with deep industry expertise
- align the interests of staff and shareholders to deliver sustained results for our customers, clients and community
- promote innovation and the building of sustainable businesses
- drive behaviours that reflect Macquarie's culture and the principles of *What We Stand For*
- foster a diverse and inclusive work environment.

Remuneration principles

These objectives are achieved by:

- emphasising performance-based remuneration
- determining an individual's variable remuneration based on a range of financial and non-financial factors
- retaining a significant proportion of performance-based remuneration to enable risk outcomes to be considered over a long period
- delivering retained profit share in equity to ensure the interests of staff and shareholders are aligned over the long-term
- remunerating high-performing staff appropriately, relative to global peers
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives.

Remuneration framework continued

Macquarie's remuneration framework works as an integrated whole. As summarised below, an individual's remuneration comprises fixed remuneration, profit share and, for Executive Committee members (our Executive KMP), Performance Share Units (PSUs).

Remuneration framework

Fixed Remuneration

- primarily comprises base salary, as well as superannuation contributions and standard country-specific benefits in line with local market practice
- for Executive KMP, is set at a comparatively low level, relative to the industry, and a low proportion of total remuneration but sufficient to avoid inappropriate risk-taking
- is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements
- for risk and financial control staff, is generally a higher proportion of total remuneration than for front office staff.

Performance-based Remuneration

Criteria	Profit Share	Performance Share Units
Eligibility	• all permanent employees	• Executive Committee members
Determination	• allocations reflect an individual's performance, which is assessed against a range of financial and non-financial factors including: – contribution to financial results – approach to risk management and compliance – business leadership including outcomes for customers and the community – people leadership and professional conduct including the role-modelling of Macquarie's culture and purpose	• PSU pool is determined with reference to profits over recent years, subject to Board discretion • individual allocations reflect their role as members of the Executive Committee and their contribution to driving the collective performance of Macquarie • for FY2021, allocations are based on the face value of shares on the grant date
Structure	• significant proportion is retained (80% for the CEO and up to 70% for other Executive KMP) • long deferral periods (up to seven years for the CEO and other Executive KMP) • retained profit share is delivered in a combination of Macquarie equity and Macquarie-managed fund equity	• PSUs vest after four years, subject to the achievement of two forward-looking performance hurdles (no retesting of hurdles) • PSUs are structured as DSUs[2] with no exercise price • no right to dividend equivalent payments
Malus	• applies for senior employees	• applies to all awards
Forfeiture	• retained profit share is subject to forfeiture upon leaving Macquarie except in certain circumstances	• unvested PSUs are subject to forfeiture upon leaving Macquarie except in certain circumstances

The Board has discretion to change remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

(2) A DSU is a Deferred Share Unit and is an award type under the MEREP. For further details, refer to Note 32 to the financial statements in the Financial Report.

Profit share

This section describes the way in which profit share is determined, structured and delivered.

Annual process to determine profit share outcomes

Remuneration outcomes are based on realised outcomes and are determined through a principles-based approach, taking into consideration all aspects of an individual's performance. Significant judgement is applied in determining remuneration outcomes to ensure that all factors that may potentially impact the quantum of profit share allocations are considered. The table below describes how profit share allocations are determined at an individual, business group and company-wide level. Outcomes may be adjusted downwards at any level as a result of any risk management, compliance and conduct issues that have come to light during the year.

Individual profit share allocations	Individual profit share allocations reflect an employee's performance. Employees are assessed against the following areas: **Financial results** • business profits and individual contribution to profits for front office staff • primarily based on contribution to high quality control functions for risk and financial control roles • for other support staff, based on their contribution to delivering high quality services to support the businesses **Risk management and compliance** • the active management and consideration of a wide range of financial and non-financial risks • motivates a culture of disciplined risk management, and regulatory, policy and business compliance **Business leadership (including customer and community outcomes)** • business growth and innovation • delivering solutions for our customers and the communities in which we operate **People leadership and professional conduct** • alignment to Macquarie's purpose and culture • conduct and behaviour consistent with the *Code of Conduct* and *What We Stand For* • fostering a diverse and inclusive work environment • talent development. Individual profit share allocations also consider relativities in the market in which each business competes for talent.
Business group profit share pools	• For Operating Groups, reflects consideration of: – each business' contribution to company-wide profits – each business' capital, funding and liquidity requirements and usage – other factors such as the quality of the income, whether the business is highly regulated or not, the maturity of the business, and the reliance on intellectual capital versus financial capital. • For Central Service Groups, based on the quality and integrity of control functions and support services; not primarily determined with reference to profitability. • Considers the risk profile of each business including consideration of any significant reputational, cultural or compliance matters. • Also considers overall remuneration levels in the market in which each business operates.
Company-wide profit share pool	• Is an aggregate of the bottom-up assessment conducted at both the business and individual level. • Is assessed for overall reasonableness, including consideration of: – an internal reference based on Macquarie's after-tax profits and its earnings over and above the estimated cost of capital – the resultant compensation expense to income ratio and how it compares to that of peers. • The Board retains discretion to amend the final pool determined in accordance with the bottom-up assessment to ensure that all relevant factors, including risk and conduct matters, have been appropriately taken into consideration. For the seventh year in a row, the company-wide pool is substantially below the internal reference described above. • The Chief Financial Officer (CFO) confirms that the profit share pool can be supported by Macquarie's capital position and does not limit Macquarie's ability to further strengthen its capital base in the future.

Retained profit share: retention and vesting

Macquarie retains a percentage of each individuals' annual profit share allocation (retained profit share) above certain thresholds, which is invested in a combination of Macquarie ordinary shares under the Macquarie Group Employee Retained Equity Plan (MEREP) and Macquarie-managed fund equity notionally invested under the Directors' Profit Share (DPS) Plan.(3) Whilst they are employed, an individual's retained profit share vests and is released over a period that reflects the scope and nature of their role and responsibilities.(4) These arrangements ensure that Macquarie continues to retain high-performing staff, provide significant long-term alignment to shareholders and customers, as well as enabling risk outcomes to be considered over long periods.

Retention and vesting arrangements are determined by the BRC according to prevailing market conditions, remuneration trends, and compliance with regulatory requirements (including under the BEAR). For each year's allocation, once the vesting period has been determined it remains fixed for that allocation.

As noted in last year's Remuneration Report, in light of the economic uncertainty due to COVID-19, retention rates in FY2020 were increased to 100% for the CEO and all Executive Committee members (no cash component). For FY2021, as a result of improved economic conditions, the Board has determined that retention rates be reset to levels more in line with 2019. The following table summarises the standard retention and vesting arrangements applicable for FY2021.

FY2021 standard profit share retention and vesting arrangements

Role	Profit share retention (%)	Vesting and release of profit share(5)
CEO	80	One-fifth in each of years 3–7
CEO MBL	60	
Executive Committee members	60–70	
Designated Executive Directors	50–70	
Executive Directors	40–70	One-third in each of years 3–5
Staff other than Executive Directors	25–70(6)	One-third in each of years 2–4

The Board's discretion to change remuneration arrangements, as noted above, includes changes to profit share retention levels provided that the retention percentage is at least 30% for all Executive Directors.

Investment of retained profit share

An individual's retained profit share is invested in a combination of Macquarie ordinary shares under the MEREP and Macquarie-managed fund equity notionally invested under the DPS Plan. The allocation reflects the nature of their role as set out in the following table.

FY2021 standard investment of retained profit share

	Retained profit share investment	
Role	MEREP (MGL ordinary shares) %	DPS Plan (Macquarie-managed fund equity) %
CEOs of MGL and MBL	90	10
Executive Committee members	80–90	10–20
Executive Committee members with Funds responsibilities	50	50
Executive Directors	80–100(7)	0–20
Executive Directors with Funds responsibilities	25–50(7)	50–75
Staff other than Executive Directors	100(8)	0(8)

(3) Both the MEREP and DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in Macquarie ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 32 *Employee equity participation* to the financial statements in the Financial Report. The DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment.
(4) Profit share that is not retained ("available profit share") is delivered in cash except for staff (including one Executive Committee member) subject to the UK Remuneration Code implementing CRD IV, where 50% of available profit share is delivered in Macquarie equity and is subject to a 12-month hold period.
(5) For staff (including one Executive Committee member) subject to the UK Remuneration Code implementing CRD IV, retained profit share invested in Macquarie equity is subject to a further 12-month hold post the vesting period.
(6) Above certain monetary thresholds.
(7) For Executive Directors subject to the UK Remuneration Code implementing CRD IV, retained profit share is invested 60% in Macquarie equity and 40% in the DPS Plan.
(8) For staff other than Executive Directors, retained profit share is generally 100% invested in Macquarie equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of Macquarie equity and Macquarie-managed fund equity.

In addition to the arrangements set out in the tables above, different arrangements may apply in certain circumstances:

- retention rates and vesting and release schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in certain jurisdictions, for example in the UK or European Union (EU), to ensure compliance with local regulatory requirements
- in limited circumstances, retained profit share may be allocated under arrangements other than the DPS Plan or the MEREP. For example, this may include investment in funds or products of a specific business group where there is a need to directly align the interests of staff with those of their clients.

Forfeiture of retained profit share – Malus and Clawback

The Board or its delegate has the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances (Malus), as set out on page 110. For certain employees identified in the UK or EU, the Board also has the ability to recover (in whole or in part) vested profit share (Clawback).

Early vesting and release of retained profit share

The standard policy is that staff who cease employment with Macquarie will forfeit their unvested retained profit share. The Board may exercise discretion to accelerate the vesting of a departing employee's retained profit share and reduce the retention period including where, for example, their employment ends in the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, or serious ill-health. The Board's discretion to accelerate the vesting of retained profit share under these circumstances is subject to the conditions of early release as set out below for Executive Directors.

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in relation to strategic business objectives, including in connection with the divestment or internalisation of Macquarie businesses, or when an employee resigns to fulfil a public service role in a governmental organisation or agency. Where such discretion is exercised, the Board may impose such other conditions as it considers appropriate. This year, such discretion has been exercised and retained profit share was approved to be released on original vesting schedules for two executives due to the transfer of their employment to an operationally segregated subsidiary or joint venture entity.

Conditions of early release to departing Executive Directors – Post Employment Events

Where discretion has been exercised to accelerate the vesting of retained profit share, the Board may reduce or eliminate their retained profit share, if it is determined that the Executive Director has at any time during their employment or the relevant release periods after their employment committed a Malus Event (as set out on page 110) or:

(a) taken staff to a competitor of Macquarie or been instrumental in causing staff to go to a competitor, or

(b) joined a competitor of Macquarie or otherwise participated in a business that competes with Macquarie.

Each of the above is a Post Employment Event.

In the case of death or serious incapacitation, the Board will typically accelerate the vesting of retained profit share and immediately release it. In other circumstances, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

	First Period	Second Period	Third Period
Time post-departure	Six months	Six months to one year	One year to two years
Unvested retained profit share released	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
Subject to	No Malus Event or Post Employment Event as set out previously	No Malus Event or Post Employment Event during the First Period, and	No Malus Event or Post Employment Event during the First Period, and
		No Malus Event or Post Employment Event (a) above during Second Period	No Malus Event or Post Employment Event (a) during the Second Period, and
			No Malus Event during the Third Period
Where the release is by reason of retirement from Macquarie	As above	As above and in addition, the release is subject to no Post Employment Event (b) during the Second Period	As above and in addition, the release is subject to no Post Employment Event (b) during the Second or Third Period

In addition to the above, for Accountable Persons, the exercise of discretion for any early release of retained profit share will be subject to Macquarie meeting the minimum deferral periods required under the BEAR.

Where an Executive Director has a tax liability on termination of employment in respect of any unvested retained profit share, the Board has discretion to release unvested retained profit share up to an amount equal to the Executive Director's tax liability at an earlier time than noted above.

Performance Share Units

This section describes the way in which Performance Share Units (PSUs) are determined, structured and delivered.

Allocation and structure

Executive Committee members are the only group of staff eligible to receive PSUs, which are subject to forward-looking performance hurdles and determined with reference to Macquarie's performance as a whole. As such, they provide an additional incentive to Executive Committee members to drive company-wide performance over the long-term and beyond their business group responsibilities. PSU awards are a meaningful incentive but are generally not the major element of an Executive Committee member's total remuneration.

While the PSU pool is determined with reference to profits over recent years, the Board retains discretion to determine the final PSU pool taking into consideration both financial and non-financial factors, including the risk profile of Macquarie.

Individual allocations are based on their role as members of the Executive Committee and their contribution to driving the collective performance of Macquarie, including their collaboration across businesses.

PSUs are granted in August each year. The number of PSUs that will be allocated will be calculated by dividing the face value of the award by the price of Macquarie ordinary shares on or around the date of grant.

Since their introduction, PSUs have been structured as DSUs with performance hurdles. Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

Performance hurdles

The following summarises the key terms of PSUs and the performance hurdles:

	EPS CAGR hurdle	ROE hurdle
Application	50% of PSU award	50% of PSU award
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (four years)[9]	Average annual ROE over the vesting period (four years)[9] relative to a reference group of global financial institutions[10]
Hurdle	Sliding scale applies: • 50% becoming exercisable at EPS CAGR of 7.5% • 100% at EPS CAGR of 12% For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable	Sliding scale applies: • 50% becoming exercisable above the 50th percentile • 100% at the 75th percentile For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable
Forfeiture	• Malus provisions apply • the standard policy is that unvested PSUs will be forfeited upon termination • in the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles • should a change of control occur[11] the Board or the BRC has discretion to determine how unvested PSUs should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control.	

(9) PSUs awarded prior to FY2020 vested in two equal tranches after three and four years.
(10) The reference group for awards is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG. Comparator company information is presented in the same order throughout the Remuneration Report.
(11) Under the MEREP Plan Rules, a change in control occurs where a person acquires or ceases to hold a relevant interest in more than 30% of Macquarie shares or where the Board resolves that a person is in a position to remove one-half or more of the Non-Executive Directors.

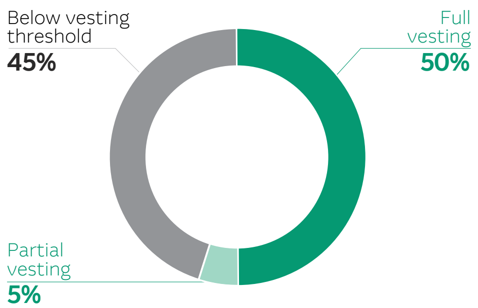
Rationale for hurdles

The PSU hurdles are regularly reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators, as well as market practice. Both the relative ROE and absolute EPS hurdles were reviewed by the BRC during the year and were considered to still be appropriate. No change has been made to the hurdles for FY2021 for the following reasons:

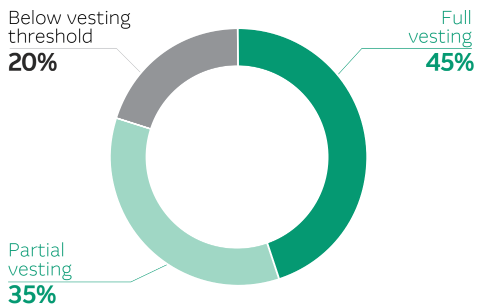
- ROE and EPS growth drive long-term shareholder value and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control
- the approach is consistent with that advocated by APRA in not using TSR as a measure
- ROE and EPS can be substantiated using information that is disclosed in Macquarie's annual reports
- a sliding scale diversifies the risk of not achieving the hurdles and provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test, which some have argued could promote excessive risk-taking
- the hurdles are designed to reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three- to seven-year deferral of profit share for members of the Executive Committee
- the EPS targets are confirmed as rigorous when market performance is considered, with the EPS threshold hurdle exceeding the performance of most of the ASX 20, global reference group and relevant indices over time
- for the EPS element to fully vest, Macquarie needs to achieve at least 12% CAGR over the vesting period. Supporting the rigour of the hurdle, cumulative EPS growth of 57% over four years is required to achieve full vesting
- the ROE vesting thresholds and sliding scale are in line with the domestic market and are particularly challenging when compared to international practice.

The charts below display Macquarie's historical EPS and ROE PSU outcomes, highlighting that since their introduction in 2009, 50% of the EPS tranches and 55% of the ROE tranches have resulted in either no vesting or partial vesting.

Historical EPS tranche outcomes



Historical ROE tranche outcomes



Use of an international reference group

An international reference group[12] recognises the extent of Macquarie's diversification and internationalisation. As at 31 March 2021, total international income represented approximately 68% of Macquarie's total income, with approximately 56% of Macquarie's staff located outside Australia. The BRC considers an international reference group to be appropriate on the basis that:

- the international reference group is currently most representative of Macquarie's business operations and talent pool. These firms broadly operate in the same markets and in similar business segments, and compete for the same people as Macquarie
- Macquarie has no comparable Australian-listed peers.

In addition, the BRC considers it important to not intervene reactively to remove under-performers or over-performers in any given period. An organisation's period of under-performance is generally followed by a period of over-performance.

(12) The reference group is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG. Comparator company information is presented in the same order throughout the Remuneration Report.

Culture, accountability and remuneration

This section describes how risk and conduct are considered throughout Macquarie's remuneration approach.

Risk culture

Macquarie's *What We Stand For* principles of Opportunity, Accountability and Integrity remain pivotal to our culture and effectively guide our staff in balancing risk and reward and making decisions that realise opportunity for the benefit of our clients, our shareholders, our people and the communities in which we operate. Staff are continually made aware that these principles must form the basis of all behaviours and actions. These behavioural expectations are outlined in the Board approved *Code of Conduct*, which is actively promoted by Management and cascaded through the organisation through multiple mechanisms. Macquarie invests significant time and effort into communicating and reinforcing Macquarie's culture through communications from senior management, policy reminders, training, and learning and development activities. The Board is able to assess Macquarie's culture in a number of ways including through staff survey results, human capital reporting, risk culture reports, consequence management reports, strategy presentations as well as through personal observation of management, and staff behaviour and actions.

Strong risk management is a fundamental part of everyone's role at Macquarie. Staff understand that they are rewarded not just for their contribution to financial results, but also for how those results are achieved. This includes an assessment of an individual's approach to managing risk, and their alignment to the *What We Stand For* principles. They understand there are potential consequences for non-compliance with the risk management framework and Macquarie's behavioural expectations. Staff training and communications emphasise the link between risk, conduct, policy breaches and consequence management outcomes, including, where appropriate, adjustments to performance-based remuneration.

Alignment of remuneration with risk outcomes

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. The consideration of risk is embedded throughout the entire remuneration process including through the determination of individual profit share allocations, business and company-wide profit share pools as well as through the way in which remuneration is structured and delivered.

The Board is aware of the increasing focus of regulators and shareholders on ensuring that risk-related matters that come to light subsequent to remuneration being awarded are appropriately factored into remuneration decisions. Macquarie's high retention rates and long deferral periods provide a mechanism for the Board to consider risk outcomes over a long period. Furthermore, where an investigation has commenced into a risk or conduct-related matter that may result in forfeiture or, for senior employees, the application of Malus, Macquarie may further defer the payment, vesting and/or release of profit share to allow for the investigation to be completed.[13]

The following mechanisms exist to risk adjust remuneration outcomes:

In-year profit share adjustments — **Applies to all staff**

- determined as part of assessing an individual's performance each year
- the annual assessment includes consideration of compliance with the risk management framework and with the behavioural expectations outlined in the *Code of Conduct*. In addition, any outcomes from the consequence management process or the independent reporting from the Chief Risk Officer (CRO) and General Counsel are also considered.

Forfeiture — **Applies to all staff with retained profit share**

- where an individual's employment is terminated due to a compliance or conduct concern (or they resign), unvested remuneration is forfeited, as per Macquarie's standard policy.

Malus Events — **Applies to senior employees**

Macquarie's Malus provisions provide the Board or its delegate with the ability to reduce or eliminate in full, the retained profit share for senior employees and, for Executive Committee members, unvested PSUs where it is determined that the individual has at any time:

- acted dishonestly (including, but not limited to, misappropriating funds or deliberately concealing a transaction)
- acted or failed to act in a way that contributed to:
  - a breach of a significant legal or significant regulatory requirement relevant to Macquarie
  - MGL or MBL making a material financial restatement
  - MGL, MBL or any Operating Group within Macquarie incurring:
    - significant reputational harm
    - a significant unexpected financial loss, impairment charge, cost or provision.

(13) Malus also applies to any unvested profit share retained by Executive Directors on termination, in addition to the Post Employment Events set out on page 107.

Additional provisions may apply to staff in certain jurisdictions to ensure compliance with local regulations. This includes, for example:

- if an Accountable Person fails to comply with their accountability obligations under the BEAR, this may result in consequences being applied in accordance with Macquarie's policies, including the application of Malus
- staff in the UK and EU, including one Executive Committee member, who are subject to additional Malus and Clawback provisions under local regulatory requirements.

The BRC considers whether, and the extent to which, to apply Malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

Macquarie has always had and continues to have, the ability to terminate staff where a Malus Event has occurred, at which time any unvested profit share would be forfeited in full.

Risk adjustment processes

There are robust processes in place to ensure that all risk, reputation, and conduct-related matters are specifically considered when determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate. A wide range of risks that could have a financial or non-financial impact on Macquarie are considered, including if there has been a detriment to customers.

The diagram below provides an overview of these processes.

Independent control function input when determining remuneration outcomes

Risk Management Group	Human Resources	Legal
The CRO provides the BRC with an independent report detailing significant regulatory and legal matters, significant compliance and operational incidents, internal audit issues and other financial and non-financial risk matters.	The Global Head of HR discusses RMG's report with the Group Heads to ensure any matters listed in the report are appropriately reflected in remuneration outcomes for relevant staff and provides a report to the BRC on how this has been achieved.	The General Counsel provides a further source of independent input and, in conjunction with HR, considers whether there are any incidents (including any breach of the BEAR obligations) that should be brought to the attention of the BRC which might lead to a Malus determination.

Consequence management process

Incidents, breaches of policy and misconduct issues are regularly reported to senior management. The Global Head of HR annually reports to the BRC on the outcomes from the consequence management process and confirms that these matters have been considered in determining remuneration and promotion outcomes where appropriate.

Consequence management outcomes

Macquarie's Consequence Management Guideline applies wherever a breach of internal policy or regulatory requirement is identified. Consequences may include further training, removal of delegated authorities or permissions, adjustments to performance-based remuneration, impact on promotion, formal warnings or termination.

Where an employee has received a formal warning, their performance-based remuneration will likely be impacted and in some cases, it will be reduced to zero. Promotion decisions may also be impacted. Consequences may also be applied where a formal warning has not been issued. In each case, judgement is exercised as to the appropriate consequence(s) based on all the relevant circumstances.

In FY2021, there were 97 (FY2020: 164) matters involving conduct or policy breaches (for example, *Code of Conduct*, appropriate workplace behaviour, risk management and technology breaches) that resulted in formal consequences. Of those:

- for 16 matters, termination of employment was the outcome (FY2020: 32)
- for 81 matters, a formal warning was issued (FY2020: 132). Additional consequences were applied as appropriate including additional training, removal of delegated authorities or permissions, adjustments to profit share and/or impact to promotion. Of the 81 matters, 15 have resulted in individuals subsequently leaving Macquarie before year-end outcomes were determined and 64 individuals had their profit share reduced by an average of 48%.

The remote working environment was a key factor in the decline in the number of matters this year. For example, fewer in-person interactions contributed to a reduction in instances of conduct failing to meet appropriate workplace behaviour standards (50 matters in FY2020 decreasing to 20 matters in FY2021).

The 97 matters were considered isolated incidents and there was no evidence of broader systemic conduct issues.

Further details on remuneration framework

This section describes other key features of Macquarie's remuneration framework and of the employment contracts for Executive Committee members.

Other features of Macquarie's remuneration framework

The following table summarises key features of Macquarie's remuneration framework:

Role-based allowances	• Role-based allowances are a component of fixed remuneration that may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals.
Minimum shareholding requirement	• Executive Directors are required to hold a relevant interest in Macquarie ordinary shares that have a value equal to 5% of an Executive Director's aggregate profit share allocation for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy. • For Executive Committee members, compliance with this policy equates to a minimum shareholding requirement of between 195% to 835% of fixed remuneration, excluding the role-based allowance in place for one Executive Committee member.
Promotion Awards	• Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on Director-level set with reference to an Australian dollar value. Currently these awards range from $A25,000 to $A175,000 depending on the promotion level.
Performance fees	• A small number of individuals with funds responsibilities may receive a portion of their performance-based remuneration as a share of performance fees paid by Macquarie-managed funds. • The profit share pool is adjusted downwards to reflect these deferred remuneration arrangements, which are also taken into account in determining the individual's profit share allocation. • Consistent with market practice, these individuals are allocated an entitlement to a share of performance fees paid by a particular fund. This allocation is based on performance, seniority and the extent of the individual's involvement with the particular fund. • An individual will not receive their entitlement until Macquarie has received performance fees towards the end of the fund's life, which is typically upwards of 10 years. The entitlement will be forfeited if their employment ceases before five years from the date of allocation. Entitlements are subject to similar forfeiture conditions as profit share. • Prior to joining the Executive Committee, both Mr Stanley (ceased to be a member of the Executive Committee effective 1 April 2021) and Mr Way (joined the Executive Committee on 1 April 2021) participated in these arrangements for certain funds in their former roles. Upon joining the Executive Committee, they maintained their participation in these existing funds, but they have not been allocated any additional entitlements. No other Executive Committee members currently participate in these arrangements.
Hedging	• Macquarie prohibits staff from hedging (i) shares held to meet the minimum shareholding requirement and (ii) unvested equity held in the MEREP.

Employment contracts

The following table summarises key features of the employment contracts for Executive Committee members including the CEO:

Length of contract	Permanent open-ended.
Remuneration review period	1 April to 31 March annually.
Profit share participation	Executive Committee members are eligible to be considered for a profit share allocation that ensures a large part of their remuneration is 'at risk'. Refer to pages 104 to 107 for details.
PSU participation	Executive Committee members are eligible to receive PSUs. Refer to pages 108 to 109 for details.
Termination of employment	Requires no more than four weeks' notice by Macquarie or the Executive Committee member (Post-employment restrictions apply).[14]
Post-employment restrictions	Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie's election, for up to three months post-termination.

(14) Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment. In the UK, the statutory minimum notice period increases from 4 weeks to a maximum 12 weeks based on years of service.

Pay for performance

This section details Macquarie's results and demonstrates the link between pay and performance.

Macquarie's results

Macquarie delivered strong financial results for shareholders in FY2021. NPAT has increased by 10% compared to the prior year and EPS has increased by 7%. In addition, returns to shareholders have been strong with an increase in ordinary dividends of 9% compared to the prior year, noting that shareholders were impacted in FY2020 with a reduced dividend in line with regulatory expectations.

Total compensation and total Executive KMP awarded profit share has not increased to the same extent as NPAT and the compensation expense to income ratio is consistent with FY2020. CEO awarded profit share has increased by 14%. This increase has been explained in both the Chair letter and the CEO's awarded pay table on page 120.

Comparison of performance measures and executive remuneration measures: FY2020–2021

	Expressed as	FY2021	FY2020	Increase/ (Decrease) %
Performance measures				
NPAT	$Am	**3,015**	2,731	10
Basic EPS	Cents per share	**842.9**	791.0	7
Ordinary Dividends	Cents per share	**470.0**	430.0	9
Return on equity	Percent	**14.3**	14.5	
Executive remuneration measures				
Total compensation expense	$Am	**5,190**	5,001	4
Compensation expense to income ratio	Percent	**40.6**	40.6	
Average staff headcount(15)		**16,385**	15,762	4
Actual staff headcount(15)		**16,459**	15,849	4
CEO awarded profit share	$Am	**19.85**	17.35	14
Current Executive KMP awarded profit share(16)	$Am	**106.9**	99.4	8
CEO Statutory Remuneration	$Am	**16.0**	14.9	7
Total Executive KMP Statutory Remuneration	$Am	**122.4**	105.8	16

Performance over past 10 years: FY2012–2021

Year ended 31 March	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Income Statement										
NPAT ($Am)	730	851	1,265	1,604	2,063	2,217	2,557	2,982	2,731	**3,015**
Basic EPS (cents per share)	210.1	251.2	383.6	502.3	619.2	657.6	758.2	883.3	791.0	**842.9**
Shareholder returns										
Return on equity (%)	6.8	7.8	11.1	14.0	14.7	15.2	16.8	18.0	14.5	**14.3**
Ordinary Dividends (cents per share)	140	200	260	330	400	470	525	575	430	**470**
Special Dividends (cents per share)(17)	–	–	116	–	–	–	–	–	–	**–**
Share price as at 31 March ($A)	29.08	37.15	57.93	76.67	66.09	90.20	102.90	129.42	85.75	**152.83**
Annual TSR (%) to 31 March(18),(19)	(16.0)	34.5	67.2	40.0	(9.2)	46.0	21.3	32.8	(29.9)	**83.9**
10 year TSR (%) to 31 March(18),(19)	56.3	170.4	189.6	187.7	83.5	99.0	257.7	723.6	220.7	**628.6**

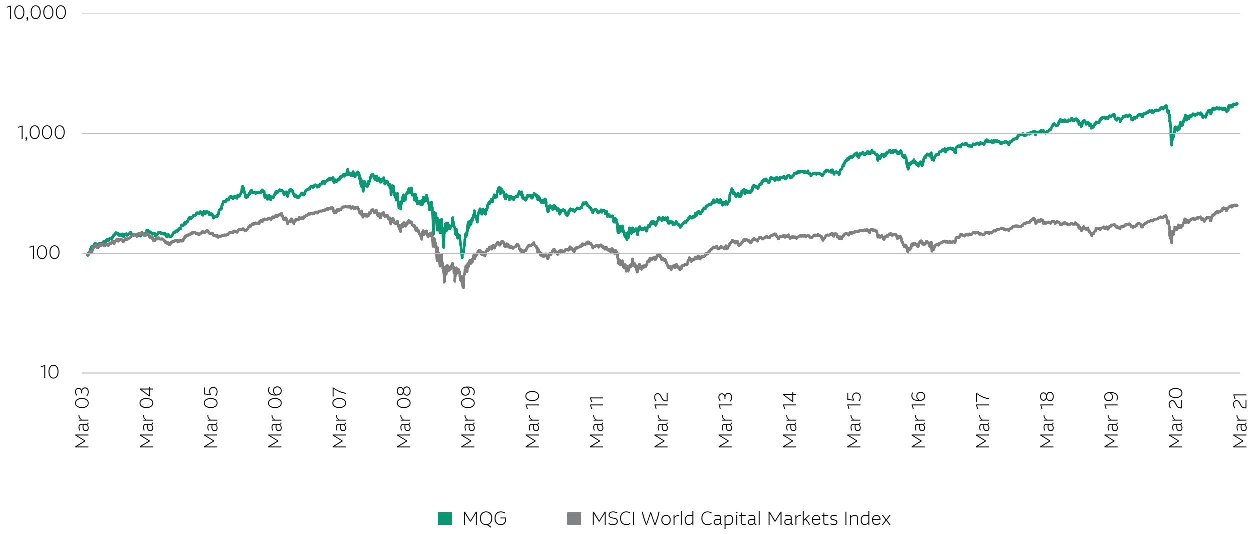
(15) Headcount for both FY2021 and FY2020 includes staff employed in operationally segregated subsidiaries (OSS).
(16) Represents the full year profit share awarded to the current Executive KMP population in both FY2021 and FY2020.
(17) The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD Distribution in January 2014. The total distribution including return on capital was 373 cents per share.
(18) TSR data reflects the reinvestment of gross dividends.
(19) Source: Bloomberg.

Total shareholder return

Macquarie's TSR over the long-term has been strong and continues to outperform both the MSCI World Capital Markets Index (MSCI Index) since the inception of this index and the All Ordinaries Accumulation Index (All Ords Index) since listing.

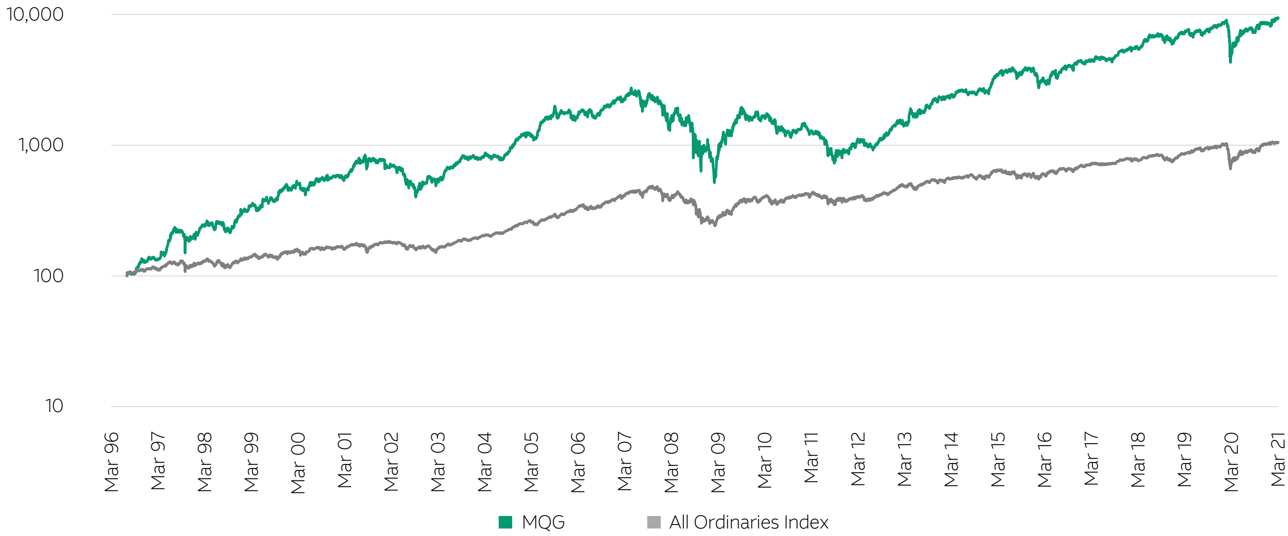
The TSR charts below are displayed on a base-10 logarithmic scale, which displays relative percentage movements over an extended historical time frame as similar in size, without visually skewing the performance in more recent years.

Macquarie TSR versus the MSCI Index[20]: 30 April 2003, being the date the index was first calculated, to 31 March 2021



Source: Bloomberg.

Macquarie TSR since listing versus the All Ords Index[21]: 29 July 1996 to 31 March 2021



Source: Bloomberg.

(20) Indexed to 100 on 30 April 2003, being the date the index was first calculated. The MSCI World Capital Markets Index comprises a basket of companies that provide capital markets activities (defined by MSCI as asset management, investment banking and brokerage, and diversified capital markets activities). Macquarie TSR calculations assume continuous listing. Therefore, they are based on Macquarie Bank Limited (ASX Code: MBL) data up to and including 2 November 2007 (the last day of trading of MBL shares), and MGL (ASX Code: MQG) data from the commencement of trading of MGL ordinary shares on 5 November 2007 onwards.

(21) Indexed to 100 on 29 July 1996, being when MBL shares were first quoted on ASX. The All Ordinaries Accumulation Index (All Ords Index) comprises the 500 largest ASX listed companies by market capitalisation. As per the footnote for the MSCI World Capital Markets Index, Macquarie TSR calculations assume continuous listing.

Macquarie's ROE performance compared with an international reference group

Macquarie's ROE for FY2021 is 14.3%, broadly in line with FY2020, and remains higher than the majority of the international reference group. In addition, Macquarie's three, five and ten-year average annual ROE exceeds the majority of the reference group.

Reference group ROE over ten years FY2012–2021

	1 year average % p.a.	3 year average % p.a.	5 year average % p.a.	10 year average % p.a.
Macquarie	**14.3**	**15.6**	**15.8**	**13.3**
Average of reference group	**12.8**	**12.1**	**9.7**	**9.4**
Company	6.7	9.5	8.4	5.6
Company	2.8	3.5	2.0	1.4
Company	6.2	6.2	2.0	2.0
Company	0.3	(3.1)	(2.8)	(1.2)
Company	10.9	11.4	9.7	9.2
Company	11.3	13.2	11.9	10.9
Company	52.9	46.7	38.3	42.3
Company	12.7	12.0	10.5	7.4
Company	11.5	9.4	7.2	6.5

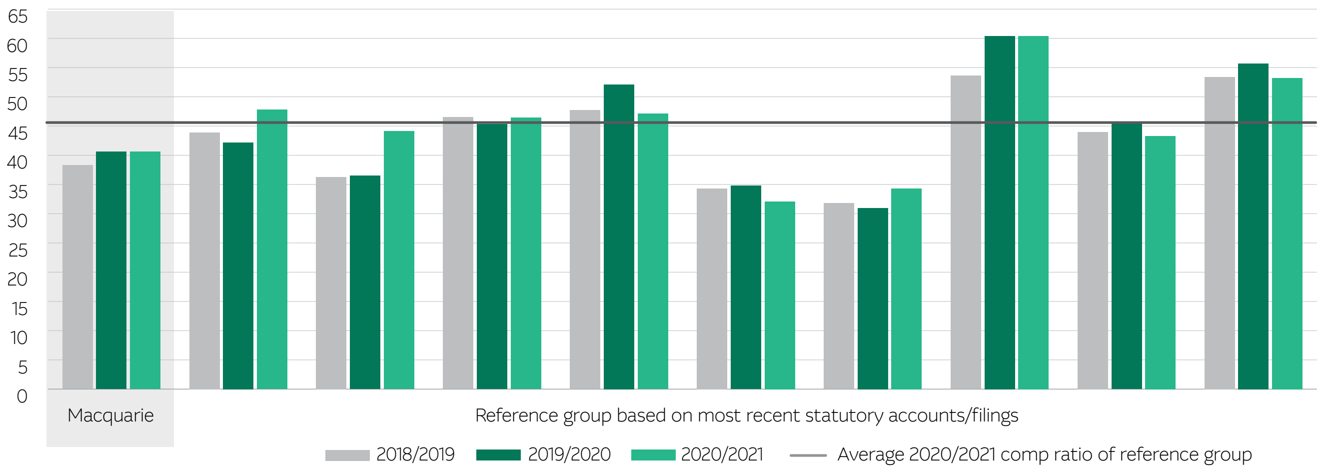
Source: Bloomberg (reference group) and Macquarie as reported.

Compensation expense to income ratio

In determining the reasonableness of the company-wide profit share pool, the Board considers Macquarie's compensation expense to income ratio (compensation ratio) compared to that of an international reference group as a broad guide to assess whether the share of profits distributed to staff and shareholders is reasonable. The compensation ratio effectively adjusts for differences in size between organisations; however, some companies are or have become part of larger organisations, often with large retail operations that can distort comparisons.

In the following chart, Macquarie's compensation ratio is compared with that of the international reference group.[22] Macquarie's FY2021 compensation ratio of 40.6% is well below the average of our international peer group.

Compensation expense to income ratio: FY2019–2021 (%)



Source: Data has been calculated by Macquarie. The information is based on publicly available information for the reference group. In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some organisations.

(22) The reference group comprises Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.

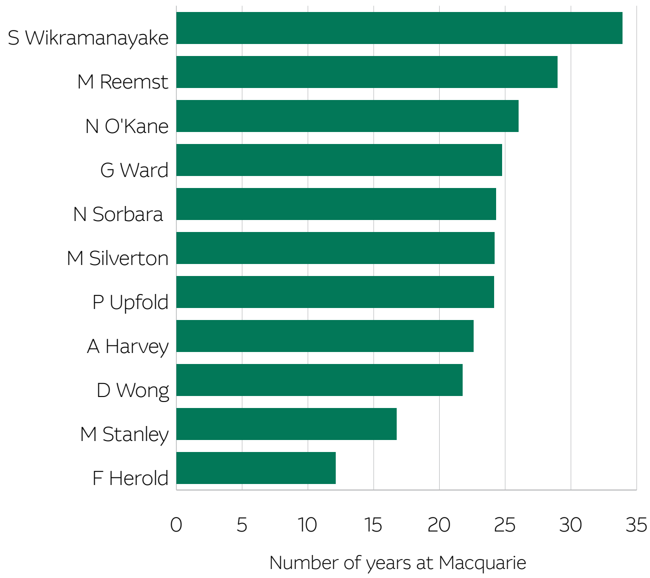
Remuneration Report

Continued

Tenure of Executive KMP[23]

One of the primary goals of Macquarie's remuneration framework is to attract, motivate and retain high-performing staff. The Board's view is that Macquarie continues to achieve this goal as demonstrated by the following:

- Macquarie's Executive KMP had an average tenure of 24 years with Macquarie as at 31 March 2021. Their strong leadership and deep expertise have been integral to driving company and business performance in FY2021
- as at 31 March 2021, 49% of Director-level staff had more than ten years' experience with Macquarie, while a further 22% had between five and ten years' experience with Macquarie
- the 4.4% Director-level voluntary turnover rate in FY2021 is considerably lower compared with the prior year and remains below the voluntary turnover rate across Macquarie overall.



(23) This includes accumulated service at acquired companies, for example, Bankers Trust Investment Bank Australia.

Executive KMP remuneration outcomes for FY2021

This section details Executive KMP remuneration outcomes for FY2021 and demonstrates the link between pay and performance.

Executive KMP fixed remuneration outcomes

In line with our pay for performance approach to remuneration, fixed remuneration for our Executive KMP in FY2021 comprised approximately 10% of total awarded remuneration, with the balance at risk and explicitly linked to performance.

In addition to a base salary and as part of fixed remuneration, one Executive KMP, Mr Wong, receives a role-based allowance as described on page 112.

Process to determine Executive KMP profit share outcomes

There is a consistent and comprehensive process for the Board and the BRC to assess the performance of the CEO and each Executive KMP during the year to enable them to determine remuneration outcomes at the end of the year. The Board is always mindful of the external focus on overall remuneration levels and has spent considerable time determining remuneration outcomes for the CEO and each Executive KMP. The BRC recognises the range of expectations and have made decisions which take into consideration the perspectives of all stakeholders. Significant judgement is applied in order to ensure that remuneration outcomes are aligned both with individual and company-wide performance and with outcomes delivered to our shareholders, our clients and the communities in which we operate.

As part of the Board's annual review of Macquarie's CEO's performance, the CEO meets with the Non-Executive Directors (NEDs) of the Board towards the end of each financial year to consider formal documentation that outlines her views of Macquarie's performance. The presentation includes a broad range of Macquarie's activities covering the following main areas:

- financial performance
- risk management and compliance
- business leadership including customer and community outcomes
- people leadership and professional conduct consistent with the *Code of Conduct* and *What We Stand For.*

Over the course of the year the Board receives regular reports and updates on many of these areas. These are summarised in the CEO's presentation, together with additional information on any particular matters of interest the Board has identified for further discussion as a part of the review process. This year, the NEDs requested that the CEO focus on how Macquarie demonstrates its culture of putting customers first, promotes the expansion of businesses with new and existing customers as well an ongoing focus on regulatory issues, including compliance and reporting. The Board then considers the CEO's performance and progress against all of these topics in determining the CEO's remuneration for the year. A similar process is followed for the CEO of Macquarie Bank.

The Board and the BRC consider formal documentation for each Executive KMP, which includes consideration of the same factors as the CEO as set out above.

The BRC also consider risk-related matters raised in the independent reports from the CRO and the General Counsel. To ensure that all matters are appropriately brought to the BRC's attention and to achieve an integrated approach to remuneration that reflects prudent and appropriate risk, there is a joint meeting of the BRC, BRiC and the BGCC. Finally, the BRC considers remuneration levels for organisations that broadly operate in the same markets and compete for the same people as Macquarie.

FY2021 remuneration impacts – APRA enforcement action

On 1 April 2021, APRA announced actions required regarding MBL's 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.

The Board acknowledges the seriousness of the APRA findings and has reflected this in its determination of remuneration outcomes. This has been through a reduction in the PSU allocations for Executive KMP and the imposition of additional qualifying conditions on the release of a portion of their retained profit share. The qualifying conditions relate to the timely and satisfactory remediation of the APRA findings.

FY2021 Executive KMP profit share outcomes

FY2021 remuneration outcomes reflect:

- this year's achievements against a range of financial and non-financial factors, some of which are discussed below
- the recognition that our people are our greatest asset, and the importance of retaining key people to encourage innovation and pursue growth opportunities
- an alignment to the outcomes delivered to shareholders
- risk management, compliance and conduct outcomes.

We have firstly considered the financial results of Macquarie overall, as well as each Operating Group. Against a challenging backdrop, all Operating Groups have been profitable this year. These results reinforce the value of the diversification which we have built into each of our businesses.

In determining the CEO's remuneration, we have considered her strong leadership through the challenges of COVID-19. She has also advanced a process of reorganising Macquarie's Operating Groups and renewing the Executive Committee, positioning the business for future opportunities.

We have also considered the following contributing factors which the Board views as critical to Macquarie's ongoing success:

- **Cross-group collaboration:** There has been an increasing focus over the last year as businesses work together to leverage expertise and find holistic solutions for customers and unlock new opportunities. Our culture of putting customers first and delivering on customer and community expectations permeates through Macquarie. This has helped to drive growth, secure repeat business and support our whole portfolio during COVID-19 challenged market conditions.
- **The continued focus on people and culture:** The well-being and empowerment of staff is instrumental to Macquarie's resilience and performance. As part of this ongoing focus, Macquarie's rearticulated purpose was launched this year following extensive consultation with over 800 staff. Each group has implemented new and reviewed existing strategies to embed our purpose: to empower people to innovate and invest in a better future. In addition, longstanding investment in leadership capability and flexible working has been accelerated as a result of the pandemic. The Macquarie Voice survey conducted in November 2020 saw increased employee engagement, further evidencing the focus being given to staff well-being.
- **Ongoing investment in technology:** Macquarie continues to invest in technology, systems and processes to reduce risk, enhance the customer experience and drive efficiencies. These investments have also underpinned business resilience, with as many as 98% of staff across Macquarie working remotely during the year with minimal disruption.
- **Progress against D&I initiatives:** D&I continues to be a business priority that is fundamental to Macquarie's ongoing success. We acknowledge the heightened political and social focus on addressing inequality. During the year we reaffirmed our commitment to building a diverse workforce with the development of D&I initiatives focused on building inclusive leadership capabilities and enhancing the transparency of demographic data to better understand the diversity of the workforce and where further action is required.
- **Risk management:** A disciplined approach to risk management is critical to Macquarie's success. Notwithstanding the APRA findings noted earlier, there have been a number of enhancements made to ensure that non-financial risks are identified and managed, including:
  - significant investment in Work, Health, Safety and Environment systems, procedures, training and oversight
  - heightened focus on financial crime risk
  - a comprehensive review of the ESR policy to ensure stakeholder expectations are met
  - a refresh of the Conduct Risk framework.
- **Macquarie's response to COVID-19:** There has been a heightened awareness of the issues impacting our customers, clients, portfolio companies, and the broader community as a result of the pandemic, as well as the global political and social challenges. Some of the ways Macquarie has addressed the impact of COVID-19 include:
  - payment pause and lending relief continues although the vast majority of clients have resumed normal payments
  - within our portfolio companies, there has been ongoing work to ensure business continuity, financial resilience and employee well-being
  - the Macquarie Group Foundation (the Foundation) has increased financial support for urgent direct relief needs, research, and to support workers and businesses in restarting economic activity through the COVID-19 donation fund.

Executive KMP remuneration outcomes have been considered in the context of the wider workforce. The BRC receives extensive reporting on remuneration outcomes and individually reviews and approves the remuneration of BEAR Accountable Persons, staff who hold regulated roles, Designated Executive Directors and other senior staff (generally direct reports of Executive KMP) and has reviewed overall total remuneration levels across each business to ensure appropriate distribution of remuneration across the organisation. The BRC has also considered the compensation expense to income ratio as a guide as to whether the share of profits distributed to staff and shareholders is reasonable.

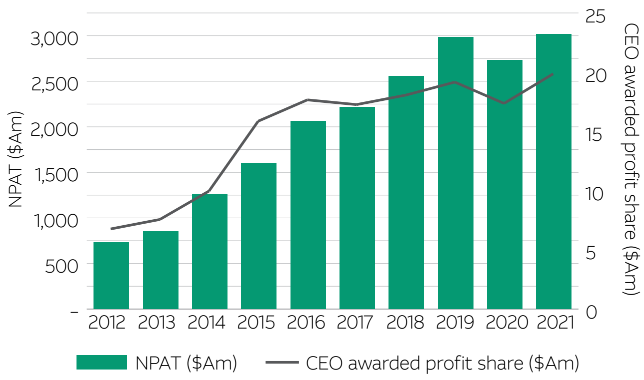
Finally, the BRC also considers remuneration levels for organisations in an international reference group that broadly operate in the same markets and compete for the same people as Macquarie.

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

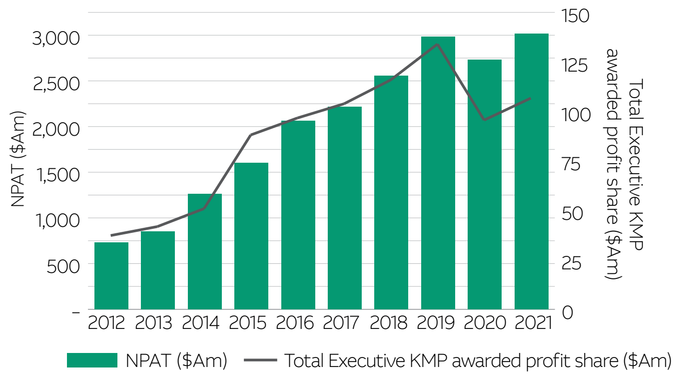
- CEO awarded profit share has increased 14% on the prior year to $A19.85 million
- total Executive KMP awarded profit share is up 8% to $A106.9 million
- reflecting the APRA findings, PSU allocations for Executive KMP have been reduced and additional qualifying conditions have been imposed on the release of a portion of their retained profit share
- in FY2020, in light of the economic uncertainty due to COVID-19, retention rates for the CEO and Executive KMP were increased to 100%. This year, they have been reset to levels more in line with 2019.

To demonstrate the alignment between pay and performance, the following graphs show the multi-year alignment between CEO and total Executive KMP awarded profit share and Macquarie NPAT over a ten-year period.

CEO awarded profit share[24]



Total Executive KMP awarded profit share



(24) For 2019, the graph reflects awarded profit share for the CEO role for FY2019. This equates to the sum of awarded profit share for Mr Moore for the period 1 April 2018 to 30 November 2018 and awarded profit share for Ms Wikramanayake for the period 1 December 2018 to 31 March 2019.

Executive KMP awarded pay

To clearly demonstrate the link between pay and performance, we have included awarded remuneration disclosures for fixed remuneration and profit share as well as highlights of each Executive KMP's performance for the year. Details of PSUs awarded and vested in the year are set out in the following sections.

The tables on the following pages are additional disclosures that are prepared on a different basis to those included in the statutory disclosures in Appendix 2 and are not additive. Remuneration relating to the portion of the relevant periods that each person was an Executive KMP is disclosed.

As noted in last year's report, in light of the economic uncertainty due to COVID-19, retention rates for FY2020 were increased to 100% for the CEO and all Executive Committee members and there was no available profit share component. For FY2021, as a result of improved economic conditions, retention rates have been reset to levels more in line with 2019.

Macquarie Group

S.R. Wikramanayake – Macquarie CEO

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	820,244	795,740
Available profit share	3,970,000	–
Retained profit share	15,880,000	17,352,388
Total	**20,670,244**	**18,148,128**

Ms Wikramanayake's fixed remuneration increased effective 1 July 2019, to reflect her role as CEO.

Financial results

- Successfully steered the organisation through the challenges of COVID-19, achieving strong financial outcomes, including Macquarie's highest profit on record: NPAT of $A3,015 million, up 10% compared to FY2020, ROE of 14.3% and EPS of 842.9 cents per share, despite the challenges of COVID-19.
- Maintained a strong and conservative balance sheet.

Risk management and compliance

- Ongoing investment into risk management capabilities to support business growth and address increasing regulatory focus, as well as meeting community expectations (including around ESR) in a scalable and controlled manner.

Business leadership (including customer and community outcomes)

- Promoted cross-group collaboration throughout Macquarie including the acceleration of Macquarie's role in energy transition.
- Comprehensive response to COVID-19 focusing on employees, clients, portfolio companies and the community: supported Macquarie's ongoing focus on a culture of putting customers first, including payment pauses and assistance for affected customers during COVID-19 and delivering on customer and community expectations.

People leadership and professional conduct

- Advanced the process of reorganising Macquarie's Operating Groups and renewing the Executive Committee, positioning the business for future opportunities.
- Strong people leadership during the year reflected in high employee engagement and a high CEO approval rating evidenced through the Macquarie Voice survey.
- Embedded Macquarie's purpose to empower people to innovate and invest in a better future through the launch of a staff-led Purpose statement.
- Ongoing focus of building inclusive leadership capabilities.
- Ongoing contribution to policy formation through formal consultations and appointments to a number of advisory panels on key Environmental, Social and Governance (ESG) initiatives. These leadership roles add to existing contributions including the Global Commission on Adaptation and the UN Climate Finance Leadership Initiative.

Macquarie Bank

M.J. Reemst – Macquarie Bank CEO

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	771,319	770,885
Available profit share	1,508,000	–
Retained profit share	2,262,000	3,982,515
Total	**4,541,319**	**4,753,400**

Financial results

- Strong management of MBL's balance sheet in FY2021 ensuring a strong financial position and operating ratios well in excess of regulatory minimums.
- Despite challenging market conditions, successfully increased Bank funding with $A11.2 billion term funding raised to support business growth.
- Maintained Macquarie's upgraded S&P rating of A+.

Risk management and compliance

- BEAR is embedded and operational in MBL and there is ongoing engagement with the government, regulators and industry associations on the proposed Financial Accountability Regime (FAR).
- Managed a significant increase in the frequency of requests for regulatory reports during COVID-19.
- Continued to invest to manage high regulatory reporting risk acknowledging the heightened focus by regulators and the significant increase in the frequency of requests for regulatory reports during COVID-19.

Business leadership (including customer and community outcomes)

- Established, capitalised and operationalised Macquarie Bank Europe and smaller licenced entities to facilitate Macquarie continuing regulated activity in European markets post-Brexit.
- Successful transfer of Macquarie Group Services Australia Pty Ltd (MGSA) from the group to the bank as part of Resolution.

People leadership and professional conduct

- Served as Chair of the Macquarie Group Foundation. During an unprecedented year, staff and the Foundation responded with empathy and generosity. Support for communities included the global $A20 million COVID-19 donation fund and the creation of the Racial Equity Fund in the Americas. In FY2021, through donations and fundraising effort by employees and matching by the Foundation, together with the Foundation's annual grant-making program, $A64 million was contributed to over 2,400 non-profit organisations around the world.

Macquarie Asset Management (MAM)

M.S.W. Stanley – Group Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	710,608	727,571
Available profit share	7,548,692	–
Retained profit share	11,323,038	18,125,946
Total	**19,582,338**	**18,853,517**

Financial results

- Delivered a net profit contribution of $A2,074 million, down 5% on FY2020's record result, reflecting significant headwinds impacting the Transportation Finance business and considerable volatility in public markets.
- Base fees and performance fees were down 2% and 21% respectively on record FY2020 levels.

Risk management and compliance

- MAM's risk governance was strengthened during the year including an enhanced Work Health and Safety (WHS) framework. Notwithstanding this improvement, WHS remained a key priority during FY2021.
- MAM continued to strengthen its ESG credentials with the launch of the annual MIRA Sustainability Report as well as the announcement of MAM's commitment to investing and managing its portfolio in line with global net zero emissions by 2040.

Business leadership (including customer and community outcomes)

- Entered into an agreement to acquire Waddell & Reed Financial Inc. and made strategic divestitures of MIM Korea and the minority stake in Jackson Square Partners.
- MIRA raised $A21.8 billion in new equity for a diverse range of funds, products and solutions across the platform.
- In April 2020, MIRA closed the sale of the Macquarie European Rail business.

People leadership and professional conduct

- Established a MAM Awards program to reward and recognise staff who role model key behaviours.
- Sponsored diverse talent through various training and programs, as well as through the implementation of MAM's D&I strategy.
- Successfully managed an orderly transition to the new MAM Group Head, Ben Way.

Banking and Financial Services (BFS)

G.C. Ward – Deputy Managing Director and Group Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	771,319	770,885
Available profit share	3,220,000	–
Retained profit share	4,830,000	8,059,013
Total	**8,821,319**	**8,829,898**

Financial results

- Delivered a net profit contribution of $A771 million, in line with the prior year.
- Total BFS deposits increased 26% to $A80.7 billion, the loan and lease portfolio increased 18% to $A89.1 billion and funds on platform increased 28% to $A101.4 billion.
- The home loan portfolio increased 29% to $A67.0 billion driven by strong demand in lower loan-to-value ratio and owner-occupier lending tiers, while the Business Banking loan portfolio increased 13% to $A10.2 billion and Business Banking deposit volumes increased 23%.

Risk management and compliance

- Established the BFS Regulatory Risk team and expanded regulatory assurance functions within non-financial risk.
- Key risk metrics throughout FY2021 compared to pre-COVID-19 demonstrate the ongoing robustness of the BFS control framework over this challenging period.

Business leadership (including customer and community outcomes)

- Provided an industry-leading, rapid response to COVID-19, including being first in market to support clients on payment pause with an online request form, a pause on collections activity, and redeploying approximately 400 staff to support a period of increased client and operational needs.
- During the first half of the year, BFS expanded the Macquarie Wrap managed accounts offering with assets under management of $A5.4 billion, up from $A3.0 billion in March 2020.
- BFS continued the implementation of a cloud-based portfolio management platform as part of the wealth platform transformation.
- Received a number of awards, including: Mortgage Choice winner *(Lender of the Year);* Money Magazine's Consumer Finance Awards winner *(Home Lender of the Year);* Mozo Experts Choice Awards winner *(Internet Banking, Exceptional Everyday Account and Excellent Banking App).*

People leadership and professional conduct

- Sustained commitment to gender balance has led BFS to a gender balanced workforce, including increased female representation at the Director level.
- Ongoing investment and focus on creating a high-performing, diverse and inclusive culture is evidenced in BFS' Level 1 accreditation as a Carer Friendly Employer (one of only six organisations to receive this recognition), BFS' qualification as an Australian Workplace Equality Index Platinum Employer and BFS' record-high levels of staff engagement.

Commodities and Global Markets (CGM)

N. O'Kane – Group Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	816,732	928,940
Available profit share	10,198,800	–
Retained profit share	15,298,201	18,546,763
Total	**26,313,733**	**19,475,703**

The movement in Mr O'Kane's fixed remuneration reflects an adjustment to his salary on relocation to Australia in line with other Executive KMP based in Australia.

Financial results

- Delivered a record net profit contribution of $A2,601 million for FY2021, up 50% on the prior year.
- The result was reflective of increased contribution from Resources North American Gas and Power, EMEA Gas and Power and Agriculture due to client hedging activity driven by increased volatility and commodity price movements. This was underpinned by:
  - client focused businesses with deep longstanding client relationships
  - platform diversity that drives earnings stability and de-risks the portfolio
  - dedicated specialist staff with deep sector knowledge and market insights
  - a focus on risk management that remains core to every business activity.

Risk management and compliance

- Focused on embedding the operational risk management framework including increased investment in the non-financial risk teams.
- Several initiatives have been implemented across CGM to further embed a robust risk culture including recognising and rewarding behaviour that role models and promotes strong risk culture.

Business leadership (including customer and community outcomes)

- Adapted to changing market conditions by supporting clients; responding to increased trading opportunities; and repositioning businesses where necessary including via pursuit of opportunities in adjacencies by entering new markets and introducing new products.
- Delivered positive outcomes for the community including the funding of 10 million+ smart meters in the UK to enable end consumers to reduce their energy costs and emissions; servicing the energy needs of North America, with ~11 billion cubic feet of natural gas volume traded per day.
- Maintained ranking as No. 1 futures broker on the ASX,[25] No. 2 physical gas marketer in North America[26] and received a number of awards for CGM's expertise, including Derivatives House of the Year,[27] Oil and Products House of the Year[27] and Environmental Products Bank of the Year.[27]

People leadership and professional conduct

- Significant investment in CGM's people and culture.
- D&I remained a strategic priority with significant focus and investment across CGM.

(25) Based on overall market share on ASX24 Futures volumes as at 31 December 2020.
(26) Platts Q3 2020.
(27) 2020 Energy Risk Awards.

Macquarie Capital

M.J. Silverton – Group Co-Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	724,676	631,620
Available profit share	1,650,000	–
Retained profit share	3,850,000	3,791,603
Total	**6,224,676**	**4,423,223**

D. Wong – Group Co-Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	4,675,126	4,015,344
Available profit share	942,951	–
Retained profit share	2,200,218	2,480,770
Total	**7,818,295**	**6,496,114**

Mr Silverton and Mr Wong were appointed to the Executive Committee effective 1 June 2019. FY2020 awarded remuneration disclosed reflects their time as Executive KMP from the period 1 June 2019 to 31 March 2020. Mr Wong's fixed remuneration includes a role-based allowance described on page 112.

F. Herold – Head of Macquarie Capital Principal Finance

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	723,138	722,704
Available profit share	1,176,000	–
Retained profit share	2,744,000	6,406,635
Total	**4,643,138**	**7,129,339**

Financial results

- Delivered a net profit contribution of $A651 million, down 15% on the prior year due primarily to fewer material asset realisations and lower fee and commission income, partially offset by lower operating expenses.
- 1H21 net profit contribution significantly impacted by COVID-19. 2H21 net profit contribution significantly higher than prior period and prior corresponding period.

Risk management and compliance

- Further invested in additional specialist risk experts across several risk areas including Operational Risk, Work, Health and Safety, and Anti-Bribery, Corruption and Sanctions.
- Established a Non-Financial Risk function, bringing various specialist risk managers together to drive best practice risk management, set frameworks, and provide training and assurance.

Business leadership (including customer and community outcomes)

Advisory and Capital Solutions (ACS):

- Macquarie Capital was ranked No.1 in ANZ for both M&A and IPOs for the past decade
- global collaboration between teams continues to create successful outcomes, particularly with financial sponsors
- acted as exclusive financial adviser to Strata Fund Solutions on its sale to Alter Domus and Joint Bookrunner on the acquisition financing. Principal Finance co-invested with FTV Capital in Strata and subsequently realised its position in a successful sale process
- focused alignment around areas of opportunity such as technology-enabled innovation in all sectors.

Infrastructure and Energy Group (IEG):

- Macquarie Capital was ranked No.1 Global Renewables Financial Adviser in 2020
- continued focus on green energy with over 250 projects under development or construction, with a pipeline of more than 30GW
- Green Investment Group launched a new solar energy company, Cero Generation, to take forward an 8 GW portfolio of over 150 projects across Europe as an OSS
- expanded into new markets including Israel, Latin America, Poland, and new asset classes including Digital Infrastructure, floating offshore wind and battery storage.

Equities:

- repositioning as an Asia-Pacific focused full service broker with specialist US services and Global Portfolio Trading offering continues to resonate with our clients
- equities has been named number one in seven of the eight Chief Investment Officer Magazine Transitions Management survey categories, as well as receiving a further top ranking in the over-riding client satisfaction score.

People leadership and professional conduct

- Continued focus on D&I initiatives, with a focus on recruitment, communications, leader-led inclusion training and ethnicity and racial equality awareness training.
- Ongoing investment in people leadership skills.

Corporate Operations Group (COG)

N. Sorbara – COO and Group Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	771,319	770,885
Available profit share	2,440,000	–
Retained profit share	3,660,000	5,689,307
Total	**6,871,319**	**6,460,192**

Financial results

- Responsible for Technology, Operations, Human Resources, Business Services, Business Improvement and Strategy, Digital Transformation and Data, and the Macquarie Group Foundation.
- Delivered $A45 million efficiency savings to fund ongoing investment in COG services. In addition, delivered $A93 million savings direct to Operating Groups.

Risk management and compliance

- Effectively managed a number of risk frameworks including cyber security, global security and fraud, enterprise information management, business resilience, supplier governance and remuneration.
- Continued to engage with Treasury and regulators on remuneration regulation.

Business leadership (including customer and community outcomes)

- Led Macquarie's successful response to COVID-19. Our long-term focus on investing in people and technology enabled 98% of staff to work remotely ensuring business resilience and operations were maintained.
- Led the ongoing development of the Sydney Martin Place Metro Project, including partnership with Macquarie Capital on the sale of the South Tower which will complete in 2024.
- Led multiple transformation programs across COG, including the delivery of a digital HR and procurement platform.
- Delivered support for the community including achieving a record year of giving through the Foundation and implementing the COVID-19 donation fund, a $A20 million fund donation to support non-profit organisations working to combat the effects of COVID-19.

People leadership and professional conduct

- Strong people leadership evidenced by high staff engagement scores.
- Continued to embed inclusive leadership capabilities and supported an innovative culture throughout Macquarie through group-wide training and tools.
- Maintained strong inclusion & diversity outcomes, including 50% female representation on leadership team and gender pay parity for like roles.
- Co-sponsorship of the rearticulation of Macquarie's purpose.

Financial Management Group (FMG)

A.H. Harvey – CFO and Group Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	771,319	770,885
Available profit share	2,440,000	–
Retained profit share	3,660,000	5,689,307
Total	**6,871,319**	**6,460,192**

Financial results

- Responsible for financial, tax and treasury services to all areas of Macquarie and for Macquarie's corporate affairs team including corporate communications and investor relations.

Risk management and compliance

- Managed the capital and funding, liquidity and interest rate risk management of Macquarie's balance sheet and delivered year end and half year reporting without interruption while teams worked remotely.
- Completed phase 1 of the General Ledger project with the release of Accounts Payable, Fixed Assets and Accounts Receivable, which will drive efficiencies, reduce risk and enable better informed decision making.
- Continued investment and focus on regulatory and tax reporting governance and key controls with dedicated resourcing and project support.

Business leadership (including customer and community outcomes)

- Further developed relationships with investors, banks and rating agencies despite restrictions on travel.
- Raised over $A22 billion of term funding across multiple products.
- Continued to evolve the depth of Macquarie's disclosure, notably in relation to climate.
- Created business unit aligned finance teams, aligning legal entity control and financial control with specific Operating Groups, improving transparency while reducing risk.
- Continued to transform platforms and processes by leveraging better technology across FMG to enable the delivery of activities in a more cost-efficient manner.

People leadership and professional conduct

- Co-sponsored the rearticulation of Macquarie's purpose.
- Launched the refreshed FY2021 D&I strategy and appointed an Executive Sponsor to help drive accountability against D&I objectives.
- Supported the growth and development of our people and continued to focus on skills development, talent management and succession planning.
- Sponsored a heightened focus on well-being and manager capabilities as staff continued to work remotely for an extended period of time.

Risk Management Group (RMG)

P.C. Upfold – CRO and Group Head

Awarded remuneration ($A)	FY2021	FY2020
Fixed remuneration	771,319	770,885
Available profit share	2,440,000	–
Retained profit share	3,660,000	5,689,307
Total	**6,871,319**	**6,460,192**

Financial results

- Responsible for identifying, assessing and monitoring risks across Macquarie.

Risk management and compliance

- Enhanced key elements of Macquarie's Non-Financial Risk Management framework, including the:
  - conduct risk framework by implementing the Conduct Issue Rating Standard
  - Work, Health and Safety policy and framework
  - Group-wide Climate Risk and Modern Slavery Program
  - investment in leading risk technology and data management capabilities.
- Executed an extensive stress testing program to provide management risk insights during COVID-19.
- Managed Macquarie's COVID-19 related exposures.
- Managed Macquarie's regulatory obligations in a remote working environment.

Business leadership (including customer and community outcomes)

- Invested in non-financial risk teams, including Compliance, Risk Surveillance, Financial Crime and Operational Risk.
- Flexibly supported our business group plans in response to market developments (for example, Brexit) and opportunities (for example, the purchase of Waddell & Reed Financial Inc.).

People leadership and professional conduct

- Continued enhancements to the leadership team, including hiring of a Global Head of Financial Crime Risk.
- Piloted manager capability modules to support managers to improve their engagement and people management skills.

Executive KMP – Allocation of PSUs for FY2021

As set out on page 108, individual PSU allocations were determined based on their role as members of the Executive Committee and their contribution to driving the collective performance of Macquarie. This year, PSU allocations have been reduced to reflect the APRA findings.

In a change from last year, the number of PSUs to be allocated will be calculated by dividing the face value of the PSU award by the price of Macquarie ordinary shares on or around the date of grant. This change from a fair value methodology is not expected to have an impact on the resulting number of PSUs to be allocated for FY2021. In the table below, we have disclosed PSU allocations for all Executive KMP at face and fair value.

Approval will be sought at Macquarie's 2021 Annual General Meeting to allocate PSU awards to the Macquarie CEO, who is also an Executive Voting Director.

Executive KMP	Face Value of the PSU award ($A)	Fair Value of the PSU award ($A)
S.R. Wikramanayake	3,200,000	2,117,000
A.H. Harvey	2,240,000	1,482,000
F. Herold	2,240,000	1,482,000
N. O'Kane	2,240,000	1,482,000
M.J. Reemst	–	–
M.J. Silverton	2,240,000	1,482,000
N. Sorbara	2,240,000	1,482,000
M.S.W. Stanley	–	–
P.C. Upfold	2,240,000	1,482,000
G.C. Ward	2,240,000	1,482,000
D. Wong	2,240,000	1,482,000

The fair value is estimated assuming a fair value of $A101.10 per PSU based on the share price of $A152.83, being the closing price of Macquarie ordinary shares on 31 March 2021. The fair value takes into account trading restrictions, the fact that PSUs do not attract dividends and the vesting performance hurdles and time frames. As a result, the fair value of a PSU is lower than the face value of a PSU. The following assumptions were used in estimating the fair value: a risk-free interest rate of 0.44% per annum, share volatility of 31.31% and a forecast dividend yield of 3.96% per annum (paid in two instalments each year).

Pages 108 to 109 set out details of the performance hurdles and vesting period applicable to these awards.

Executive KMP – PSUs vesting during FY2021

The PSUs that completed their performance period on 30 June 2020 comprised the second tranche of those awards granted in 2016 and the first tranche of those granted in 2017. The performance hurdle tests were performed using data sourced from Bloomberg for all peers (as well as Macquarie) and the calculations were reviewed independently. The results showed that the performance hurdles:

- based on Macquarie's relative average annual ROE compared to the peer group have been fully met for both tranches; and
- based on the EPS CAGR in Macquarie's reported financial year have not been met for either the 2016 or the 2017 PSU grants.

As a result, 50% of the awards became exercisable on 1 July 2020, as shown below:

	EPS CAGR Hurdle			ROE Hurdle		
PSU tranche	**Macquarie result (for vesting period)**	**Hurdle**	**Outcome**	**Macquarie result (for vesting period)**	**Hurdle**	**Outcome**
2016 Tranche 2	6.31%	50% at 7.5% CAGR 100% at 12% CAGR	0% exercisable	14.86% (88th percentile)	50% above the 50th percentile(28) 100% at the 75th percentile(28)	100% exercisable
2017 Tranche 1	6.35%	50% at 7.5% CAGR 100% at 12% CAGR	0% exercisable	15.23% (88th percentile)	50% above the 50th percentile(29) 100% at the 75th percentile(29)	100% exercisable

(28) Peer group ROE at 50th percentile 8.83% and peer group ROE at 75th percentile 9.41%.
(29) Peer group ROE at 50th percentile 9.92% and peer group ROE at 75th percentile 10.53%.

Remuneration governance

Effective governance is central to Macquarie's remuneration strategy and approach. The key elements of Macquarie's remuneration governance framework are described below.

MGL AND MBL BOARDS	
Board Remuneration Committee	**Board Risk Committee & Board Governance and Compliance Committee**
Oversees Macquarie's remuneration policies and practices, and makes recommendations to the Boards	Discuss any relevant matters which may impact remuneration in a joint meeting with the Board Remuneration Committee

Strong Board oversight

The Board oversees Macquarie's remuneration framework. The Board has a BRC whose objective is to assist the Board and the Board of Macquarie Bank, a key operating subsidiary, with Macquarie's remuneration policies and practices. The BRC currently comprises six independent Non-Executive Directors (NEDs):

Board Remuneration Committee	
Chair	**Members**
J.R. Broadbent	G.M. Cairns P.M. Coffey D.J. Grady M. Roche P.H. Warne

The BRC members have the required experience and expertise in human resources, remuneration and risk to enable them to achieve effective governance of Macquarie's remuneration framework. The BRC has a regular meeting cycle and met six times during FY2021. Attendance at meetings by the BRC members is set out in the Directors' Report. Strict processes are in place to ensure conflicts of interest are appropriately managed.

BRC responsibilities

The BRC pays close attention to the design and operation of remuneration practices for all of Macquarie, not just for the most senior executives. The responsibilities of the BRC are outlined in its Charter, which is reviewed and approved annually by the Board.

The Charter is available at
macquarie.com/corporate-governance

Some of the responsibilities include:

- overseeing the process for the annual review by the Board of the CEOs' and other Executive KMPs' performance
- recommending to the Board the remuneration outcomes for all Executive KMP, Designated Executive Directors and other senior executives
- assessing the effectiveness of the *Remuneration Policy* to ensure compliance with legal and regulatory requirements, as well as to support the alignment of remuneration with prudent risk-taking and professional conduct across the organisation
- recommending the *Remuneration Policy* to the Board for approval.

Alignment to risk

The BRC liaises with the BRiC and BGCC to ensure there is effective co-ordination between the Committees to assist in producing an integrated approach to remuneration that reflects prudent and appropriate risk.

As set out on page 111, the CRO provides the BRC with an independent report detailing significant regulatory and legal matters, significant compliance and operational incidents, internal audit issues and other non-financial risk matters. A joint meeting of the BRC, BRiC and BGCC is held to discuss these matters, with the CRO in attendance. The General Counsel attends as required to provide a further source of independent input, including on matters which might lead to a Malus determination. The CFO annually confirms to the BRC that the profit share pool can be supported by Macquarie's current and forecast capital position and does not limit Macquarie's ability to further strengthen its capital base in the future if required.

Engagement with external stakeholders

The Chairman of the Board, the previous BRC Chair and the current BRC Chair undertook a series of meetings with investors and proxy advisors during the year to communicate our remuneration approach and to hear any concerns raised by the investor community.

They also engaged with APRA during the year during the consultation process for CPS 511.

Independent remuneration review

The BRC has retained Pay Governance as its independent remuneration consultant, for the use of the Board to obtain advice on the appropriateness of Macquarie's remuneration framework.

The only service that Pay Governance provides to Macquarie is executive compensation consulting to the BRC. Pay Governance has not made any remuneration recommendations, as defined by the *Corporations Act 2001* (Cth) (the Act). The BRC is responsible for making decisions within the terms of its Charter. Pay Governance's terms of engagement set out their independence from members of Macquarie's management. This year, Pay Governance:

- provided information on global remuneration and regulatory trends
- considered alignment with shareholder interests
- compared individual remuneration for Executive KMP where relevant comparator company information was available
- considered Macquarie's overall remuneration approach compared to comparator company organisations.

Pay Governance's findings included that:

- the objectives of Macquarie's remuneration framework are similar to those cited by other leading global investment banks
- Macquarie's remuneration components support its remuneration objectives and principles and are largely consistent with practices at other leading global investment banks, including that performance-based remuneration takes risk management into account.

Non-Executive Director remuneration

The Macquarie Board seeks to attract and appoint high-calibre NEDs. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, differ significantly from the arrangements applicable to Executives.

Non-Executive Director remuneration

Non-Executive Director fees are set acknowledging the level required to appropriately remunerate highly qualified NEDs who have the relevant skills and experience to govern as a member of the Board.

Macquarie's NED remuneration framework seeks to remunerate high-calibre directors by:

- setting an overall fee that reflects the scale and complexity of Macquarie, including risk management and regulatory responsibilities and the global financial nature of Macquarie's activities
- setting Board and Committee fees to reflect the time commitment required to meet the responsibilities involved in the annual scheduled calendar, taking into account market rates for relevant organisations and market trends
- paying separate fees for additional responsibilities that may arise on an ad hoc basis
- delivering these fees in a form that is not contingent on Macquarie's performance
- setting a minimum shareholding requirement to align the interest of NEDs with shareholders.

All NEDs of MGL are also NEDs of MBL. The framework governs the remuneration of NEDs of MGL and MBL. The CEO is not remunerated separately for acting as an Executive Voting Director.

Unlike Macquarie executives, NEDs are not granted equity, nor are they eligible to receive profit share payments. There are no termination payments to NEDs on their retirement from office other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions over and above the minimum level of contribution required under applicable legislation.

Macquarie's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for this purpose. Macquarie shareholders approved the current limit ($A5.0 million per annum) at MGL's 2019 AGM. The Board ensures that NED remuneration for MGL and MBL taken together does not exceed this shareholder approved maximum amount.

Board and Committee fees are reviewed annually.[30]

An internal review of NED fees was completed during the year. The Boards determined, following this review, that Board and Committee fees should remain unchanged.

Minimum shareholding requirement for Non-Executive Directors

To align the interests of the Board with shareholders, the Board has a minimum shareholding requirement for NEDs, who are required to have a meaningful direct shareholding in Macquarie.

The Board minimum shareholding requirements:

- for NEDs other than the Chair, an investment equivalent to one times the average annual NED fee for the financial year ending prior to their appointment
- for the Chair, an investment equivalent to one times the annual Chair fee.

with the minimum number of shares to be determined using the share price as at the date of a NED's/Chair's appointment.

The above requirements apply to NEDs and are to be met within three years from appointment with one third of the requirement to be held after one year, two thirds after two years and in full after three years.

Under Macquarie's *Trading Policy*, NEDs may only trade Macquarie securities during designated trading windows and are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each NED's current holding of Macquarie ordinary shares is included on page 88 of the Directors' Report.

	MGL FEES		MBL FEES		TOTAL FEES	
MGL and MBL Annual Director Fees (from 1 July 2018)	Chairman[31] $A	Member $A	Chairman $A	Member $A	Chairman $A	Member $A
Board	623,000	182,000	267,000	78,000	890,000	260,000
Board Risk Committee (BRiC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Audit Committee (BAC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Remuneration Committee (BRC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Governance and Compliance Committee (BGCC)	75,000	35,000	n/a	n/a	75,000	35,000
Board Nominating Committee (BNC)	n/a	8,000	n/a	n/a	n/a	8,000

(30) Macquarie has five standing Board Committees. The BAC and BRiC are joint committees of Macquarie and Macquarie Bank. The BGCC and BRC assist both Boards. The BNC assists the Macquarie Board.
(31) The Chairman of the Board does not receive Board Committee membership fees.

Appendix 1: Key Management Personnel (KMP) for FY2021

All the individuals listed below have been determined to be KMP for FY2021 for the purposes of the Act and as defined by AASB 124 *Related Party Disclosures*. KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of MGL and its controlled entities (together making Executive KMP) and NEDs. MGL's NEDs are required by the Act to be included as KMP for the purposes of disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management.

Name	Position	Term as KMP for FY2021
Executive Voting Director		
S.R. Wikramanayake	CEO	Full year
Non-Executive Directors		
G.R. Banks AO	Independent Director	Ceased to be a member of the Board on 30 July 2020
J.R. Broadbent AC	Independent Director	Full year
G.M. Cairns	Independent Director	Full year(32)
P.M. Coffey	Independent Director	Full year
M.J. Coleman	Independent Director	Full year
D.J. Grady AO	Independent Director	Full year
M.J. Hawker AM	Independent Director	Ceased to be a member of the Board on 30 September 2020
R.J. McGrath	Independent Director	Appointed to the Board effective from 20 January 2021
M. Roche	Independent Director	Appointed to the Board effective from 20 January 2021
G.R. Stevens AC	Independent Director	Full year
N.M. Wakefield Evans	Independent Director	Full year
P.H. Warne	Independent Chairman	Full year
Executives(33)		
A.H. Harvey	CFO, Head of FMG	Full year
F. Herold	Head of Macquarie Capital Principal Finance	Full year(34)
N. O'Kane	Head of CGM	Full year
M.J. Reemst	Macquarie Bank CEO	Full year(35)
M.J. Silverton	Co-Head of Macquarie Capital	Full year
N. Sorbara	COO, Head of COG	Full year
M.S.W. Stanley	Head of MAM	Full year(36)
P.C. Upfold	CRO, Head of RMG	Full year
G.C. Ward	Deputy Managing Director and Head of BFS	Full year
D. Wong	Co-Head of Macquarie Capital	Full year

(32) Will cease to be a member of the MGL and MBL Boards effective 7 May 2021.
(33) Except where otherwise indicated, all of the Executives as well as the CEO were members of the Executive Committee as at 7 May 2021.
(34) Will cease to be a member of the Executive Committee effective 7 May 2021.
(35) Will cease to be a member of the Executive Committee effective 1 July 2021.
(36) Ceased to be a member of the Executive Committee effective 1 April 2021.

Appendix 2: Executive KMP remuneration disclosure (in accordance with Australian Accounting Standards)

			SHORT-TERM EMPLOYEE BENEFITS		
Name	Position	Year	Salary (including superannuation) $A	Performance related remuneration $A	Total short-term employee benefits $A
Executive Voting Director					
S.R. Wikramanayake[37]	Macquarie Group CEO	**2021**	**820,244**	**3,970,000**	**4,790,244**
		2020	795,740	–	795,740
Other Executives					
A.H. Harvey	CFO, Head of FMG	**2021**	**771,319**	**2,440,000**	**3,211,319**
		2020	770,885	–	770,885
F. Herold	Head of Macquarie Capital Principal Finance	**2021**	**723,138**	**1,176,000**	**1,899,138**
		2020	722,704	–	722,704
N. O'Kane[38]	Head of CGM	**2021**	**816,732**	**10,198,800**	**11,015,532**
		2020	928,940	–	928,940
M.J. Reemst[39]	Macquarie Bank CEO	**2021**	**771,319**	**1,508,000**	**2,279,319**
		2020	770,885	–	770,885
N. Sorbara	COO, Head of COG	**2021**	**771,319**	**2,440,000**	**3,211,319**
		2020	770,885	–	770,885
M.S.W. Stanley[40]	Head of MAM	**2021**	**710,608**	**7,548,692**	**8,259,300**
		2020	727,571	–	727,571
P.C. Upfold	CRO, Head of RMG	**2021**	**771,319**	**2,440,000**	**3,211,319**
		2020	770,885	–	770,885
G.C. Ward	Deputy Managing Director, Head of BFS	**2021**	**771,319**	**3,220,000**	**3,991,319**
		2020	770,885	–	770,885
Total Remuneration – Comparable Executive KMP[41]		**2021**	**6,927,317**	**34,941,492**	**41,868,809**
		2020	7,029,380	–	7,029,380
New and former Executives					
T.C. Bishop[42]	Former Head of Macquarie Capital	**2021**	**–**	**–**	**–**
		2020	120,451	–	120,451
G.A. Farrell[43]	Former Co-Head of CAF	**2021**	**–**	**–**	**–**
		2020	301,127	–	301,127
M.J. Silverton[44]	Co-Head of Macquarie Capital	**2021**	**724,676**	**1,650,000**	**2,374,676**
		2020	631,620	–	631,620
D. Wong[44]	Co-Head of Macquarie Capital	**2021**	**4,675,126**	**471,476**	**5,146,602**
		2020	4,015,344	–	4,015,344
Total Remuneration – Executive KMP (including new and former executives)		**2021**	**12,327,119**	**37,062,968**	**49,390,087**
		2020	12,097,922	–	12,097,922

(37) Ms Wikramanayake's fixed remuneration increased effective 1 July 2019, to reflect her role as CEO.
(38) The movement in Mr O'Kane's fixed remuneration reflects an adjustment to his salary on relocation to Australia in line with other Executive KMP based in Australia.
(39) Ms Reemst will retire as a member of the Executive Committee effective 1 July 2021. Her FY2021 statutory remuneration of $A7.9 million includes $A5.5 million related to the amortisation of her equity awards. $A3.1 million of this amount represents accelerated amortisation of equity awards. As a result of her intention to retire, the amortisation of her equity awards is being recognised over an accelerated vesting period resulting in further accounting amortisation.
(40) Mr Stanley ceased to be a member of the Executive Committee on 31 March 2021 but remains currently employed with Macquarie. Outstanding amortisation related to his equity awards, totalling $A12.4 million, will continue to be recognised over the vesting period of the awards.

LONG-TERM EMPLOYEE BENEFITS			SHARE BASED PAYMENTS				
Restricted profit share $A	Earnings on prior years restricted profit share $A	Total long-term employee benefits $A	Equity awards $A	PSUs $A	Total share-based payments $A	Total Remuneration $A	Percentage of remuneration that consists of PSUs %
1,588,000	(714,053)	873,947	9,465,702	837,375	10,303,077	15,967,268	5%
1,733,611	3,137,174	4,870,785	6,914,590	2,324,622	9,239,212	14,905,737	16%
366,000	(20,627)	345,373	3,427,751	1,011,290	4,439,041	7,995,733	13%
568,397	197,664	766,061	2,993,294	1,038,757	4,032,051	5,568,997	19%
274,400	(49,417)	224,983	2,970,895	1,350,459	4,321,354	6,445,475	21%
640,063	367,374	1,007,437	3,204,969	944,580	4,149,549	5,879,690	16%
1,529,820	(34,776)	1,495,044	11,044,704	1,281,745	12,326,449	24,837,025	5%
1,854,676	563,959	2,418,635	9,083,550	1,472,193	10,555,743	13,903,318	11%
226,200	(15,730)	210,470	4,874,638	584,132	5,458,770	7,948,559	7%
397,878	143,063	540,941	2,151,589	1,362,480	3,514,069	4,825,895	28%
366,000	(21,996)	344,004	3,404,577	297,673	3,702,250	7,257,573	4%
568,397	200,360	768,757	2,930,069	1,362,480	4,292,549	5,832,191	23%
5,661,519	(1,136,619)	4,524,900	4,668,814	987,166	5,655,980	18,440,180	5%
9,062,973	4,689,260	13,752,233	3,773,978	944,580	4,718,558	19,198,362	5%
366,000	(26,558)	339,442	3,573,595	297,673	3,871,268	7,422,029	4%
568,397	218,930	787,327	3,191,917	1,362,480	4,554,397	6,112,609	22%
966,000	(53,515)	912,485	4,309,959	303,992	4,613,951	9,517,755	3%
1,610,459	542,368	2,152,827	3,826,136	1,915,716	5,741,852	8,665,564	22%
11,343,939	(2,073,291)	9,270,648	47,740,635	6,951,505	54,692,140	105,831,597	
17,004,851	10,060,152	27,065,003	38,070,092	12,727,888	50,797,980	84,892,363	
–	–	–	–	–	–	–	–
–	43,654	43,654	2,381,319	418,209	2,799,528	2,963,633	14%
–	–	–	–	–	–	–	–
–	110,440	110,440	4,085,998	1,327,779	5,413,777	5,825,344	23%
385,000	(30,291)	354,709	3,700,814	840,647	4,541,461	7,270,846	12%
379,160	184,925	564,085	2,836,605	368,209	3,204,814	4,400,519	8%
220,022	(123,691)	96,331	3,171,256	840,647	4,011,903	9,254,836	9%
248,077	466,908	714,985	2,565,992	371,998	2,937,990	7,668,319	5%
11,948,961	(2,227,273)	9,721,688	54,612,705	8,632,799	63,245,504	122,357,279	
17,632,088	10,866,079	28,498,167	49,940,006	15,214,083	65,154,089	105,750,178	

(41) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2021 and FY2020.
(42) Mr Bishop ceased to be a member of the Executive Committee on 31 May 2019 and retired on 15 July 2019.
(43) Mr Farrell ceased to be a member of the Executive Committee and retired on 1 September 2019.
(44) Mr Silverton and Mr Wong were appointed to the Executive Committee effective from 1 June 2019. Mr Wong's fixed remuneration includes a role-based allowance which is a component of fixed remuneration which may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals.

Additional information regarding the statutory remuneration disclosures set out in this Appendix

The remuneration disclosures set out in this Appendix have been prepared in accordance with Australian Accounting Standards and differ to the additional disclosures set out on pages 120 to 128.

Under the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2021 and 31 March 2020 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

The following information provides more detail regarding some of the column headings in this Appendix:

(1) *Short-term employee benefits:*

(a) *Salary*: includes salary, superannuation, any accrual for long service leave and other benefits

(b) *Performance-related remuneration*: this represents the cash portion of each person's profit share allocation for the reporting period as an Executive KMP.

(2) *Long-term employee benefits:*

(a) *Restricted profit share*: this represents the amount of retained profit share awarded for the current period that is deferred to future periods and held as a notional investment in Macquarie-managed fund equity (DPS Plan)

(b) *Earnings on prior years restricted profit share*: Profit share amounts retained under the DPS Plan are notionally invested in Macquarie-managed funds, providing Executive Directors with an economic exposure to the underlying investments. Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. The notional returns are calculated based on Total Shareholder Return. Where these amounts are positive, they may be paid to Executive Directors and are included in these remuneration disclosures as part of 'Earnings on prior years restricted profit share'. If there is a notional loss, this loss will be offset against any future notional income until the loss is completely offset and is reported as a negative amount in the same column. These earnings reflect the investment performance of the assets in which prior years retained amounts have been notionally invested. Their inclusion in the individual remuneration disclosures on the previous pages may, therefore, cause distortions when year-on-year remuneration trends are examined. They do not reflect remuneration review decisions made about the individual's current year performance.

(3) *Share-based payments:*

(a) *Equity awards including shares*: This represents the current year expense for retained profit share that is invested in Macquarie ordinary shares under the MEREP as described on pages 106 to 107. This is recognised as an expense over the respective vesting periods, or service period if shorter, as described on pages 106 to 107 and includes amounts relating to prior years equity awards that have been previously disclosed. Equity awards in respect of FY2021 performance will be granted during FY2022; however, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2020. The expense is estimated using the price of MGL ordinary shares as at 31 March 2021 and the number of equity awards expected to vest. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of the accounting fair value for each equity award when granted and will use this validation for recognising the expense over the remaining vesting period

(b) *PSUs*: This represents the current year expense for PSUs that is recognised over the vesting period as described on pages 108 to 109. This includes amounts relating to prior years PSU awards. PSU awards in respect of FY2021 will be granted during FY2022; however, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2020. The expense is estimated using the price of MGL ordinary shares as at 31 March 2021 and the number of PSUs expected to vest. The estimate also incorporates an interest rate to maturity of 0.44% per annum, expected vesting date of 1 July 2025, and a dividend yield of 3.96% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of the accounting fair value for each PSU when granted and will use this validation for recognising the expense over the remaining vesting period. Performance hurdles attached to the PSUs allow for PSUs to become exercisable upon vesting only when the relevant performance hurdles are met. The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

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Appendix 3: Non-Executive Director remuneration

The remuneration arrangements for all the persons listed below as NEDs are described on page 132 of the Remuneration Report. The fees shown include fees paid as members of both the MGL and MBL Boards.

	Year	Fees $A	Other benefits[45] $A	Total Compensation $A
G.R. Banks[46]	**2021**	**124,333**	**–**	**124,333**
	2020	373,000	–	373,000
J.R. Broadbent[47]	**2021**	**361,333**	**–**	**361,333**
	2020	317,583	–	317,583
G.M. Cairns	**2021**	**338,000**	**–**	**338,000**
	2020	338,000	–	338,000
P.M. Coffey[48]	**2021**	**373,000**	**–**	**373,000**
	2020	332,167	–	332,167
M.J. Coleman	**2021**	**413,000**	**10,000**	**423,000**
	2020	413,000	12,000	425,000
D.J. Grady	**2021**	**373,000**	**–**	**373,000**
	2020	373,000	–	373,000
M.J. Hawker[49]	**2021**	**203,167**	**–**	**203,167**
	2020	436,333	–	436,333
R.J. McGrath[50]	**2021**	**66,108**	**–**	**66,108**
	2020	–	–	–
M. Roche[51]	**2021**	**66,108**	**–**	**66,108**
	2020	–	–	–
G.R. Stevens[52]	**2021**	**378,000**	**–**	**378,000**
	2020	341,667	–	341,667
N.M. Wakefield Evans	**2021**	**413,000**	**–**	**413,000**
	2020	413,000	–	413,000
P.H. Warne	**2021**	**890,000**	**–**	**890,000**
	2020	890,000	–	890,000
Total Remuneration – Non-Executive KMP	**2021**	**3,999,049**	**10,000**	**4,009,049**
	2020	4,227,750	12,000	4,239,750

(45) Other benefits for NEDs include due diligence fees paid to Mr Coleman of $A10,000 in FY2021 (FY2020: $A12,000).
(46) Mr Banks ceased to be a member of the MGL and MBL Boards on 30 July 2020.
(47) Ms Broadbent became a member of the Board Remuneration Committee, effective from 1 November 2019 and was appointed as Chair of the Board Remuneration Committee, effective from 1 September 2020.
(48) Mr Coffey became a member of the Board Remuneration Committee and a member of the Board Audit Committee, effective from 1 November 2019.
(49) Mr Hawker was Chairman of the Board Risk Committee until 1 November 2019 and served as a member of the Board Risk Committee until 30 September 2020. He was Chairman of the Board Remuneration Committee until 1 September 2020 and served as a member of the Board Remuneration Committee until 30 September 2020. Mr Hawker ceased to be a member of the MGL and MBL Boards on 30 September 2020.
(50) Ms McGrath was appointed to the MGL and MBL Boards as an Independent Voting Director, effective from 20 January 2021. She became a member of the Board Risk Committee and a member of the Board Nominating Committee effective from 20 January 2021. Ms McGrath became a member of the Board Governance and Compliance Committee effective from 1 February 2021.
(51) Mr Roche was appointed to the MGL and MBL Boards as an Independent Voting Director, effective from 20 January 2021. He became a member of the Board Risk Committee and a member of the Board Nominating Committee effective from 20 January 2021. He became a member of the Board Remuneration Committee effective from 1 February 2021.
(52) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019. Mr Stevens was appointed as Chairman of the Board Risk Committee, effective from 1 November 2019.

Appendix 4: Share disclosures

Shareholdings of KMP and their related parties

The following table sets out details of MGL ordinary shares held during the financial year by KMP including their related parties.

Name and position	Number of shares held at 1 April 2020(53)	Shares received on withdrawal from the MEREP(54)	Other changes(55)	Number of shares held as at 31 March 2021(56),(57)
Executive Directors				
S.R. Wikramanayake	883,625	62,168	–	**945,793**
Non-Executive Directors				
G.R. Banks	6,541	–	–	**6,541**
J.R. Broadbent	6,250	–	10,000	**16,250**
G.M. Cairns	12,734	–	–	**12,734**
P.M. Coffey	8,739	–	–	**8,739**
M.J. Coleman(58)	8,861	323	–	**9,184**
D.J. Grady	9,768	–	252	**10,020**
M.J. Hawker	7,469	–	(9)	**7,460**
R.J. McGrath	349	–	–	**349**
M. Roche	2,000	–	–	**2,000**
G.R. Stevens	3,900	–	909	**4,809**
N.M. Wakefield Evans	6,929	–	182	**7,111**
P.H. Warne	14,933	–	–	**14,933**
Executives				
A.H. Harvey	44,834	24,787	(44,934)	**24,687**
F. Herold	–	30,018	(30,018)	**–**
N. O'Kane	4,840	72,683	(72,683)	**4,840**
M.J. Reemst	68,828	29,513	(17,010)	**81,331**
M.J. Silverton	19,802	31,459	(31,459)	**19,802**
N. Sorbara	9,384	32,113	(32,113)	**9,384**
M.S.W. Stanley	45,361	20,052	(9,632)	**55,781**
P.C. Upfold	75,151	40,229	(40,229)	**75,151**
G.C. Ward	–	48,160	(48,160)	**–**
D. Wong	168	–	(168)	**–**

(53) Or date of appointment if later.
(54) For RSUs, this represents RSUs vesting during the current financial year. For DSUs, this represents vested DSUs exercised during the current financial year.
(55) Includes on market acquisitions and disposals.
(56) Or date of ceasing to be a KMP if earlier.
(57) In addition to the MGL ordinary shares set out in this table, Executive KMP also hold an interest in MGL ordinary shares through the MEREP, as set out in the table in page 143.
(58) A related party of Mr Coleman holds RSU awards, some of which vested during the year. Mr Coleman does not influence any investment decisions over, nor does he benefit from, this holding.

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RSU and DSU awards to KMP

The following table sets out details of the RSU and DSU awards associated with Macquarie equity granted to Executive KMP. Grants made to Executive KMP prior to their joining the Executive Committee are not disclosed. PSUs are disclosed in a separate table.

A significant portion of an Executive KMP's retained profit share is invested in Macquarie equity, delivered as RSUs or DSUs. RSUs are units comprising a beneficial interest in Macquarie ordinary shares held in a trust for the staff member. DSUs are structured to provide the holder with the same benefits and risks of RSU holders. For further details, refer to Note 32 *Employee equity participation* to the financial statements in the Financial Report. There have been no alterations to the terms or conditions of the grants set out below since the grant date. RSU and DSU awards are subject to forfeiture as set out on page 110. The value of the grants at vesting could vary significantly as they are dependent on the MGL ordinary share price at the time of vesting. Retention rates, the vesting profiles and service and performance criteria for the current year are set out on pages 106 to 107. RSUs and DSUs are granted in the financial year following the year of Macquarie's performance to which the grant relates. For example, RSUs and DSUs granted to KMP in June 2020 relate to their performance in FY2020. All awards that were eligible to vest, vested during the year. No awards were forfeited during the year.

Name and position	RSU/DSU awards granted to date[59],[60]	Grant date	Number vested/exercised during the year[61]
Executive Director			
S.R. Wikramanayake	**139,266**	04 Aug 20	–
	65,003	15 Aug 19	–
	49,162	21 Jun 18	–
	49,025	22 Jun 17	9,805
	54,473	17 Jun 16	10,894
	42,608	06 Jul 15	8,521
	47,019	25 Jun 14	8,034
	35,957	25 Jun 13	7,193
Executives			
A.H. Harvey	**45,661**	09 Jun 20	–
	25,945	24 Jun 19	–
	27,009	21 Jun 18	–
F. Herold[62]	**51,418**	09 Jun 20	–
	33,150	24 Jun 19	6,443
N. O'Kane	**148,994**	09 Jun 20	–
	91,106	24 Jun 19	–
	61,902	21 Jun 18	–
M.J. Reemst	**31,962**	09 Jun 20	–
	18,831	24 Jun 19	–
	18,906	21 Jun 18	–
	21,229	22 Jun 17	4,245
	18,787	17 Jun 16	3,757
	14,810	06 Jul 15	2,962
M.J. Silverton	**37,375**	09 Jun 20	–
	37,138	24 Jun 19	–

(59) Or during the period that the Executive was a KMP.
(60) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. For the RSUs in the above table granted prior to that date, the number of RSUs has been adjusted for the impact of the consolidation.
(61) For RSUs, this represents RSUs vesting during the current financial year in respect of grants made while a KMP. For DSUs, this represents vested DSUs exercised during the current financial year in respect of grants made while a KMP. Grants made prior to Executives becoming a KMP are not disclosed.
(62) On 24 June 2019, Mr Herold was granted 6,443 Material Risk Taker Available awards which vested on the acquisition date of the awards and were subject to a 12-month non-disposal period. These awards represented 50% of FY2019 available profit share, as discussed on page 106, footnote 4, and are a requirement under the UK regulations (the UK Remuneration Code implementing CRD IV). During the current year, Mr Herold exercised these awards.

Name and position	RSU/DSU awards granted to date[63],[64]	Grant date	Number vested/exercised during the year[65]
N. Sorbara	**45,661**	09 Jun 20	–
	25,945	24 Jun 19	–
	27,009	21 Jun 18	–
	26,967	22 Jun 17	5,393
	25,049	17 Jun 16	5,009
	18,512	06 Jul 15	3,702
	17,105	25 Jun 14	3,039
	12,327	25 Jun 13	2,467
M.S.W. Stanley	**78,735**	09 Jun 20	–
	41,140	24 Jun 19	–
P.C. Upfold	**45,661**	09 Jun 20	–
	25,945	24 Jun 19	–
	27,009	21 Jun 18	–
	32,131	22 Jun 17	6,426
	33,399	17 Jun 16	6,679
	26,446	06 Jul 15	5,289
G.C. Ward	**57,499**	09 Jun 20	–
	31,618	24 Jun 19	–
	33,211	21 Jun 18	–
	40,801	22 Jun 17	8,160
	32,445	17 Jun 16	6,489
	26,446	06 Jul 15	5,289
	31,696	25 Jun 14	4,847
	31,229	25 Jun 13	6,245
D. Wong[66]	**51,976**	09 Jun 20	–
	42,258	24 Jun 19	–

(63) Or during the period that the Executive was a KMP.
(64) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. For the RSUs in the above table granted prior to that date, the number of RSUs has been adjusted for the impact of the consolidation.
(65) For RSUs, this represents RSUs vesting during the current financial year in respect of grants made while a KMP. For DSUs, this represents vested DSUs exercised during the current financial year in respect of grants made while a KMP. Grants made prior to Executives becoming a KMP are not disclosed.
(66) On 24 June 2019, Mr Wong was granted 13,247 Material Risk Taker Available awards which vested on the acquisition date of the awards and were subject to a 12 month non disposal period. These awards represented 50% of FY2019 available profit share, as discussed on page 106, footnote 4, and are a requirement under the UK regulations (the UK Remuneration Code implementing CRD IV). These awards have not been exercised.

PSU awards to KMP

The following table sets out details of PSU awards granted to Executive KMP.

	GRANTED TO DATE				FORFEITED/LAPSED DURING THE FINANCIAL YEAR[67]			EXERCISED DURING THE FINANCIAL YEAR[67]	
Name and position	Number	Date	Accounting Fair Value $A[68]	Face Value $A[69]	Number	%	Value $A[70]	Number exercised	Value $A[71]
Executive Directors									
S.R. Wikramanayake	**32,575**	**04 Aug 20**	**3,423,307**	**4,079,693**	**–**	**–**	**–**	**–**	**–**
	34,198	15 Aug 19	3,385,267	4,035,364	–	–	–	–	–
	23,561	15 Aug 18	2,466,207	2,956,906	–	–	–	–	–
	33,552	15 Aug 17	2,449,276	2,944,524	8,388	25	994,817	8,388	1,046,948
	37,332	15 Aug 16	2,462,541	2,917,122	9,333	25	1,106,894	9,333	1,164,618
Executives									
A.H. Harvey	**16,223**	**04 Aug 20**	**1,704,875**	**2,031,769**	**–**	**–**	**–**	**–**	**–**
	17,032	15 Aug 19	1,686,001	2,009,776	–	–	–	–	–
	16,624	15 Aug 18	1,740,089	2,086,312	–	–	–	–	–
F. Herold	**22,994**	**04 Aug 20**	**2,416,439**	**2,879,769**	**–**	**–**	**–**	**–**	**–**
	24,139	15 Aug 19	2,389,524	2,848,402	–	–	–	–	–
N. O'Kane	**22,994**	**04 Aug 20**	**2,416,439**	**2,879,769**	**–**	**–**	**–**	**–**	**–**
	24,139	15 Aug 19	2,389,524	2,848,402	–	–	–	–	–
	23,561	15 Aug 18	2,466,207	2,956,906	–	–	–	–	–
M.J. Reemst	**16,223**	**04 Aug 20**	**1,704,875**	**2,031,769**	**–**	**–**	**–**	**–**	**–**
	17,032	15 Aug 19	1,686,001	2,009,776	–	–	–	–	–
	16,624	15 Aug 18	1,740,089	2,086,312	–	–	–	–	–
	23,673	15 Aug 17	1,728,115	2,077,542	5,918	25	701,875	5,918	738,507
	26,339	15 Aug 16	1,737,407	2,058,129	6,585	25	780,981	6,585	822,335
M.J. Silverton	**22,994**	**04 Aug 20**	**2,416,439**	**2,879,769**	**–**	**–**	**–**	**–**	**–**
N. Sorbara	**16,223**	**04 Aug 20**	**1,704,875**	**2,031,769**	**–**	**–**	**–**	**–**	**–**
	17,032	15 Aug 19	1,686,001	2,009,776	–	–	–	–	–
	16,624	15 Aug 18	1,740,089	2,086,312	–	–	–	–	–
	23,673	15 Aug 17	1,728,115	2,077,542	5,918	25	701,875	5,918	733,891
	26,339	15 Aug 16	1,737,407	2,058,129	6,585	25	780,981	6,585	816,606

(67) Or during the period for which the Executive was a KMP if shorter.
(68) Based on the accounting fair value on the date of grant.
(69) Face value is calculated by multiplying the number of PSUs granted by the closing market price of Macquarie ordinary shares on the date of grant.
(70) Based on closing share price at 30 June 2020, being the day the PSUs were forfeited.
(71) Based on the share price at the time of exercise.

Remuneration Report

Continued

Name and position	GRANTED TO DATE Number	Date	Accounting Fair Value $A[73]	Face Value $A[74]	FORFEITED/LAPSED DURING THE FINANCIAL YEAR[72] Number	%	Value $A[75]	EXERCISED DURING THE FINANCIAL YEAR[72] Number exercised	Value $A[76]
M.S.W. Stanley	**22,994**	**04 Aug 20**	**2,416,439**	**2,879,769**	**–**	**–**	**–**	**–**	**–**
	24,139	15 Aug 19	2,389,524	2,848,402	–	–	–	–	–
P.C. Upfold	**16,223**	**04 Aug 20**	**1,704,875**	**2,031,769**	**–**	**–**	**–**	**–**	**–**
	17,032	15 Aug 19	1,686,001	2,009,776	–	–	–	–	–
	16,624	15 Aug 18	1,740,089	2,086,312	–	–	–	–	–
	23,673	15 Aug 17	1,728,115	2,077,542	5,918	25	701,875	5,918	739,001
	26,339	15 Aug 16	1,737,407	2,058,129	6,585	25	780,981	6,585	822,268
G.C. Ward	**22,994**	**04 Aug 20**	**2,416,439**	**2,879,769**	**–**	**–**	**–**	**–**	**–**
	24,139	15 Aug 19	2,389,524	2,848,402	–	–	–	–	–
	23,561	15 Aug 18	2,466,207	2,956,906	–	–	–	–	–
	32,434	15 Aug 17	2,367,663	2,846,408	8,109	25	961,727	8,108	1,004,668
	36,087	15 Aug 16	2,380,417	2,819,838	9,022	25	1,070,009	9,022	1,118,505
D. Wong	**22,994**	**04 Aug 20**	**2,416,439**	**2,879,769**	–	–	–	–	–

As required under the Act, Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to KMP. The accounting fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period. The 2020 PSU allocation has been determined based on a fair valuation of a PSU as at 4 August 2020. The accounting fair value of $A105.09 at this date has been estimated using a discounted cash flow method.

The following key assumptions were adopted in determining the value of the PSUs granted:

Interest rate to maturity	0.2023% per annum
Expected vesting dates	1 July 2024
Dividend yield	4.33% per annum

PSUs have a nil exercise price. PSUs awarded prior to FY2020 vest on a pro-rata basis as set out on page 108, footnote 9. For the 2020 grant, it will vest on 1 July 2024. The PSUs expire on 4 August 2029.

(72) Or during the period for which the Executive was a KMP if shorter.
(73) Based on the accounting fair value on the date of grant.
(74) Face value is calculated by multiplying the number of PSUs granted by the closing market price of Macquarie ordinary shares on the date of grant.
(75) Based on closing share price at 30 June 2020, being the day the PSUs were forfeited.
(76) Based on the share price at the time of exercise.

MEREP awards of KMP and their related parties

The following table sets out details of the MEREP RSU, DSU and PSU awards held during the year for the KMP including their related parties.

Further details in relation to the MEREP RSU, DSU and PSU awards are disclosed in Note 32 *Employee equity participation* to the financial statements in the Financial Report

Name and position	Type of Award	Number of Awards held at 1 April 2020(77)	Awards granted during the financial year(78)	Awards vested/ exercised during the financial year(79),(80)	Awards forfeited or not able to be exercised during the financial year(81)	Number of Awards held as at 31 March 2021(82)
Executive Director						
S.R. Wikramanayake	RSU	255,598	139,266	(44,447)	–	**350,417**
	PSU	109,977	32,575	(17,721)	(17,721)	**107,110**
Executives						
A.H. Harvey	RSU	128,750	45,661	(24,787)	–	**149,624**
	PSU	33,656	16,223	–	–	**49,879**
F. Herold(83)	DSU	96,834	–	(30,018)	–	**66,816**
	RSU	11,512	51,418	–	–	**62,930**
	PSU	24,139	22,994	–	–	**47,133**
N. O'Kane	RSU	368,819	148,994	(72,683)	–	**445,130**
	PSU	47,700	22,994	–	–	**70,694**
M.J. Reemst	RSU	91,832	31,962	(17,010)	–	**106,784**
	PSU	70,499	16,223	(12,503)	(12,503)	**61,716**
M.J. Silverton	RSU	133,819	37,375	(31,459)	–	**139,735**
	PSU	–	22,994	–	–	**22,994**
N. Sorbara	RSU	119,617	45,661	(19,610)	–	**145,668**
	PSU	70,499	16,223	(12,503)	(12,503)	**61,716**
M.S.W. Stanley(83)	DSU	177,780	78,735	(20,052)	–	**236,463**
	PSU	24,139	22,994	–	–	**47,133**
P.C. Upfold	RSU	141,721	45,661	(27,726)	–	**159,656**
	PSU	70,499	16,223	(12,503)	(12,503)	**61,716**
G.C. Ward	RSU	163,396	57,499	(31,030)	–	**189,865**
	PSU	98,178	22,994	(17,130)	(17,131)	**86,911**
D. Wong(83)	DSU	172,865	51,976	–	–	**224,841**
	PSU	–	22,994	–	–	**22,994**

(77) Or date of appointment if later.
(78) RSU and DSU awards are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs and DSUs disclosed as granted above relate to FY2020. PSUs are granted annually in August. RSU and PSU awards granted to the CEO, who is an Executive Voting Director, were approved by shareholders at the 2020 AGM as required under ASX Listing Rule 10.14.
(79) For RSUs, this represents vested RSUs transferred to the KMP's shareholding and includes RSUs vesting during the current year in respect of all grants, including those made prior to Executives becoming a KMP. For DSUs, this represents vested DSUs exercised during the current period in respect of all grants, including those made prior to Executives becoming a KMP.
(80) There were no PSUs that vested during the year that were not exercised.
(81) Or during the period for which the Executive was a KMP if shorter.
(82) Or date of ceasing to be a KMP if earlier.
(83) DSUs are granted in jurisdictions where legal or tax rules make the grant of RSUs impractical. DSUs are structured to provide the holder with the same benefits and risks of RSU holders.

Appendix 5: Loan disclosures

Loans to Key Management Personnel and their related parties

Details of loans provided by Macquarie to KMP and their related parties are disclosed in the following table.

Name and Position	Balance as at 1 April 2020[84] $A'000	Interest charged $A'000	Write downs $A'000	Balance as at 31 March 2021[85] $A'000	Highest balance during the year $A'000
Non-Executive Directors					
D.J. Grady (related party)	479	18	0	468	479
M.J. Hawker (related party)	560	12	0	504	659
N.M. Wakefield Evans (related party)	4,960	77	0	4,800	4,960
P.H. Warne (related party)	470	10	0	456	470
Executives					
A.H. Harvey	5,000	15	0	5,000	5,000
M.J. Silverton	224	7	0	209	224
M.S.W. Stanley[86]	118	1	0	0	110
Aggregate of KMP and related party loans[87]	11,811	144	0	11,437	11,952

This Remuneration Report has been prepared in accordance with the Act. The Remuneration Report contains disclosures as required by AASB 124 *Related Party Disclosures* as permitted by Corporations Regulation 2M.3.03 *Prescribed details*.

Throughout this Remuneration Report financial information for Macquarie relating to the years ended 31 March 2012 through to 31 March 2021 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IABS).

(84) Or date of appointment if later.
(85) Or date of ceasing to be a KMP if earlier.
(86) Mr Stanley's loan is denominated in EUR. The opening balance of €66,000 has been converted to AUD at the spot rate on 1 April 2020. The highest balance of €67,000 has been converted at the spot rate on 25 August 2020. There has been an exchange rate movement of approximately $A8,000 during the year.
(87) In addition to the loans disclosed above, a related party of a KMP had a car loan provided by Macquarie for a period of the year which is included in relevant totals. All loans provided by Macquarie to KMP are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

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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

	Notes	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 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

	Notes	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 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.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

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		COMPANY	
	2021 $m	2020 $m	**2021 $m**	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 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 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).

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 4				
Income tax expense				
(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 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 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 2021	CONSOLIDATED 2020	COMPANY 2021	COMPANY 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		COMPANY	
	2021 $m	2020 $m	2021 $m	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

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

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

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 14
Interests in associates and joint ventures

	CONSOLIDATED 2021 $m	CONSOLIDATED 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.

	COMPANY 2021 $m	COMPANY 2020 $m
Note 17		
Investments in subsidiaries		
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		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m

Note 19
Trading liabilities

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

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

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

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

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
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.

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*.

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.

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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		COMPANY	
	2021 $m	2020 $m	**2021 $m**	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 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 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	CONSOLIDATED 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*):

	2021 $'000	2020 $'000
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).

Notes to the financial statements

For the financial year ended 31 March 2021 continued

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				
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	–

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).

Notes to the financial statements

For the financial year ended 31 March 2021 continued

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

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

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.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 37
Measurement categories of financial instruments continued

	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 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	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	RANGE OF INPUTS 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.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

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	CONSOLIDATED 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, Zającczkowo 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, Zaj̨aczkowo Windfarm Sp. z o.o. Poland Bidco 1 Ltd, Kisielice Wind Limited, Eolica Kisielice spólka z ograniczona odpowiedzialnoscia Management Kisielice Spółka Z Ograniczon̨a Odpowiedzialnośćij̨a.

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.

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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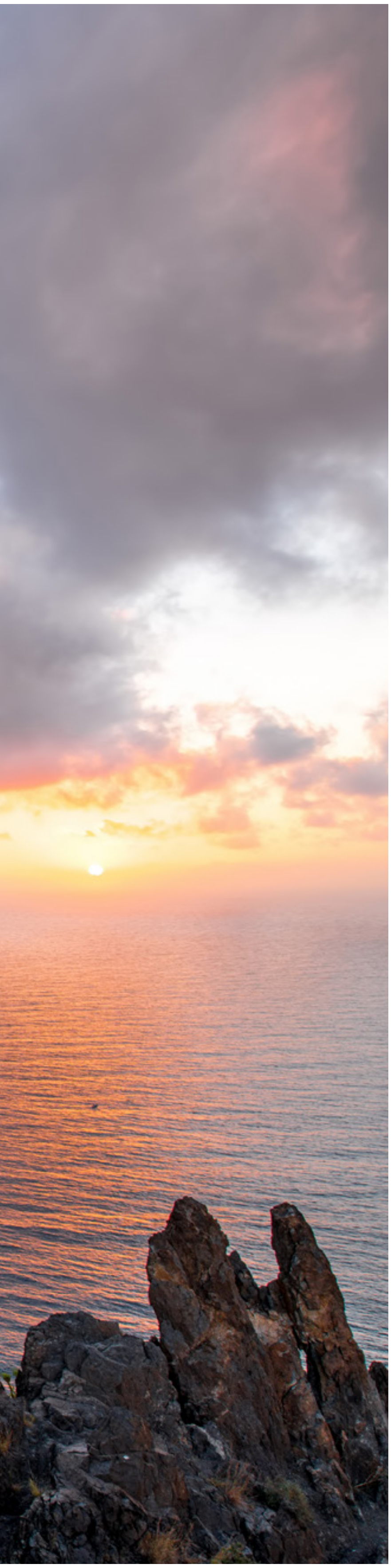

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Further information

Oxy Low Carbon Ventures, Americas

Macquarie and Oxy Low Carbon Ventures deliver the world's first shipment of carbon neutral oil.

Additional investor information

Shareholder calendar

2021

Date	Event
7 May	Full-year result announcement
17 May	Ex-dividend date for final ordinary dividend
18 May	Record date for final ordinary dividend
10 June	Payment date for MCN4 distribution
15 June	Payment date for MCN3 distribution
18 June	Payment date for MCN5 distribution
2 July	Payment date for final ordinary dividend
29 July	AGM
10 September	Payment date for MCN4 distribution
15 September	Payment date for MCN3 distribution
20 September	Payment date for MCN5 distribution
30 September	Financial half-year end
29 October(1)	Half-year result announcement
8 November(1)	Ex-dividend date for interim ordinary dividend
9 November(1)	Record date for interim ordinary dividend
10 December	Payment date for MCN4 distribution
14 December(1)	Payment date for interim ordinary dividend
15 December	Payment date for MCN3 distribution
20 December	Payment date for MCN5 distribution

2022

Date	Event
10 March	Payment date for MCN4 distribution
15 March	Payment date for MCN3 distribution
18 March	Payment date for MCN5 distribution
31 March	Financial year end

2021 Annual General Meeting

Macquarie Group Limited's 2021 AGM will be held at 10:30 am on Thursday, 29 July 2021. Details of the meeting will be sent to shareholders separately.

The closing date for the receipt of nominations from persons wishing to be considered for election as a director is Wednesday, 26 May 2021.

Dividend details

Macquarie generally pays a dividend on its fully paid ordinary shares twice a year following the interim and final results announcements. The proposed dates for the 2021 calendar year are in the calendar above.

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie ordinary shares rather than receiving dividends in cash.

Stock exchange listing

Equity or hybrid security	Stock exchange listing	Trading code
Macquarie Group Limited Securities		
Macquarie ordinary shares	ASX	MQG
Macquarie Group Capital Notes 3 (MCN3)	ASX	MQGPC
Macquarie Group Capital Notes 4 (MCN4)	ASX	MQGPD
Macquarie Group Capital Notes 5 (MCN5)	ASX	MQGPE
Macquarie Bank Limited Convertible Securities		
Macquarie Bank Capital Notes 2 (BCN2)	ASX	MBLPC
Macquarie Additional Capital Securities (MACS)	SGX	6F6B

Macquarie also has debt securities quoted on the London Stock Exchange, SGX and Taipei Exchange.

Equity and hybrid securities

The following information is correct as at 31 March 2021.

Macquarie Group Limited securities

Fully paid ordinary shares

Voting rights

At meetings of members or classes of members, each member holding ordinary shares may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands, every person present who is a member or a proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

(i) one vote for each fully paid share held by the member, and

(ii) that proportion of a vote for any partly paid ordinary share calculated in accordance with clause 8.18 of the MGL Constitution.

A copy of the Constitution is available at **macquarie.com/corporate-governance**

(1) These dates are subject to change.

20 largest holders

Registered holder	Number of ordinary shares held	% of ordinary shares
HSBC Custody Nominees (Australia) Limited	98,516,318	27.23
J P Morgan Nominees Australia Pty Limited	66,411,695	18.35
Citicorp Nominees Pty Limited	21,345,810	5.90
Bond Street Custodians Limited <MEREP Trustee – RSU Allocated>	11,795,482	3.26
National Nominees Limited	11,653,097	3.22
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	11,601,794	3.21
BNP Paribas Noms Pty Ltd <DRP>	5,098,457	1.41
Bond Street Custodians Limited <MEREP Trustee – Unallocated>	3,492,050	0.97
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,907,587	0.80
Argo Investments Limited	2,458,151	0.68
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	2,447,938	0.68
Bond Street Custodians Limited <Solium Nominees Aus Pty Ltd>	2,025,999	0.56
Australian Foundation Investment Company Limited	1,786,967	0.49
Milton Corporation Limited	1,625,990	0.45
Nicholas Moore	1,534,227	0.42
Netwealth Investments Limited <Wrap Services A/C>	1,413,290	0.39
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	1,107,755	0.31
BNP Paribas Nominees Pty Ltd Six Sis Ltd <DRP A/C>	964,022	0.27
Aljebra Pty Ltd <Aljebra Investment A/C>	670,591	0.19
Mr Nicholas Moore	575,565	0.16
Total	249,432,785	68.94

Substantial shareholders

The following holders are registered by MGL as a substantial shareholder, having declared a relevant interest in accordance with the Act, in the voting shares below:

Registered holder	Number of ordinary shares held
Macquarie Group Limited	22,142,064
BlackRock Group	18,119,950
Vanguard	17,726,376

Spread of shareholdings

Range	Number of shareholders	Number of shares	% of shares
1–1,000	173,755	40,169,084	11.10
1,001–5,000	20,028	37,927,086	10.48
5,001–10,000	1,323	8,931,552	2.47
10,001–100,000	622	15,396,626	4.26
100,001 shares and over	59	259,397,029	71.69
Total	195,787	361,821,377	100.00

There were 2,104 shareholders (representing 3,240 shares) who held less than a marketable parcel.

Additional investor information

Continued

Macquarie Group Capital Notes 3 (MCN3)

Voting rights

MCN3 may convert into a variable number of MGL ordinary shares on 15 December 2027 or at other times, subject to various conditions. Holders of MCN3 have no voting rights in respect of meetings of members of MGL prior to conversion.

20 largest holders

Registered holder	Number of MCN3 held	% of MCN3
HSBC Custody Nominees (Australia) Limited	696,887	6.97
Australian Executor Trustees Limited <IPS Super A/C>	205,158	2.05
National Nominees Limited	186,219	1.86
Netwealth Investments Limited <Wrap Services A/C>	145,073	1.45
J P Morgan Nominees Australia Pty Limited	123,981	1.24
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd	116,393	1.16
Diocese Development Fund – Catholic Diocese of Paramatta	115,000	1.15
Citicorp Nominees Pty Limited	89,192	0.89
HSBC Custody Nominees (Australia) Limited – A/C 2	72,769	0.73
Navigator Australia Ltd <MLC Investment Sett A/C>	61,257	0.61
Longhurst Management Services Pty Ltd	60,000	0.60
BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP>	54,830	0.55
Mutual Trust Pty Ltd	54,390	0.54
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	49,232	0.49
Dimbulu Pty Ltd	40,000	0.40
Invia Custodian Pty Limited <Income Pool A/C>	38,495	0.38
Australian Executor Trustees Limited <No 1 Account>	35,674	0.36
Australian Executor Trustees Limited <IPS IDPS A/C>	35,578	0.36
Netwealth Investments Limited <Super Services A/C>	33,885	0.34
Federation University Australia	30,158	0.30
Total	2,244,171	22.44

Spread of noteholdings

Range	Number of MCN3 holders	Number of MCN3	% of MCN3
1–1,000	11,571	3,921,738	39.22
1,001–5,000	1,257	2,589,298	25.89
5,001–10,000	88	665,280	6.65
10,001–100,000	48	1,234,973	12.35
100,001 notes and over	7	1,588,711	15.89
Total	12,971	10,000,000	100.00

There were 3 noteholders (representing 8 notes) who held less than a marketable parcel.

Macquarie Group Capital Notes 4 (MCN4)

Voting rights

MCN4 may convert into a variable number of MGL ordinary shares on 10 September 2029 or at other times, subject to various conditions. Holders of MCN4 have no voting rights in respect of meetings of members of MGL prior to conversion.

20 largest holders

Registered holder	Number of MCN4 held	% of MCN4
HSBC Custody Nominees (Australia) Limited	608,952	6.73
J P Morgan Nominees Australia Pty Limited	180,845	2.00
Netwealth Investments Limited <Wrap Services A/C>	169,313	1.87
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	102,132	1.13
Dimbulu Pty Ltd	100,000	1.10
National Nominees Limited	86,319	0.95
John E Gill Trading Pty Ltd	65,000	0.72
Citicorp Nominees Pty Limited	57,195	0.63
BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP>	57,089	0.63
HSBC Custody Nominees (Australia) Limited – A/C 2	47,205	0.52
Navigator Australia Ltd <MLC Investment Sett A/C>	39,955	0.44
Invia Custodian Pty Limited <Income Pool A/C>	38,950	0.43
Mutual Trust Pty Ltd	34,862	0.39
JDB Services Pty Ltd <RAC & JD Brice Invest A/C>	32,967	0.36
Nora Goodridge Investments Pty Limited	30,000	0.33
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	29,649	0.33
Qushan Pty Ltd <The Qu Family A/C>	28,000	0.31
Australian Executor Trustees Limited <IPS Super A/C>	27,818	0.31
Pendant Realty Pty Ltd	25,000	0.28
Sneath & King Pty Ltd <Sneath & King S/F A/C>	25,000	0.28
Total	1,786,251	19.73

Spread of noteholdings

Range	Number of MCN4 holders	Number of MCN4	% of MCN4
1–1,000	10,827	3,707,694	40.95
1,001–5,000	1,163	2,413,400	26.65
5,001–10,000	92	677,634	7.48
10,001–100,000	48	1,194,940	13.20
100,001 notes and over	4	1,061,242	11.72
Total	12,134	9,054,910	100.00

There were 8 noteholders (representing 30 notes) who held less than a marketable parcel.

Additional investor information

Continued

Macquarie Group Capital Notes 5 (MCN5)

Voting rights

MCN5 may convert into a variable number of MGL ordinary shares on 18 September 2030 or at other times, subject to various conditions. Holders of MCN5 have no voting rights in respect of meetings of members of MGL prior to conversion.

20 largest holders

Registered holder	Number of MCN5 held	% of MCN5
HSBC Custody Nominees (Australia) Limited	580,687	8.00
J P Morgan Nominees Australia Pty Limited	278,191	3.83
BNP Paribas Noms Pty LTD <DRP>	203,607	2.81
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	153,365	2.11
National Nominees Limited	130,800	1.80
Netwealth Investments Limited <Wrap Services A/C>	124,717	1.72
Diocese Development Fund – Catholic Diocese of Paramatta	73,254	1.01
Dimbulu Pty Ltd	55,000	0.76
BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP>	47,276	0.65
UBS Nominees Pty Ltd	41,404	0.57
Mutual Trust Pty Ltd	40,160	0.55
Australian Executor Trustees Limited <IPS Super A/C>	36,095	0.50
UURO Pty Ltd	32,500	0.45
Mr Hui Lin & Mrs Ting Wei	32,400	0.45
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	28,486	0.39
Federation University Australia	27,370	0.38
Netwealth Investments Limited <Super Services A/C>	24,657	0.34
Citicorp Nominees Pty Limited	24,483	0.34
Certane Ct Pty Ltd <Charitable Foundation>	24,259	0.33
MF Investments No1 Pty Ltd	24,170	0.33
Total	1,982,881	27.33

Spread of noteholdings

Range	Number of MCN5 holders	Number of MCN5	% of MCN5
1–1,000	9,021	2,673,967	36.86
1,001–5,000	855	1,841,018	25.38
5,001–10,000	51	385,450	5.31
10,001–100,000	39	882,598	12.17
100,001 notes and over	6	1,471,367	20.28
Total	9,972	7,254,400	100.00

There was 1 noteholder (representing 1 note) who held less than a marketable parcel.

Macquarie Bank Limited convertible securities

Macquarie Additional Capital Securities (MACS)

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

As at 31 March 2021, the $US750 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

Macquarie Bank Capital Notes 2 (BCN2)

BCN2 are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible into MGL ordinary shares in certain limited circumstances. BCN2 holders have no voting rights in respect of meetings of members of MBL, and have no voting rights in respect of meetings of members of MGL prior to conversion. As at 31 March 2021, there were 6,410,270 BCN2 on issue held by 11,362 registered holders.

Unlisted securities

The following information is correct as at 31 March 2021.

Exchangeable shares

60,587 exchangeable shares on issue are held by 10 former employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of an MGL ordinary share. They reached their 10-year anniversary in November 2017, upon which the scheme conditions remain in place, however a redemption date may be set at any time. They carry no voting rights in respect of meetings of members of MGL prior to exchange.

38,082 exchangeable shares on issue are held by 8 former employees of Tristone Capital Global Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of an MGL ordinary share. They reached their 10-year anniversary in August 2019, upon which the scheme conditions remain in place, however a redemption date can be set at any time. They carry no voting rights in respect of meetings of members of MGL prior to exchange.

MEREP

3,512,371 DSUs are held by 557 participants and 872,276 PSUs are held by 18 participants in the MEREP.

American Depository Receipt (ADR) program

Macquarie ADRs are negotiable certificates issued by BNY Mellon, with one ADR representing one MGL ordinary share. They are traded under the symbol MQBKY and are classified as Level 1. They are not listed on any exchange and are only traded over-the-counter via brokers.

BNY Mellon:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516 USA

Toll-free telephone number for domestic callers:
1 888 BNY ADRs

Telephone number for international callers:
+1 201 680 6825

Further information can be found at:
adrbnymellon.com/resources/individual-investors

Enquiries

Investors who wish to enquire about any administrative matter relating to their MGL shareholding, MCN3, MCN4, MCN5 or BCN2 security holding are invited to contact the Share Registry at:

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000 Australia

Telephone:	1300 554 096 (within Australia) +61 1300 554 096 (international)
Email:	**macquarie@linkmarketservices.com.au**
Website:	**linkmarketservices.com.au**

All other enquiries relating to an MGL share investment can be directed to:

Investor relations

Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

Telephone:	+61 2 8232 3333
Email:	**macquarie.shareholders@macquarie.com**
Website:	**macquarie.com/investors**

Macquarie's Company Secretary, Dennis Leong, may be contacted on the above number and email address.

Website

The Interim and Annual Reports, presentations, dividend information and other investor information is available **macquarie.com/investors**

Ten year history

The financial information for the full years ended 31 March 2012-2021 is based on the reported results using the Australian Accounting Standards that were effective and adopted by the Consolidated Entity at the reporting dates, which also comply with IFRS as issued by the IASB. Reporting periods have been restated only to the extent as required by the accounting standards. The financial reporting periods may hence not be fully comparable with one another as a result of changes in accounting standards' requirements.

Financial years ended 31 March	**2021**	2020	2019	2018	2017	2016	2015	2014	2013	2012
Income statement ($ million)										
Net operating income	**12,774**	12,325	12,754	10,920	10,364	10,158	9,262	8,132	6,657	6,963
Total operating expenses	**(8,867)**	(8,871)	(8,887)	(7,456)	(7,260)	(7,143)	(6,740)	(6,026)	(5,252)	(5,914)
Operating profit before income tax	**3,907**	3,454	3,867	3,464	3,104	3,015	2,522	2,106	1,405	1,049
Income tax expense	**(899)**	(728)	(879)	(883)	(868)	(927)	(899)	(827)	(533)	(287)
Profit after income tax	**3,008**	2,726	2,988	2,581	2,236	2,088	1,623	1,279	872	762
Macquarie income securities distributions	**-**	(12)	(15)	(14)	(15)	(16)	(18)	(18)	(21)	(26)
Macquarie income preferred securities distributions	**-**	–	–	–	–	(1)	(5)	(4)	(4)	(4)
Loss/(profit) attributable to other non-controlling interests	**7**	17	9	(10)	(4)	(8)	4	8	4	(2)
Profit attributable to ordinary equity holders	**3,015**	2,731	2,982	2,557	2,217	2,063	1,604	1,265	851	730
Statement of financial position ($ million)										
Total assets	**245,653**	255,802	197,757	191,325	182,877	196,755	187,976	153,904	144,748	153,626
Total liabilities	**223,302**	234,018	179,393	173,145	165,607	181,091	173,580	141,990	132,793	141,894
Net assets	**22,351**	21,784	18,364	18,180	17,270	15,664	14,396	11,914	11,955	11,732
Loan assets	**105,026**	94,117	77,811	73,509	69,288	72,393	67,663	49,965	47,449	41,930
Shareholders' equity(1)	**22,048**	21,063	17,761	16,357	15,563	15,116	13,909	11,418	11,403	11,203
Impaired loan assets (net of provisions)(2)	**1,544**	1,528	1,674	351	547	418	594	365	368	357
Share Information										
Dividends per share (cents)										
Interim	**135**	250	215	205	190	160	130	100	75	65
Final	**335**	180	360	320	280	240	200	160	125	75
Special(3)	**-**	–	–	–	–	–	–	116	–	–
Total	**470**	430	575	525	470	400	330	376	200	140
Basic EPS (cents per share)	**842.9**	791.0	883.3	758.2	657.6	619.2	502.3	383.6	251.2	210.1
Share price at reporting date ($)	**152.83**	85.75	129.42	102.90	90.20	66.09	76.67	57.93	37.15	29.08
Ordinary shares (million shares)	**361.8**	354.4	340.4	340.4	340.4	340.3	333.5	321.1	339.5	348.6
Market capitalisation at reporting date (fully paid ordinary shares) ($ million)	**55,297**	30,388	44,052	35,024	30,700	22,491	25,569	18,601	12,613	10,137
Net tangible assets per ordinary share ($)	**53.91**	50.21	46.21	45.12	42.74	41.23	38.19	31.71	29.94	28.12
Ratios (%)										
Return on average ordinary shareholders' funds	**14.3**	14.5	18.0	16.8	15.2	14.7	14.0	11.1	7.8	6.8
Ordinary dividend payout ratio	**56.4**	55.8	65.6	69.8	72.0	65.7	67.6	66.8	79.0	66.4
Expense/income ratio	**69.4**	72.0	69.7	68.3	70.1	70.3	72.8	74.1	78.9	84.9
Net loan losses as % of loan assets (excluding securitisation SPVs)	**0.4**	0.8	0.4	0.3	0.5	1.0	0.7	0.4	0.4	0.5
Assets under management ($b)	**563.5**	598.9	551.3	496.7	481.7	478.6	486.3	426.9	347.4	326.9
Staff numbers	**16,459**	15,849	15,602	14,810	13,925	14,660	14,373	14,180	13,905	14,519

(1) Represents capital and reserves attributable to ordinary equity holders of Macquarie Group Limited.
(2) Represents net exposure in credit impaired loan assets as per Australian Accounting Standards since 31 March 2019. For financial years ended 31 March 2012–2018, represents net exposure in impaired loan assets disclosed as per Australian regulatory authority requirements.
(3) The special dividend for the year ended 31 March 2014 represented the special dividend component of the in-specie distribution of Sydney Airport stapled securities in January 2014. The total distribution including return of capital was 373 cents per share.

Glossary

Defined term	Definition
A	
AASB	Australian Accounting Standards Board
ABCN	Australian Business and Community Network
the Act	*Corporations Act 2001* (Cth)
ADI	Authorised deposit-taking institution
ADR	American Depository Receipt
AEC	Australian Electoral Commission
AGM	Annual General Meeting
ALA	alternative liquid assets
All Ords Index	All Ordinaries Accumulation Index
ALCO	Asset and Liability Committee
AMA	Advanced Measurement Approach
Annual Report	MGL's 2021 Annual Report
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ARR	alternative reference rates
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
AUM	assets under management
B	
BAC	Board Audit Committee
Bank Group	MBL and its subsidiaries
Banking Group	the Banking Group comprises of BFS, certain activities of CGM and certain activities of the Equities business in Macquarie Capital
BBSW	Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc.
BCBS	Basel Committee on Banking Supervision
BCN2	Macquarie Bank Capital Notes 2
BEAR	Banking Executive Accountability Regime
BFS	Banking and Financial Services Group
BGCC	Board Governance and Compliance Committee
BNC	Board Nominating Committee
the Board, Macquarie Board	the Board of Voting Directors of Macquarie Group Limited
BRC	Board Remuneration Committee
BRiC	Board Risk Committee
Businesses	the areas within the Operating Groups carrying out various operations
C	
CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
CCB	capital conservation buffer
CCyB	countercyclical capital buffer
CDS	credit default swaps
CEFC	Clean Energy Finance Corporation
Central Service Groups	the Central Service Groups consist of RMG, LGL, FMG and COG
CEO	Managing Director and Chief Executive Officer
CGM	Commodities and Global Markets Group
CFO	Chief Financial Officer
CLF	committed liquidity facility
COG	Corporate Operations Group
the Company, MGL	Macquarie Group Limited ABN 94 122 169 279
Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full year in both FY2020 and FY2019
Conduct Risk	the risk of behaviour, action or omission by individuals employed by, or on behalf of, Macquarie or taken collectively in representing Macquarie that may have a negative outcome for our clients, counterparties, the communities and markets in which we operate, our staff, or Macquarie.
The Consolidated Entity, Macquarie	MGL and its subsidiaries
Corporate	Head office and Central Service Groups including Group Treasury
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CVA	credit valuation adjustments
D	
Deed	Deed of Access, Indemnity, Insurance and Disclosure
Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
DFVTPL	designated as FVTPL
Directors	the Voting Directors of MGL (unless the context indicates otherwise)
Divisions	named divisions within Macquarie
DPS Plan	Directors' Profit Share Plan
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustment

Glossary

Continued

E	
EAD	exposure at default
ECAM	Economic Capital Adequacy Model
ECL	expected credit loss
EIR	effective interest rate
EMEA	Europe, Middle East and Africa
EPS	earnings per share
ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
ESR	Environmental and Social Risk
EU	the European Union
Executive Director	Macquarie's most senior level of employee including Group Heads, Division Heads and senior business unit managers
Executive Key Management Personnel (Executive KMP)	members of the Executive Committee of MGL
Executive Voting Director	an executive Board member
F	
FCTR	foreign currency translation reserve
FIRB	Foundation Internal Ratings Based Approach
FLI	forward looking information
FMG	Financial Management Group
the Foundation	Macquarie Group Foundation
FRN	floating rate notes
FVA	funding valuation adjustment
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
G	
GDP	gross domestic product
GIG	Green Investment Group
GRI	Global Reporting Initiative
Group Head	the Head of a particular Operating or Central Service Group
GST	Goods and Service Tax
H–J	
HFT	held for trading
HQLA	high quality liquid assets
IASB	International Accounting Standards Board
IBOR	Interbank-offered rates
IFRS	International Financial Reporting Standards
IRRBB	interest rate risk in the banking book

K	
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of MGL
L	
LGBTQ	Lesbian Gay Bisexual Transgender and Queer
LGL	Legal and Governance Group
LMI	lenders mortgage insurance
Loss Given Default (LGD) Estimate	Macquarie's estimated economic loss should a counterparty default occur
LTIFR	Lost Time Injury Frequency Rate
LVR	loan to value ratio
M	
M&A	mergers and acquisitions
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board, the Board	the Board of Voting Directors of MGL
Macquarie, the Consolidated Entity	MGL and its subsidiaries
MAF	Macquarie AirFinance
MFHPL	Macquarie Financial Holdings Pty Limited
MGL ordinary shares, MQG	MGL fully paid ordinary shares
MGSA	Macquarie Group Services Australia Pty Limited
Malus	the ability of the Board or its delegate to reduce or eliminate unvested profit share for certain senior employees in certain circumstances
MAM	Macquarie Asset Management Group
Management	Division Directors and Executive Directors who have management or risk responsibility for a Division or business area
MCN2	Macquarie Group Capital Notes 2
MCN3	Macquarie Group Capital Notes 3
MCN4	Macquarie Group Capital Notes 4
MCN5	Macquarie Group Capital Notes 5
MEREP	Macquarie Group Employee Retained Equity Plan
MGL, the Company	Macquarie Group Limited ABN 94 122 162 279
MIDIS	Macquarie Infrastructure Debt Investment Solutions
MIM	Macquarie Investment Management
MIRA	Macquarie Infrastructure and Real Assets
MIS	Macquarie Income Securities
MSCI	Morgan Stanley Capital International
MSIS	Macquarie Specialised Investment Solutions

N	
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NIFO	net investment in foreign operations
NOHC	Non-Operating Holding Company
Non-Bank Group	MGL, MFHPL and its subsidiaries, MAMHPL and its subsidiaries
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital (excluding certain activities of the Equities business), MAM and some business activities of CGM that use certain offshore regulated entities
NPAT	net profit after tax
O	
OCI	other comprehensive income
OECD	Organisation for Economic Cooperation and Development
Operating Groups	the Operating Groups consist of MAM, BFS, CGM and MacCap
Operationally Segregated Subsidiaries, OSS	the operations of some controlled subsidiaries are "segregated" from the rest of Macquarie, and a tailored Risk Management Framework may be adopted
OTC	over-the-counter
P	
PD	probability of default
POCI	purchased or originated credit-impaired
PPAs	power purchase agreements
PRI	UN Principles for Responsible Investment
Probability of Default (PD) Estimate	an estimate of the likelihood of the rated entity defaulting on its financial obligations to Macquarie over the period of a year and should look 'through the cycle' – i.e. represent the probability of default in natural economic conditions
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
Q-R	
RAS	Risk Appetite Statement
RBA	Reserve Bank of Australia
RMG	Risk Management Group
ROE	return on ordinary equity
ROU	right-of-use
RSU	Restricted Share Unit issued under the MEREP

S	
S&P	Standard & Poor's
Senior Executive	Macquarie's combined Division Director and Executive Director population
Scope 1	emissions released to the atmosphere as a direct result of an activity, or series of activities controlled by an organisation. For example, emissions from natural gas and diesel usage in corporate offices.
Scope 2	indirect emissions released to the atmosphere associated with the generation of purchased or acquired electricity, heating and cooling consumed by the organisation.
Scope 3	indirect emissions, other than Scope 2 emissions, that are a consequence of the activities of the company but occur from sources not owned or controlled by the company. For example, emissions associated with employee travel.
Senior Management	members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation
SEs	structured entities
SFE	Sydney Futures Exchange
SGX	Singapore Stock Exchange
SICR	significant increase in credit risk
SPEs	special purpose entities
SPPI	solely payment of principal and interest
T	
TCFD	Financial Stability Board's Task Force on Climate-related Financial Disclosures
tCO2-e (Carbon dioxide equivalent in tonnes)	metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency)
TJ	terajoules
TSR	total shareholder return
U-V	
the UK Code	the UK Remuneration Code
VaR	Value-at-Risk
Voting Directors	the Voting Directors of MGL as defined in the MGL Constitution
W-Z	
WHS	Work Health and Safety
WHSE	work health, safety and environmental
XVA	derivative valuation adjustments, including CVA, DVA and FVA

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