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Macquarie International Finance Limited and its subsidiaries

31 March 2022

Consolidated Annual Report
ACN 092 985 263

MACQUARIE

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The Financial Report was authorised for issue by the Board of Directors on 28 July 2022.

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

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Directors' Report

For the financial year ended 31 March 2022

In accordance with a resolution of the Directors of Macquarie International Finance Limited (the Company or MIFL), the Directors submit herewith the financial report of the Company and its subsidiaries (the Consolidated Entity) for the year ended 31 March 2022.

Directors

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

Name of Director	Appointed on	Resigned on
B.N. Milson	19 February 2014	-
D. Saad	8 April 2021	-
R. Dixon	26 October 2021	-
S. Green	19 February 2014	8 April 2021
A.J. Lewis	19 February 2014	22 October 2021

Principal activities

The principal activity of the Company is to act as the holding company for the majority of the Non-Extended Licensed Entities ("Non-ELE Group"[1]) within the Macquarie Bank Group ("the Bank Group"[1]),relating to Commodities & Global Markets (CGM), Banking & Financial Services (BFS) businesses and to act as the rated entity which provides guarantees to external counterparties for the obligations of the Non-ELE Group within the Bank Group.

During the year, Macquarie Bank Limited ("MBL") acquired 100% shareholding of the Company from erstwhile parent Macquarie Finance Holdings Limited ("MFHL") as a result of a Bank Group restructure ("the restructure"). Subsequently, the Consolidated Entity acquired the majority [2] of the Non-ELE Group from MBL and other Bank Group holding companies.

Result

The consolidated profit after income tax attributable to the ordinary equity holder for the financial year ended 31 March 2022 was $98 million (2021: $4 million).

Dividends and distributions

No dividend was paid or declared by the Company during the financial year.

State of affairs

During February 2022, consequent to a Bank Group Restructure, the Company became a direct subsidiary of MBL wherein MBL acquired 100% shareholding of the Company from erstwhile parent Macquarie Finance Holdings Limited ("MFHL").

During February 2022, the Consolidated Entity acquired the majority of the Non-ELE Group from MBL and other Bank Group holding companies for a consideration of $4,175 million through business combination under common control and $211m through asset transfer. The Company borrowed $2,799 million from a syndicate of third-party banks under a senior unsecured bank facility and issued 1,709,312,579 ordinary shares for a value of $1,709 million to its parent MBL to fund this acquisition.

[1] Macquarie Bank Group ("Bank Group") refers to Macquarie Bank Limited ("MBL") and its subsidiaries. The Bank Group further comprises of the Extended Licensed Entities ("ELE") Group and the Non-ELE Group (comprising of the Consolidated Entity and other non ELEs retained by MBL being their parent entity due to regulatory reasons or which are intended for dissolution).
[2] Certain Non-ELEs identified to be acquired by the Company as a part of the restructure will be transferred during the next financial year.

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The difference between the total consideration and net assets acquired through business combination under common control has been recognised as restructure reserves.

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

Review of operations

The profit attributable to the ordinary equity holder of the Consolidated Entity for the year ended 31 March 2022 was $98 million (2021: $4 million).

Net operating income for the year ended 31 March 2022 was $460 million (2021: $5 million), which primarily represents net trading income & fee and commission income.

Total operating expenses for the year ended 31 March 2022 were $330 million (2021: $Nil), which primarily comprise of fee and commission expenses, employment expenses and other expenses.

Events subsequent to balance sheet date

At the date of this report, the Directors are not aware of any matter or circumstances that have significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2022.

Likely developments, business strategies and prospects

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

Directors' indemnification

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

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

The indemnity does not apply to the extent that:

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

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

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

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

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

Environmental regulations

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

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Act, is set out on page 4 of this report.

Rounding of amounts

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

Company disclosures

All amounts relate to the Consolidated Entity unless otherwise stated.

DocuSigned by:
Dan Saad
A672835EC422494...

Daniel Saad

Director

Sydney

28 July 2022

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie International Finance Limited for the year ended 31 March 2022, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Macquarie International Finance Limited and the entities it controlled during the period.

Ryan McMahon
Partner
PricewaterhouseCoopers

Sydney
28 July 2022

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

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Consolidated income statement

For the financial year ended 31 March 2022

	Notes	2022 $m	2021 $m
Net trading income/(loss)	2	269	-
Fee and commission income	2	136	-
Net interest income	2	18	5
Interest and similar income	2		
Effective interest rate method	2	47	6
Interest and similar expense	2	(29)	(1)
Net operating lease income	2	12	-
Net credit impairment reversal	2	11	-
Net other impairment charges	2	(6)	-
Net other operating income	2	20	-
Net operating income		**460**	5
Employment expenses	2	(156)	-
Brokerage, commission and fee expenses	2	(25)	-
Non-salary technology expenses	2	(5)	-
Other operating expenses	2	(144)	-
Total operating expenses		**(330)**	-
Operating profit before income tax		130	5
Income tax (expense)/benefit	3	(32)	(1)
Profit after income tax		**98**	4
Profit attributable to the ordinary equity holder of Macquarie International Finance Limited		**98**	4

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

Consolidated statement of comprehensive income

For the financial year ended 31 March 2022

	Notes	2022 $m	2021 $m
Profit after income tax		98	4
Other comprehensive (loss)/income:[1]			
Movements in items that may be subsequently reclassified to the income statement:			
Foreign exchange movement on translation and hedge accounting of foreign operations	22	(6)	-
Total other comprehensive loss		(6)	-
Total comprehensive income		92	4
Total comprehensive income attributable to the ordinary equity holder of Macquarie International Finance Limited		92	4

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

[1] All items are net of tax, where applicable

Consolidated statement of financial position

As at 31 March 2022

	Notes	**2022 $m**	2021 $m
Assets			
Cash and bank balances		1,594	–
Cash collateralised lending and reverse repurchase agreements		441	–
Trading assets	5	1,585	–
Margin money and settlement assets	6	1,801	–
Derivative assets	7	2,159	–
Other financial assets	8	968	–
Other assets	9	201	–
Loan assets	10	459	–
Due from related body corporate entities	24	11,176	408
Interests in associates and joint ventures	12	283	–
Property, plant and equipment and right-of-use assets	13	397	–
Deferred tax assets	14	146	–
Total assets		21,210	408
Liabilities			
Margin money and settlement liabilities	15	2,197	–
Derivative liabilities	16	2,763	–
Other financial liabilities	18	371	–
Other liabilities	19	632	–
Borrowings	17	2,902	–
Due to related body corporate entities	24	10,794	5
Deferred tax liabilities	14	8	–
Total liabilities		19,667	5
Net assets		1,543	403
Equity			
Contributed equity	21	2,203	400
Reserves	22	(766)	–
Retained earnings	22	101	3
Total capital and reserves attributable to ordinary equity holder of Macquarie International Finance Limited		1,538	403
Non-controlling interests	22	5	–
Total equity		1,543	403

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

Consolidated statement of changes in equity

For the financial year ended 31 March 2022

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance as at 1 Apr 2020		400	–	7	407	–	407
Profit after income tax		–	–	3	3	–	3
Total comprehensive income		–	–	3	3	–	3
Transactions with equity holder in their capacity as ordinary equity holder:							
Dividends paid	4	–	–	(7)	(7)	–	(7)
Balance as at 31 Mar 2021		400	–	3	403	–	403
Profit after income tax		-	-	98	98	-	98
Other comprehensive income, net of tax		-	(6)	-	(6)	-	(6)
Total comprehensive (loss)/income		-	(6)	98	92	-	92
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	21	1,709	-	-	1,709	-	1,709
Restructure reserve attributable to group restructure	35	-	(760)	-	(760)	5	(755)
Other equity movements:							
Contribution from ultimate parent entity[1] under the Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses	21	66	-	-	66	-	66
Contribution from the ultimate parent entity in relation to share based payments[1]	21	28	-	-	28	-	28
		1,803	(760)	-	1,043	5	1,048
Balance as at 31 Mar 2022		2,203	(766)	101	1,538	5	1,543

[1] Macquarie Group Limited ("MGL") is the ultimate parent of the Company and its subsidiaries.

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Consolidated statement of cash flows

For the financial year ended 31 March 2022

	Notes	2022 $m	2021 $m
Cash flows generated from/ (utilised in) operating activities			
Interest income and expense:			
Received		46	6
Paid		(29)	(1)
Fee, commission, other income and charges:			
Received		125	-
Operating lease income received		28	-
Operating expenses paid:			
Employment expenses		(58)	-
Other operating expenses including brokerage, commission, and fee		(16)	-
Income tax paid		26	(1)
Changes in operating assets:			
Loan assets and balances with related body corporate entities		2,952	66
Movement in other financial assets and other non-financial assets		265	-
Assets under operating lease		(23)	-
Trading, trading-related and collateralised lending balances (net of liabilities)		(1,631)	17
Changes in operating liabilities:			
Borrowings and other funding		2,799	-
Movement in other financial liabilities and other non financial liabilities		262	(74)
Net cash flows generated from operating activities	23	4,746	13
Cash flows generated from/ (utilised in) investing activities			
Subsidiaries and businesses:			
Payments for the acquisition or additional capital contribution, net of cash acquired		(1,720)	-
Associates and joint ventures:			
Payment for acquisitions		(242)	-
Property, plant and equipment, right-of-use assets,:			
Payments for acquisitions		(21)	-
Net cash flows generated from/ (utilised in) investing activities		(1,983)	-
Cash flows generated from/(utilised in) financing activities			
Issue of ordinary shares		1,709	-
Dividends and distributions paid		-	(14)
Net cash flows generated from/ (utilised in) financing activities		1,709	(14)
Net increase/(decrease) in cash and cash equivalents		4,472	(1)
Cash and cash equivalents at the beginning of the financial year	23	-	1
Effect of exchange rate movements on cash and cash equivalents		(42)	-
Cash and cash equivalents at the end of the financial year	23	4,430	-

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

Notes to the financial statements

For the financial year ended 31 March 2022

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).

To ensure compliance with the revised Prudential Standard APS 222 Associations with Related Entities (“APS 222”), appropriate management, board and regulatory approvals were obtained between December 2021 and February 2022 for the restructure of the Bank Group’s Non-Extended Licensed Entities (Non-ELEs) within the Macquarie Bank Group (the Restructure). To affect the Restructure, in February 2022 a series of transactions were executed such that the Company became a direct subsidiary of MBL and in turn became the holding company for substantially all of the Non-ELEs for total consideration of $4,175 million. This represents completion of substantially all of the Restructure, with a small number of remaining entities to be transferred to the Company or its subsidiaries in future reporting periods.

The acquisitions have been accounted for as a business combination under common control in accordance with the policy in Note 38(ii) *Business Combinations*. Further detail of the transaction, net assets acquired, consideration paid, and the resultant accounting treatment is explained in Note 35 *Acquisitions and disposals of subsidiaries and businesses*.

Up to the financial year 2021, the Company has prepared its Financial Report on a standalone basis. Pursuant to the Restructure, this Financial Report is prepared on a consolidated basis for all years presented. There is no restatement to the comparative amounts presented for financial year 2021 as a result of this as MIFL had no subsidiary up to 31 March 2021.

MIFL is a for-profit Company for the purposes of preparing this Financial Report. MIFL prepares Consolidated financial statements and has provided separate specific disclosures for Company only financial information under Note 36 *Company financial information*.

The principal accounting policies adopted in the preparation of this Financial Report are set out in Note 38 *Significant accounting policies*. These policies have been consistently applied to all the financial years presented and are applicable to both the Consolidated Entity (MIFL and its subsidiaries) as well as to the Company (MIFL), 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) and financial instruments that have been designated as FVTPL (DFVTPL)
- commodity inventories that are measured at fair value less costs to sell in accordance with the broker-trader exemption.

Note 1
Basis of preparation continued

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 38(vi))
- assessing whether the cash flows generated by a financial asset constitute solely payments of principal and interest (SPPI) may require the application of judgement (Note 38(vi))
- 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 38(xviii) and Note 11)
- the timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including the reversal thereof (Note 38(i), Note 38(xviii) and Note 12)
- fair value of assets and liabilities including the determination of non-recurring fair values for financial instruments (Note 38(vi), Note 38(ix) and Note 31)
- 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 38(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 38(v), Note 3 and Note 14)
- recognition and measurement of provisions related to actual and potential claims, determination of contingent liabilities (Note 38(iv), Note 38(xvii) and Note 27)

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

Management believes that the estimates used in preparing this Financial Report are reasonable. Actual results in the future may differ from those reported and it is therefore reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from management's assumptions and estimates could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

iv. Coronavirus (COVID-19) impact

The Novel Coronavirus 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.

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Note 1
Basis of preparation continued

iv. Coronavirus (COVID-19) impact continued

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 2021 financial statements. Those processes identified that expected credit losses (Note 11) 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.

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

The amendments made to existing standards that were mandatorily effective or have been early adopted for the annual reporting period beginning on 1 April 2021 did not result in a material impact on this Financial Report. There were no new Australian accounting standards that were mandatorily effective or have been early adopted for the Financial Report.

vi. Other developments

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

IBOR interest rate benchmarks, that are used in a wide variety of financial instruments such as derivatives and lending arrangements, are undergoing reforms. Examples of IBOR include 'LIBOR' (the London Inter-bank Offered Rate), 'EURIBOR' (the Euro Inter-bank Offered Rate), 'CDOR' (the Canadian dollar offered rate) and 'BBSW' (the Australian Bank Bill Swap Rate). 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). In Canada, the Canadian Alternate Reference Rate Working Group (CARR) has recommended to Refinitiv Benchmark Services UK Limited (Refinitiv), the administrator of CDOR, to cease publication of all of CDOR's remaining tenors after 30 June 2024. Refinitiv is yet to make a decision on the future of CDOR but expects to make an announcement in Q2 2022.

After 31 December 2021, 24 of 35 LIBOR currency-tenor pairings were discontinued, 6 LIBOR switched to a modified calculation methodology (known as 'synthetic' LIBORs) and 5 USD LIBOR tenors are expected to cease publication after 30 June 2023. Aside from the ongoing exceptional use of USD LIBOR, the use of LIBOR in new contracts ceased by the end of 2021.

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 needs 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.

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.

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Note 1
Basis of preparation continued

Impacts on financial reporting continued

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 were mandatorily effective for annual reporting periods beginning on or after 1 January 2021, also require additional quantitative and qualitative disclosures. The Consolidated Entity adopted these amendments for the year ended 31 March 2021.

Note 2
Operating profit before income tax

	2022 $m	2021 $m
Net trading income/(expense)[1]		
Commodities[2,3]	293	-
Credit, interest rate and foreign exchange products	(42)	-
Equities	18	-
Net trading income	269	-
Fee and commission income		
Service fees from related body corporate entities	63	-
Brokerage and other trading-related fees	15	-
Portfolio administration fees	30	-
Trust management Fees	23	
Other fee and commission income	5	-
Total fee and commission income	136	-
Net interest income/(expense)		
Interest and similar income		
Effective interest rate method[4]	47	6
Interest and similar expense[5]	(29)	(1)
Net interest income	18	5
Net operating lease income/(expense)		
Rental income	27	–
Depreciation and other operating lease-related charges (Note 13)	(15)	–
Net operating lease income	12	–
Credit and other impairment (charges)/reversal		
Credit impairment (charges)/reversal		
Loan assets	6	-
Margin money and settlement assets	10	-
Other financial assets, undrawn credit commitments and financial guarantees	(5)	-
Gross credit impairment reversal	11	-
Net credit impairment reversal	11	-

[1] 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 38(ix) *Derivative instruments and hedging activities.*
[2] Includes $61 million (2021: $Nil) of transportation, storage and certain other trading-related costs.
[3] Includes $2 million (2021: $Nil) depreciation on right-of-use (ROU) assets held for trading-related business.
[4] Represents interest income of $47 million (2021: $6 million) in the Consolidated Entity on financial assets measured at amortised cost.
[5] Represents interest expense on financial liabilities measured at amortised cost calculated using effective interest method of $29 million (2021: $1 million).

Note 2
Operating profit before income tax continued

	2022 $m	2021 $m
Other impairment (charges)/reversal		
Intangible and other non-financial assets	(6)	–
Net other impairment charges	(6)	–
Total credit and other impairment charges	5	–
Net other operating income		
Investment income		
Net gain/(loss) from:		
Financial investment and other assets	2	–
Total investment income	2	–
Other income and charges		
Share of net profits of associates and joint ventures	8	–
Other income	10	–
Total Other income and charges	18	–
Total net other operating income	20	–
Net operating income	460	5
Employment expenses		
Salary and related costs including commissions, superannuation and performance-related profit share	(131)	–
Share-based payments	(24)	–
Provision for long service leave and annual leave	(1)	–
Total employment expenses	(156)	–
Brokerage, commission and fee expenses		
Brokerage and other trading-related fees	(23)	–
Other fee and commission expenses	(2)	–
Total brokerage, commission and fee expenses	(25)	–
Non-salary technology expenses		
Information services	(4)	–
Service provider and other non-salary technology expenses	(1)	–
Total non-salary technology expenses	(5)	–
Other operating expenses		
Service cost recoveries by related entities	(122)	-
Professional fees	(7)	-
Occupancy expenses	(4)	-
Indirect and other taxes	(3)	–
Audit fees	(2)	–
Other expenses	(6)	–
Total other operating expenses	(144)	–
Total operating expenses	(330)	–
Operating profit before income tax	130	5

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Note 3
Income tax expense

	2022 $m	2021 $m
i Income tax (expense)/benefit		
Current tax expense	(46)	(1)
Deferred tax benefit	14	–
Total income tax expense	(32)	(1)
ii Reconciliation of income tax expense to *prima facie* tax expense		
Prima facie income tax expense on operating profit[1]	(38)	(1)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	6	–
Other items	-	–
Total income tax expense	(32)	(1)
iii Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities		
Intangible assets	1	-
Financial investments and interests in associates and joint ventures	9	–
Tax losses	2	–
Operating and finance lease assets	(27)	–
Loan assets and derivatives	(2)	–
Other assets and liabilities	31	–
Total deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)	14	–

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% (2021: 30%).

Note 4
Dividends

	2022 $m	2021 $m
Final dividend paid (2022: $Nil (2021: $Nil) per share)	-	-
Interim dividend paid (2022: $Nil (2021: $0.017) per share)	-	7
Total dividends paid (Note 23)	-	7

Note 5
Trading assets

	2022 $m	2021 $m
Commodities	1,237	-
Commodity contracts	290	-
Listed equity securities	58	-
Total trading assets	**1,585**	-

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

Note 6
Margin money and settlement assets

	2022 $m	2021 $m
Commodity settlements	1,367	-
Margin money	224	-
Security settlements	210	-
Total margin money and settlement assets	**1,801**	-

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

Note 7
Derivative assets

	2022 $m	2021 $m
Held for trading	2,159	-
Total derivative assets[1]	**2,159**	-

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] Refer Note 29 *Financial Risk management* and Note 32 *Offsetting financial assets and financial liabilities* for further details.

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Note 8
Other financial assets

	2022 $m	2021 $m
Commodity-related receivables	861	-
Trade debtors and other receivables	96	-
Financial Investments	11	-
Total other financial assets	**968**	-

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

Note 9
Other assets

	2022 $m	2021 $m
Income tax receivables	66	-
Indirect tax receivables	50	-
Goodwill and other intangible assets	49	-
Others	36	-
Total other assets	**201**	-

Of the above amounts, $152 million (2021: $Nil) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 10
Loan assets

	2022			2021		
	Gross $m	**ECL allowance $m**	**Net $m**	Gross $m	ECL allowance $m	Net $m
Asset financing	386	(8)	378	–	–	–
Home loans	61	-	61	–	–	–
Corporate, commercial and other lending	23	(3)	20	–	–	–
Total loan assets	**470**	**(11)**	**459**	–	–	–

Of the above amounts, $220 million (2021: $Nil) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

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 small plant and equipment, electronic and IT equipment. The following table represents the maturity profile of the contractual undiscounted cashflows of the Consolidated Entity:

	2022			2021		
	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	153	(6)	147	-	-	-
Between one and two years	59	(3)	56	-	-	-
Between two and three years	34	(1)	33	-	-	-
Between three and four years	18	-	18	-	-	-
Between four and five years	15	-	15	-	-	-
Later than five years	1	-	1	-	-	-
Total	**280**	**(10)**	**270**	-	-	-

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Note 11
Expected credit losses

The Consolidated Entity models the Expected Credit Losses (ECL) for on-balance sheet financial assets measured at amortised cost 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.

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, change in internal credit rating over approved threshold, 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 exposure's credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other similar exposures that are classified as stage I. Accordingly, while increases in the quantum of stage II exposures will suggest a relative deterioration of credit quality, 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.

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Note 11
Expected credit losses continued

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 actions such as realisation of available security; or the borrower is 90 days or more past due on an obligation to the Consolidated Entity.

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.

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 components (EAD, PD and LGD) 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. The overlays primarily reflect management's assessment of the current economic and credit environment relative to the FLI credit cycle model. These overlays 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 regions, counterparties or industries which are difficult to account for within the modelled outcomes. Over time the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately $6 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 recommending the range of probability weights to apply to those scenarios. For this purpose, four possible economic scenarios have been developed for this period, being an upside, downside, severe downside and baseline scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposures' PDs and LGDs.

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Note 11
Expected credit losses continued

Forward-looking information (FLI) continued

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 generated three alternate scenarios in addition to the baseline scenario which the alternate scenarios are anchored relative to the baseline scenario.

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

Where there are limited official data sources against which to benchmark key economic indicators on a forward-looking basis, 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. This judgement draws on internal risk and economics specialist input, 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 diversity of possible scenarios and macroeconomic outcomes, and the continuing uncertainty regarding the implications of events in Ukraine and broader inflationary pressures, 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 level 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 in the event of default, and the collateral utilised is generally estimated through property price and share price index outlooks.

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

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Note 11
Expected credit losses continued

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$22 million[1]	Probable	**Global:** The baseline scenario assumes 2022 global GDP growth of around 3.3% year-on-year, bringing the world economy to within around 1% of the pre-pandemic trend, albeit with expectations of much variation between countries and some gradual slowing of growth over the year. Interest rates are expected to rise steadily in most advanced economies through 2022 and into 2023 in response to high inflationary pressures **Australia:** Lockdowns in 2021 temporarily delayed, but did not derail, the economy's recovery and output is now above its pre-Delta path. Unemployment is expected to fall below 4%. Faster economic growth recovery would be constrained by projected elevated inflation and expected cash rate increases by the Reserve Bank of Australia (RBA). House prices and equity markets are expected to reverse some of their gains from the past 12-18 months due to expected monetary tightening in the second half of the calendar year. House prices are expected to fall by approximately 10% over 2022 and 2023. **United States:** GDP growth is expected to slow from 5.7% year-on-year in 2021 to 3.5% year-on-year in 2022, still above historical trends. The Federal Reserve (Fed) is projected to increase interest rates by 125 Bps over 2022, leading to slower growth in equity markets and house prices. **Europe:** Eurozone output reached its pre-pandemic level at the end of 2021 and annual GDP growth of 3% year-on-year is projected for 2022. Europe's overall unemployment rate is projected to continue to decline marginally towards long-run levels. Despite the uncertainty introduced by the Russia-Ukraine conflict, the European Central Bank (ECB) is expected to reduce monetary policy stimulus.
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 ~$26 million[1]	Possible	**Global:** The downside scenario projects growth in global GDP that is approximately 1% lower than the baseline scenario baseline through to 2025. **Australia:** The scenario projects the early 2022 post lockdown surge economic recovery to lose momentum and show only marginally positive growth through the rest of 2022 and into 2023. Unemployment is projected to increase slightly but remain below 5% throughout the scenario horizon. Reduced inflationary pressures are expected to lead to a pause in rate hikes. Housing and equity prices are projected to remain broadly flat through the period. **United States:** The scenario projects growth falling to around 1-1.5% year-on-year by the end of 2022. Consequently, it would be expected that the Fed delays tightening mid way through the projected baseline increases. Unemployment is projected to fall below 4% in early 2022, and rebound to 5%. The combination of initial rate hikes and a subsequent slowing of the economy is expected to result in equity market losses in 2022 and limited gains over the following three years **Europe:** The scenario projects GDP growth to slow to around 1.5% year-on-year in 2022 and fall below 0.5% year-on-year in 2023, expected to result in unemployment levels around 8%. Equity prices are projected to fall by around 7% by end of 2022 and remain close to those levels throughout the forecast period to 2025.

[1] This number provides 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.

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Note 11
Expected credit losses continued

Scenario	Weighting	Expectation
Severe Downside 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 ~$35 million[1]	Unlikely	**Global:** The scenario projects a slowdown followed by a recession throughout 2022 and most of 2023. The recovery is projected to pick up in 2024 and beyond, however this recovery would remain significantly below the baseline scenario expectations. **Australia:** The scenario projects GDP to slow during 2022 and then turn sharply negative during 2023. The unemployment rate is projected to rise to 6.5% in 2023, and house prices are expected to fall by 20% by the end of 2023 despite loose monetary policy. **United States:** The scenario projects the current economic recovery slows and growth is expected to turn negative for five straight quarters from 2022 into 2023. The unemployment rate is projected to reach 8.5% in mid-2023, and equity markets to fall by approximately 18% by mid 2023. **Europe:** The scenario projects a recession that spans most of 2022 and 2023 with output expected to end significantly below its pre-pandemic level. Unemployment rate is expected to peak near 9% at end 2023 and equity markets are projected to suffer sizeable losses.
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 ~$19 million[1]	Unlikely	**Global:** The upside scenario projects growth in global GDP that is approximately 1% higher than the baseline scenario throughout the forecast period to 2025. **Australia:** The scenario projects continued growth of 2.5-3% annually and the unemployment rate to fall to 3.2% in late 2022 and early 2023. Aggressive tightening is expected from the RBA which, that would result in a 10% drop in house prices by the end of 2023. **United States:** The scenario projects GDP to sustain strong growth in 2022 and 2023. The unemployment rate is expected to fall below 3% for a brief period in early 2023. Equity markets are projected to perform well on the back of robust growth. A total of 10 rate hikes over the span of two years are expected. **Europe:** The scenario projects GDP to surpass 3% year-on-year growth in 2022 and into 2023, though inflation is expected to remain above 4% year-on-year through much of this period. The unemployment rate is projected to fall to 6% and remain around this level through to 2025.

[1] This number provides 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.

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Note 11
Expected credit losses continued

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

	Gross exposure for financial assets carried at[1]			ECL allowance on financial assets carried at		
	Amortised cost $m	**Other $m**	**Total Gross exposure $m**	**Amortised cost $m**	**Other $m**	**Total ECL allowance $m**
						As at 31 March 2022
Cash and bank balances	1,594	-	1,594	-	-	-
Cash collateralised lending and reverse repurchase agreements	441	-	441	-	-	-
Margin money and settlement assets	1,290	-	1,290	7	-	7
Due from related body corporate entities	6,643	-	6,643	1	-	1
Other Financial assets	158	-	158	6	-	6
Loan assets	467	-	467	11	-	11
Off balance sheet exposures[2]	-	71	71	-	-	-
Total	**10,593**	**71**	**10,664**	**25**	**-**	**25**

The Consolidated Entity had no expected credit losses as at 31 March 2021.

Loan assets continue to represent the Consolidated Entity's most significant component of credit exposures on which ECL allowances are carried. The credit quality of the Consolidated Entity's loan assets, is monitored through its credit policies, as set out in Note 29.1 Credit risk.

[1] The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance. Accordingly, these exposures will not equal the amount as presented in the Statement of financial position.
[2] Off balance sheet exposures includes gross exposure for undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL). The gross exposure represents the notional values of these contracts.

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Note 11
Expected credit losses continued

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

	Margin money and settlement assets $m	Due from related body corporate entities $m	Other Financial assets $m	Loan assets $m	Total $m
Balance as at 31 Mar 2021	-	-	-	-	-
Transfer on group restructure	17	4	12	18	51
Credit impairment charge/(reversal) (Note 2)	(10)	1	4	(6)	(11)
Amount written off, previously provided for	-	-	-	-	-
Reclassifications, foreign exchange and other movements	-	(4)	(10)	(1)	(15)
Balance as at 31 Mar 2022	**7**	**1**	**6**	**11**	**25**

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Note 12
Interests in associates and joint ventures

	2022 $m	2021 $m
Equity investments with no provisions for impairment[1]	239	-
Equity investments with provisions for impairment		
Gross carrying value	75	-
Less: provisions for impairment	(42)	-
Equity investments with provisions for impairment	33	-
Total equity investments in associates and joint ventures	272	-
Loans to associates and joint ventures	11	-
Less: credit impairment charges	-	-
Total loans to associates and joint ventures	11	-
Total interests in associates and joint ventures[2,3]	**283**	-

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

[1] During the financial year, the Consolidated Entity acquired investments in associates and joint ventures of $55 million as part of group restructure disclosed in Note 35 *Acquisition and disposal of subsidiaries and businesses* and $211 million through asset acquisition from other related body corporate entities.
[2] Comprises $268 million (2021: $Nil) relating to interests in associates and $15 million (2021: $Nil) relating to interests in joint ventures. The Consolidated Entity had an outstanding receivable of $5 million (2021: $Nil) from its associates in the normal course of its business which does not in substance form part of the Consolidated Entity's net investment in associates and joint ventures.
[3] Financial statements of associates and joint ventures have various reporting dates which have been adjusted to align with the Consolidated Entity's reporting date

Note 13
Property, plant and equipment and right-of-use assets

	2022			2021		
	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	21	(18)	3	-	-	-
Land and buildings	2	-	2	-	-	-
Equipment	4	(3)	1	-	-	-
Total assets for own use	27	(21)	6	-	-	-
Assets under operating lease						
Mining equipment	299	(70)	229	-	-	-
Semiconductors and IT equipment	152	(33)	119			
Meters	219	(188)	31	-	-	-
Telecommunications and others	1	(1)	-	-	-	-
Total assets under operating lease	671	(292)	379	-	-	-
Right-of-use assets						
Commodity Storage	38	(31)	7	-	-	-
Office premises	9	(4)	5	-	-	-
Total right-of-use assets	47	(35)	12	-	-	-
Total property, plant and equipment and right-of-use assets	**745**	**(348)**	**397**	-	-	-

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

The Consolidated Entity had no property, plant and equipment and right-of-use assets as at 31 March 2021.

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**	**Equipment $m**	**Total $m**
Assets for own use				
Balance as at 1 April 2021	-	-	-	-
Transfer on group restructure	4	2	3	9
Disposals and reclassifications	-	-	(2)	(2)
Depreciation expense	(1)	-	-	(1)
Balance as at 31 Mar 2022	**3**	**2**	**1**	**6**

Note 13
Property, plant and equipment and right-of-use assets continued

	Mining equipment $m	Semiconductors and IT equipment	Meters $m	Tele-communication and others $m	Total $m
Assets under operating lease					
Balance as at 1 April 2021	-	-	-	-	-
Transfer on group restructure	244	133	37	-	414
Additions	15	1	-	-	16
Disposals and reclassifications	(7)	-	(2)	-	(9)
Depreciation expense	(9)	(5)	(1)	-	(15)
Foreign exchange movements	(14)	(10)	(3)	-	(27)
Balance as at 31 Mar 2022	229	119	31	-	379

	Commodity storage $m	Office Premises $m	Total $m
Right-of-use assets			
Balance as at 1 April 2021	-	-	-
Transfer on group restructure	10	3	13
Additions	-	2	2
Depreciation expense	(2)	-	(2)
Foreign exchange movements and other adjustments	(1)	-	(1)
Balance as at 31 Mar 2022	7	5	12

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

	2022 $m	2021 $m
Assets under operating lease		
Within one year	95	-
Between one and two years	82	-
Between two and three years	32	-
Between three and four years	17	-
Between four and five years	9	-
Later than five years	6	-
Total future minimum lease payments receivable	241	-

Note 14
Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	2022 **$m**	2021 $m
Other assets and liabilities	140	–
Tax losses	37	–
Financial investments and interests in associates and joint ventures	10	–
Property, plant and equipment	2	–
Operating and finance lease assets	15	–
Intangible assets	9	-
Set-off of deferred tax liabilities	(67)	–
Net deferred tax assets	**146**	**–**
Other assets and liabilities	(4)	–
Financial investments and interests in associates and joint ventures	(2)	–
Operating and finance lease assets	(57)	–
Loan assets and derivatives	(7)	–
Intangible assets	(5)	-
Set-off of deferred tax assets	67	–
Net deferred tax liabilities	**(8)**	**–**

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

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Note 15
Margin money and settlement liabilities

	2022 $m	2021 $m
Commodity settlements	1,305	–
Margin money	829	-
Security settlements	63	-
Total margin money and settlement liabilities	**2,197**	–

Note 16
Derivative liabilities

	2022 $m	2021 $m
Held for trading	2,763	-
Total derivative liabilities [1]	**2,763**	-

Note 17
Borrowings

	2022 $m	2021 $m
Committed unsecured syndicated loans[2]	2,799	–
Other borrowings	103	-
Total borrowings	**2,902**	–

Of the above amounts, $45 million (2021: $Nil) is expected to be settled within 12 months of the balance date by the Consolidated Entity

Note 18
Other financial liabilities

	2022 $m	2021 $m
Commodity related payables	169	–
Creditors	88	–
Issued debt securities	52	–
Security deposits	51	–
Other	11	–
Total other financial liabilities	**371**	–

[1] Refer Note 29 *Financial Risk management* and Note 32 *Offsetting financial assets and financial liabilities* for further details.
[2] The Company borrowed $2,799 million from a syndicate of third party banks under a senior unsecured bank facility to fund its acquisition of the Non-ELE Group.

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Note 19
Other liabilities

	2022 $m	2021 $m
Accrued charges, employment-related liabilities and provisions [1]	419	–
Income tax payable	165	-
Other	48	–
Total Other liabilities	**632**	–

Note 20
Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

- Continue to support the Consolidated Entity's credit rating
- Ensure sufficient capital resources to support the Consolidated Entity's business and operational requirements
- Support external investor and regulatory expectations
- Safeguard the Consolidated Entity's ability to continue as a going concern.

The Consolidated Entity's capital requirements are monitored on a quarterly basis to ensure its objectives are being met.

Capital is defined as the Consolidated Entity's total equity.

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

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Note 21
Contributed equity

	2022 Number of shares	2021 Number of shares	2022 Total $m	2021 Total $m
Ordinary share capital			2,109	400
Additional paid up Capital			94	-
Total contributed equity			**2,203**	**400**
i. Ordinary share capital [1,2]				
Balance at the beginning of the financial year	400,000,001	400,000,001	400	400
Issued fully paid shares to MBL on 4 February 2022@ $1 per share	1,709,312,579	-	1,709	–
Balance at the end of the financial year	**2,109,312,580**	**400,000,001**	**2,109**	**400**
ii. Additional paid-up Capital				
Tax contribution for business acquired under group restructure [3]			66	-
Employee Retained Equity Plan (MEREP)[4]			28	-
Balance at the end of the financial year			**94**	**-**

[1] Ordinary shares have no par value.
[2] During the year, 100% shareholding of the Company was acquired by MBL from MFHL (Macquarie Finance Holdings Limited).
[3] Represents tax balances funded by MGL under the Tax Funding Deed in relation to the acquisition of Bank non-ELE businesses. Recognition of deferred tax balances on acquisition is precluded under AASB 112 Income Taxes and hence the funded amount is treated as an equity contribution.
[4] Macquarie Group Employee Retained Equity Plan (MEREP) awards are primarily settled in shares of MGL MEREP awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by Consolidated Entity. The Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL If issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding terms and conditions of MEREP refer Note 26 *Employee equity participation*

Note 22
Reserves, retained earnings and non-controlling interests

	2022 $m	2021 $m
i. Reserves		
Foreign currency translation reserve		
Balance at the beginning of the financial year	-	-
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax[1]	(6)	-
Balance at the end of the financial year	(6)	-
Restructure Reserve		-
Balance at the beginning of the financial year	-	
Restructure reserves attributable to business acquired[2]	(760)	
Balance at the end of the financial year	**(760)**	**-**
Total reserves at the end of the financial year	**(766)**	**-**
ii. Retained earnings		
Balance at the beginning of the financial year	**3**	6
Profit attributable to ordinary equity holder of MIFL	98	4
Dividends paid on ordinary share capital and exchangeable shares (Note 4)	-	(7)
Balance at the end of the financial year	101	3
iii. Non-controlling interests [3]		
Share capital	**5**	-
Reserves	**-**	-
Accumulated losses	**-**	-
Total non-controlling interests	**5**	**-**

[1] The current year movement represents the revaluation of the Consolidated Entity's unhedged investments in foreign operations primarily driven by the depreciation of the Australian dollar against the foreign currencies. Refer to Note 29.3 *Market risk* for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.
[2] Represents difference between the acquisition price and the book value of the net assets of the Non-ELE Group subsidiaries acquired during the financial year under common control transactions. For details refer Note 35 *Acquisitions of subsidiaries and businesses*.
[3] Other non-controlling interests represents equity in subsidiaries held by MBL as a minority shareholder and therefore is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

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Note 23
Notes to the statement of cash flows

	2022 $m	2021 $m
i. Reconciliation of cash and cash equivalents		
Cash and cash equivalents at the end of the financial year are reflected in the relevant items in the statement of financial position as follows:		
Cash and bank balances[1,2]	411	–
Due from related body corporate entities[3]	4,019	–
Cash and cash equivalents at the end of the financial year	**4,430**	**–**
ii. Reconciliation of profit after income tax to net cash flows generated from operating activities		
Profit after income tax	98	4
Adjustments to profit after income tax:	-	–
Depreciation and amortisation	18	–
Expected credit losses and other impairment charges	(5)	–
Investment income and gain on sale of operating lease assets and other non-financial assets	(6)	–
Share of net (profits)/losses of associates and joint ventures	(8)	–
Changes in assets and liabilities:	-	–
Issued debt securities	(2)	-
Security Deposits	9	-
Trading, trading-related and collateralised lending balances (net of liabilities)[4]	(1,902)	-
Interest, fee and commission receivable and payable	(9)	-
Tax balances	58	–
Assets under operating lease	(23)	-
Loan assets and receivables and balances with related entities	2,952	(8)
Debtors, prepayments, accrued charges and creditors	502	-
Movement in other financial assets and other non financial assets	265	17
Borrowings and other funding[5]	2,799	-
Net cash flows generated from/(utilised in) operating activities	**4,746**	**13**

[1] Cash and bank balances include $33 million (2021: $Nil) of balances, that are restricted from use by the Consolidated Entity and balances held in countries where remittance of cash outside the country is subject to certain restrictions.
[2] Amounts excluded from cash and cash equivalents but presented in the Statement of financial position as cash and bank balances primarily relates to $1,147 million (2021: $Nil) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of $36 million (2021: $Nil) that are not readily available to meet the Consolidated Entity's short-term cash commitments.
[3] Balance represents cash and short term deposits with MBL ($3,669 million) and other related body corporate entities ($350 million) and includes cash collateral placed of $2,665 million (31 March 2021: $Nil) with MBL with respect to the Consolidated Entity's guarantees to MBL for MBL's exposures to certain Non-ELE Group subsidiaries.
[4] Includes unrealised foreign exchange movement relating to derivatives which largely offsets the unrealised foreign exchange movement on financial assets and liabilities.
[5] During the year ended 31 March 2022, the Consolidated Entity raised $2,799 million (2021: $Nil million) through borrowing from a syndicate of third-party banks under a senior unsecured bank facility.

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Note 24
Related party information

Transactions between the Consolidated Entity and the ultimate and immediate parent entities and with other related body corporate entities under common control principally arise from the provision and repayment of funding arrangements, provision of banking and other financial services, provision of management and administration services, facilities and accommodation, the provision of guarantees, restructure of businesses, repayment of capital and distribution of dividends and trading activities including derivative transactions for managing and hedging market risks.

The Master Loan Agreement (MLA) governs the funding and netting arrangements between various subsidiaries and related body corporate entities which are under the common control of MGL and which have acceded to the MLA.

The Tripartite Outsourcing Major Services Agreement (TOMSA) governs the provision of intra-group services between subsidiaries and related body corporate entities other than certain excluded entities.

Transactions under common control

During the current financial year, 100% shareholding of the Company was acquired by MBL from erstwhile parent Macquarie Finance Holdings Limited “"MFH”"). The Consolidated Entity agreed to acquire the majority of the Non-ELE Group [1] from it'' parent MBL and other Bank Group holding companies. For details, refer to Note 35 *Acquisitions and disposals of subsidiaries and businesses.*

Ultimate and immediate parent entities

The Consolidated Entity’s ultimate parent entity is MGL and the immediate parent entity is Macquarie Bank Limited (MBL). Both MGL and MBL are incorporated in Australia. Both MGL and MBL produce consolidated financial statements that are available for public use. MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of this agreement are set out in Note 38(v) *Taxation*. Amounts receivable from MGL includes amounts receivable by the Company under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL and MBL are included in Due from related body corporate entities or Due to related body corporate entities, as appropriate, in the Statement of financial position except when the parties have the legal right and intention to offset.

All transactions with the ultimate and immediate parent entities were made on normal commercial terms and conditions and at market rates.

Other related body corporate entities

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

Balances outstanding with other related parties are presented in Due from related body corporate entities or Due to related body corporate entities, as appropriate, in the statement of financial position of the Consolidated Entity except when the parties have the legal right and intention to offset.

All transactions with related entities were made on normal commercial terms and conditions and at market rates.

[1] Macquarie Bank Group (“Bank Group”) refers to Macquarie Bank Limited (“MBL”) and its subsidiaries. The Bank Group further comprises of the Extended Licensed Entities (“ELE”) Group and the Non-ELE Group (comprising of the Consolidated Entity and other non ELEs retained by MBL being their parent entity due to regulatory reasons).

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Note 24
Related party information continued

During the financial year, the following transactions occurred with the ultimate parent and immediate entity and other related entities:

	Ultimate parent and immediate Parent entities		Other related entities	
	2022 $'000	2021 $'000	**2022 $'000**	2021 $'000
Interest income	11,379	-	14,316	5,603
Interest expense	(15,747)	-	(3,078)	(587)
Net interest income/(expense)	(4,368)	-	11,238	5,016
Net trading income[1]	604,263	-	46,347	-
Fee and commission income	45,262	-	41,099	-
Other operating expense	(25,874)	-	(113,850)	-
Dividends and distributions (Note 4)	-	7,000	-	-

The following represents outstanding balances with the ultimate parent, the immediate parent and other related body corporate entities as at financial year end:

	Ultimate parent and immediate Parent entities 2022 $'000	2021 $'000	Other related entities 2022 $'000	2021 $'000
On Balance Sheet:				
Due from related body corporates	**10,036,638**	-	**1,139,362**	408,000
Cash and bank balances[2,3,4,]	3,667,749	-	102,766	-
Cash collateralised lending and reverse repurchase agreements	40,112	-	-	-
Trading assets	56,219	-	-	-
Margin money and settlement assets	1,732,548	-	485,782	-
Derivative assets	4,324,275	-	7,390	-
Loan Assets	-	-	194,188	408,000
Other Financial Assets[2]	113,602	-	311,597	-
Other Assets	102,133	-	37,639	-
Due to related body corporates	**8,409,031**		**2,384,969**	-
Cash collateralised borrowing and repurchase agreements[3]	2,338,468	-	-	-
Trading liabilities	70,533	-	-	-
Margin money and settlement liabilities	1,308,223	-	499,080	-
Derivative liabilities	3,847,287	-	3,193	-
Other financial liabilities	472,232	-	715,381	5,461
Other Liabilities	127,754	-	1,154	-
Borrowings[5]	244,534	-	1,166,161	-
Off Balance Sheet:				
Guarantees provided[6]	-	-	35,086	-
Guarantees received[7,8]	2,820,826	-	87,715	-

[1] Gains and losses relating to trading assets and derivatives with external counterparties offset gains and losses on similar financial instruments with the parent and other related body corporate entities in the net trading income presented in the Consolidated Entity's Income statement.
[2] Balance includes cash and short-term deposits with MBL ($3,668,733 thousand) and other related body corporate entities ($350,249 thousand). This balance is also disclosed in Note 23 *Notes to the statement of cash flows under* (i) Reconciliation of cash and cash equivalents as Due from related body corporate entities.
[3] The Consolidated Entity borrowed $2,337,713 thousand of government bonds on an unsecured basis under stock loan agreements from third parties and subsequently entered into a cash collateralised agreement with MBL to generate short-term funding for the Non-ELE group. This amount is included under the category 'Cash and bank balances' and corresponding liability is included under the category 'cash collateralised borrowing and repurchase agreements'.
[4] Includes cash collateral placed of $2,664,914 thousand (31 March 2021: $Nil) with MBL with respect to the Consolidated Entity's guarantees to MBL for MBL's exposures to certain Non-ELE Group subsidiaries.
[5] The majority of the balance represents long-term borrowing from MBL of $200,556 thousand and an evergreen loan of $1,136,107 thousand from Macquarie Financial Holdings Pty Limited (MFHPL).
[6] Represents guarantees to related body corporate entities with respect to their exposures to certain related group entities. The guarantee given to counterparties other than related body corporate entities are disclosed in Note 27 *Contingent liabilities and commitments*.
[7] Represents guarantees provided by MBL ($2,631,194 thousand) and MGL ($189,631 thousand) to third parties as the immediate and ultimate parent respectively in relation to the performance and other obligations of the Consolidated Entity.
[8] Represents guarantees provided by MFHPL ($87,715 thousand) to third parties in relation to the performance and other obligations of the Consolidated Entity.

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Note 25
Key management personnel disclosure

Key management personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2022 and 31 March 2021, unless indicated otherwise.

Directors

D. Saad	(Appointed on 8 April 2021)
R. Dixon	(Appointed on 26 October 2021)
B.N. Milson	(Appointed on 19 February 2014)

Former Directors

A.J. Lewis	(Appointed on 19 February 2014 and resigned on 22 October 2021)
S.D. Green	(Appointed on 19 February 2014 and resigned on 8 April 2021)

In addition to the Directors listed above, the following persons, who were members of MBL's Executive Committee, also had authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries during the financial years ended 31 March 2022 and 31 March 2021, unless indicated otherwise.

Current Executives[1]

S.R. Wikramanayake	Macquarie Group CEO
G.N. Bruce	Head of LGG (appointed to be a member of the Executive Committee effective from 2 March 2022)
A. Cassidy	CRO, Head of RMG (appointed to be a member of the Executive Committee effective from 1 January 2022)
S.D. Green	Macquarie Bank CEO (appointed to be a member of the Executive Committee effective from 1 July 2021)
A.H. Harvey	CFO, Head of FMG
N. O'Kane	Head of CGM
N. Sorbara	COO, Head of COG
G.C. Ward	Deputy Managing Director and Head of BFS

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for KMP:

	2022	2021
	$	$
Key Management Personnel Remuneration		
Amount paid to Key Management Personnel in relation to their role as KMP of the Consolidated Entity	2,814,733	-

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

[1] Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 28 July 2022.

Note 26
Employee equity participation

Macquarie Group Employee Retained Equity Plan

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

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

	Number of RSU Awards	
	2022	2021
Granted during the financial year	135	–
Forfeited during the financial year	(6,717)	
Vested RSUs withdrawn or sold from the MEREP during the financial year	(501)	–
Transfers on group restructure	1,738,016	–
RSUs on issue at the end of the financial year	1,730,933	–
RSUs vested and not withdrawn from the MEREP at the end of the financial year	–	–

The weighted average fair value of the RSU awards granted during the financial year was AUD$ 194.02 (2021: $Nil).

Deferred Share Units (DSUs)

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

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

DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical. DSUs have been granted with an expiry period of up to nine years.

Note 26
Employee equity participation continued

Award Types under the MEREP continued

	Number of DSU Awards	
	2022	2021
Granted during the financial year	136	–
Transfers on group restructure	274,628	
DSUs on issue at the end of the financial year	274,764	–
DSUs exercisable at the end of the financial year	48,521	–

The weighted average fair value of the DSU awards granted during the financial year was AUD$ 175.31 (2021: $Nil).

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2013 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)
- 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)
- 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).

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Note 26
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]
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 invitation or 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 2021 retention, the allocation price was the weighted average price of the shares issued for the 2021 issue period, which was 24 May 2021 to 4 June 2021. That price was calculated to be $151.73 (2021 retention: $Nil).

Assumptions used to determine fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value[3]. This amount is recognised as an expense evenly over the respective vesting periods.

RSUs and DSUs have been granted in the current financial year in respect of 2021 performance. The accounting fair value of each of these grants is estimated using the MGL's share price on the date of grant.

While RSUs and DSUs for FY2022 will be granted during the FY2023, the Consolidated Entity begins recognising an expense for these awards (based on an initial estimate) from 1 April 2021 related to these future grants. The expense is estimated using the estimated MEREP retention for FY2022 and applying the amortisation profile to the retained amount.

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

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

For the financial year ended 31 March 2022, compensation expense relating to the MEREP totalled $24,421,494 (2021: $Nil).

[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] 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.

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Note 27
Contingent liabilities and commitments

	2022 $m	2021 $m
Contingent liabilities:		
Guarantees	35	104
Performance-related contingencies	-	3
Total contingent liabilities[1]	35	107
Commitments:		
Undrawn credit facilities[2]	51	-
Other assets development	6	
Total commitments	57	-
Total contingent liabilities and commitments	92	107

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

[1] It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
[2] Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity.

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Note 28
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 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. 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 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.

Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives and foreign currency denominated borrowings. Refer to Note 29.3 *Market risk*: Non-traded market risk for further information on the Consolidated Entity's risk management strategy.

In order to reflect the Consolidated Entity's risk management strategy, hedge accounting is applied where changes in the derivatives and foreign denominated borrowings are recognised, together with the related foreign currency translation reserve, in the Consolidated Entity's other comprehensive income and is subsequently released to the income statement when the foreign operation is disposed of. Hedge ineffectiveness, if any is recognised in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which included updating the NIFO exposure and rebalancing the associated hedge designations.

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Note 28
Hedge accounting continued

		Carrying amount			
		Asset		Liability	
		2022	2021	2022	2021
Hedging instrument	**Risk category**	**$m**	$m	**$m**	$m
Foreign exchange contracts[1]	Foreign exchange	7	–	10	–
Foreign currency denominated issued borrowings	Foreign exchange	-	–	2,039	–

		Notional Amount			
		Asset		Liability	
		2022	2021	2022	2021
Hedging instrument	**Risk category**	**$m**	$m	**$m**	$m
Foreign exchange contracts[1]	Foreign exchange	445	–	400	–
Foreign currency denominated issued borrowings	Foreign exchange	-	–	2,224	–

In order to hedge the currency exposure of certain net investments in foreign operations, the Consolidated Entity jointly designates both foreign exchange contracts and foreign denominated borrowings (from the currency of the underlying foreign operation to AUD). As a result, the notional value of hedging instruments presented in the table above of $3,069 million (2021: $Nil) represents the notional value of both the derivative hedging instruments and the foreign denominated borrowings representing 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 borrowings 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 (2021: $Nil).

[1] Foreign exchange contracts which are used for hedging net investment in foreign operations are included in Due to related body corporate entities and Due from related body corporate entities.

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Note 29
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 the Consolidated Entity 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 the Consolidated Entity'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.

Note 29.1 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 the amount of the 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 the Consolidated Entity is undertaken under authority delegated by the MGL and MBL Boards directly. Credit risk assessments include 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 11 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

For the purpose of presenting the credit risk associated with assets on the Consolidated Entity's statement of financial position in accordance with the requirements of AASB 9, the following methodology has been adopted:

Note 29
Financial risk management continued

Note 29.1 Credit risk continued

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 related body corporate entities

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

Portfolio and country risk

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

MGL 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 29
Financial risk management continued

Note 29.1 Credit risk continued

Credit quality of financial assets

The table below discloses, by credit rating grade and ECL impairment stage, the gross carrying amount[1] of assets measured at amortised cost and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9 *Financial Instruments*. The credit quality is based on the counterparty's credit rating using the MGL'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				**2022**
Cash and bank balances	1,524	-	-	1,524
Cash collateral on securities borrowed and reverse repurchase agreements	353	-	-	353
Margin money and settlement assets	1,023	-	-	1,023
Other financial assets	59	-	-	59
Loan assets	305	3	-	308
Due from related body corporate entities	6,644	-	-	6,644
Undrawn credit commitments, letters of credit and financial guarantees	36	-	-	36
Total investment grade	**9,944**	**3**	**-**	**9,947**
Non-investment grade				
Cash and bank balances	70	-	-	70
Cash collateral on securities borrowed and reverse repurchase agreements	88	-	-	88
Margin money and settlement assets	262	3	-	265
Other financial assets	81	2	-	83
Loan assets	106	27	-	133
Undrawn credit commitments, letters of credit and financial guarantees	35	-	-	35
Total non-investment grade	**642**	**32**	**-**	**674**
Default				
Other financial assets	-	-	15	15
Loan assets	-	-	25	25
Total default	-	-	40	40
Total gross credit risk	10,586	35	40	10,661

[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 the gross exposure values will not equal the amount presented in the Statement of financial position.
[2] For definitions of stage I, II and III, refer to Note 11 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality.

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Note 29
Financial risk management continued

Note 29.1 Credit risk continued

	Stage I[1] $m	Stage II[1] $m	Stage III[1] $m	Total $m
Total gross credit risk by ECL stage				**2022**
Cash and bank balances	1,594	–	–	1,594
Cash collateral on securities borrowed and reverse repurchase agreements	441	–	–	441
Margin money and settlement assets	1,285	3	–	1,288
Other Financial assets	140	2	15	157
Loan assets	411	30	25	466
Due from related body corporate entities	6,644	–	–	6,644
Undrawn credit commitments, letters of credit and financial guarantee contracts	71	–	–	71
Total gross credit risk ECL by stage	10,586	35	40	10,661

[1] For definitions of stage I, II and III, refer to Note 11 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 29
Financial risk management continued

Note 29.1 Credit risk continued

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount[1] of assets measured at amortised cost and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9 *Financial Instruments*. The credit quality is based on the counterparty's credit rating using MGL'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
				2021
Investment grade				
Due from related body corporate entities	408	–	–	408
Undrawn credit commitments, letters of credit and financial guarantees	107	–	–	107
Total investment grade	515	–	–	515
Total gross credit risk by ECL stage	515	–	–	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 the gross exposure values will not equal the amount presented in the Statement of financial position.
[2] For definitions of stage I, II and III, refer to Note 11 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality.

Note 29
Financial risk management continued

Note 29.1 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 and off balance sheet exposures subject to the impairment requirements of AASB 9 *Financial Instruments*. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Governments $m	Financial Institutions $m	Other $m	Total $m
				2022
Australia				
Cash and bank balances	–	12	–	12
Cash collateralised lending and reverse repurchase agreements	–	353	–	353
Margin money and settlement assets	–	29	57	86
Other financial assets	7	22	5	34
Loan assets	–	–	63	63
Due from related body corporate entities	–	4,651	21	4,672
Total Australia	7	5,067	146	5,220
Asia Pacific				
Cash and bank balances	–	186	-	186
Margin money and settlement assets	–	15	19	34
Loan assets	–	–	94	94
Due from related body corporate entities	–	80	1	81
Off balance sheet exposures	–	-	1	1
Total Asia Pacific	–	281	115	396
Europe, Middle East and Africa				
Cash and bank balances	–	21	–	21
Margin money and settlement assets	–	-	22	22
Other financial assets	–	12	34	46
Loan assets	–	1	65	66
Due from related body corporate entities		1,196	182	1,378
Off balance sheet exposures	–	35	16	51
Total Europe, Middle East and Africa	–	1,265	319	1,584
Americas				
Cash and bank balances	–	1,375	–	1,375
Cash collateral lending and reverse repurchase agreements	–	88	–	88
Margin money and settlement assets	44	99	1,003	1,146
Other financial assets	–	–	77	77
Loan assets	5	–	238	243
Due from related body corporate entities	–	450	63	513
Off balance sheet exposures	–	-	19	19
Total Americas	49	2,012	1,400	3,461
Total gross credit risk [1]	56	8,625	1,980	10,661

[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 the gross exposure values will not equal the amount presented in the Statement of financial position.

Note 29
Financial risk management continued

Note 29.1 Credit risk continued

	Governments	Financial Institutions	Other	Total
	$m	$m	$m	$m
Total gross credit risk by counterparty type				**2022**
Cash and bank balances	-	1,594	-	1,594
Cash collateral lending and reverse repurchase agreements	-	441	-	441
Margin money and settlement assets	44	143	1,101	1,288
Other financial assets	7	34	116	157
Loan assets	5	1	460	466
Due from related body corporate entities	-	6,377	267	6,644
Off balance sheet exposures	-	35	36	71
Total gross credit risk by counterparty type	56	8,625	1,980	10,661

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Note 29
Financial risk management continued

Note 29.1 Credit risk continued

	Governments $m	Financial Institutions $m	Other $m	Total $m
				2021
Australia				
Due from related body corporate entities	-	408	-	408
Loans to associates and joint ventures	-	-	-	-
Total Australia	-	408	-	408
Asia Pacific				
Undrawn credit commitments and financial guarantees	-	-	35	35
Total Asia Pacific	-	-	35	35
Americas				
Undrawn credit commitments and financial guarantees	-	-	72	72
Total Americas	-	-	72	72
Total gross credit risk[1]	-	408	107	515

	Governments $m	Financial Institutions $m	Other $m	Total $m
Total gross credit risk by counterparty type				2021
Due from related body corporate entities	-	408	-	408
Undrawn credit commitments and financial guarantees	-	-	107	107
Total gross credit risk by counterparty type	-	408	107	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 the gross exposure values will not equal the amount presented in the Statement of financial position.

Note 29
Financial risk management continued

Note 29.1 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 *Financial Instruments* 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.

	Governments $m	Financial Institutions $m	Other $m	Total $m
				2022
Australia				
Trading assets	-	21	-	21
Derivative assets	-	55	2	57
Other assets	-	-	40	40
Due from related body corporate entities	-	341	-	341
Total Australia	**-**	**417**	**42**	**459**
Asia Pacific				
Trading assets	-	11	47	58
Margin money and settlement assets	-	-	1	1
Derivative assets	-	10	12	22
Total Asia Pacific	-	21	60	81
Europe, Middle East and Africa				
Derivative assets	-	-	219	219
Due from related body corporate entities	-	888	-	888
Other assets	-	-	18	18
Total Europe, Middle East and Africa	-	888	237	1,125
Americas				
Trading assets	-	-	270	270
Margin money and settlement assets	20	173	1,667	1,860
Derivative assets	-	121	396	517
Other assets	-	-	758	758
Loan assets	-	-	3	3
Due from related body corporate entities	-	3,164	-	3,164
Total Americas	20	3,458	3,094	6,572
Total gross credit risk	20	4,784	3,433	8,237

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Note 29
Financial risk management continued

Note 29.1 Credit risk continued

	Governments $m	Financial Institutions $m	Other $m	Total $m
				2022
Total gross credit risk by counterparty type				
Trading assets	-	32	317	349
Margin money and settlement assets	-	121	397	518
Derivative assets	20	238	1,900	2,158
Other assets	-	-	816	816
Loan assets	-	-	3	3
Due from related body corporate entities	-	4,393	-	4,393
Total gross credit risk by counterparty type	20	4,784	3,433	8,237

The consolidated Entity had no financial assets which were not subject to impairment requirements of AASB 9 *Financial Instruments* as at 31 March 2021.

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Note 29
Financial risk management continued

Note 29.1 Credit risk continued

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 30 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount and is disclosed in Note 11 *Expected credit losses*.

Collateral and credit enhancements held

Cash collateralised lending and reverse repurchase agreements

The Consolidated Entity enters into stock and commodity borrowing and reverse repurchase transactions with counterparties which require lodgement of collateral. These arrangements include:

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

The fair value of non-cash collateral held against collateralised lending and reverse repurchase agreement not recognised in the Statement of financial position as at 31 March 2022 is $503 million (2021: $Nil). The Consolidated Entity is permitted to sell or re-pledge the securities and commodities received, of which the fair value of collateral sold or re-pledged is $Nil (2021: $Nil).

The value attributed to collateral held is judgemental and is generally subject to valuation movements. The Consolidated Entity may also incur additional selling costs when a defaulted position is closed out.

Loan Assets

Asset financing

The Consolidated Entity leases assets and provides asset-related financing, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $378 million (2021: $Nil), the credit exposure after considering the depreciated value of collateral is $230 million (2021: $Nil).

The collateralised value is based on standard recovery rates for the underlying assets of corporate and retail clients.

Home Loans

MBL purchases risk protection for the Consolidated Entity's Home Loan portfolio of $61 million (2021: $Nil) in the form of Lenders Mortgage Insurance (LMI) from a well-known Australian LMI Provider.

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. For the Consolidated Entity, of the term lending of $20 million (2021: $Nil), the credit exposure after considering the estimated value of collateral and credit enhancements is $Nil million (2021: $Nil).

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.

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Note 29
Financial risk management continued

Note 29.1 Credit risk continued

The Consolidated Entity's approach to financial risk management includes entering into margining and collateralisation arrangements and enforceable master netting arrangements (MNA) with counterparties. The MNAs allow for net settlement with counterparties in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's financial position in that circumstance is to settle these contracts as one arrangement.

Refer Note 32 *Offsetting financial assets & financial liabilities* for impact of master netting arrangements and margins & other financial collateral held against the positions as at balance date.

Financial investments

Debt securities held by the Consolidated Entity carrying a credit risk are primarily in 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 and 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 $210 million (2021: $Nil) and $1,367 million (2021: $Nil) respectively included in margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities (or bought on behalf of a client), other commodities and securities sold. These assets are collateralised with the underlying equity 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.

Other Financial assets

Commodity related receivables under other financial assets are normally collateralised with underlying commodity held by the Consolidated Entity until the date of settlement.

Credit commitments

Undrawn facilities and lending commitments of $33 million (2021: $Nil) are secured through collateral and credit enhancement out of the total undrawn facilities and lending commitments of $139 million (2021: $Nil).

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.

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.

Note 29
Financial risk management continued

Note 29.2 Liquidity risk

Governance and oversight

Macquarie International Finance Limited (MIFL) is fully integrated within the broader liquidity risk management framework of Macquarie Bank Limited (MBL)

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

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

Liquidity policy and risk appetite

The MBL Liquidity Policy is designed so that the 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.

Macquarie Bank's liquidity risk appetite is intended to ensure that Macquarie Bank 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 and with only a limited reduction in Macquarie Bank's franchise businesses.

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 Bank monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie Bank'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 Bank 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.

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Note 29
Financial risk management continued

Note 29.2 Liquidity risk continued

Funding strategy

Macquarie Bank prepares a Funding Strategy, which includes consideration of the Consolidated Entity's funding requirements, on an annual basis and monitors progress against the strategy throughout the year.

The Funding Strategy aims to maintain the Bank Group's diversity of funding sources, ensure ongoing compliance with all liquidity requirements and facilitate forecast asset growth. The Funding Strategy is reviewed by the ALCO and approved by the MBL Board.

Scenario analysis

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

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

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie Bank 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 Bank'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 analysis 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 cash balances (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA), other external Reserve Bank of Australia (RBA) repo eligible securities or Australian assets internally securitised by Macquarie and held as contingent collateral in the RBA's 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 funding costs arising from business actions and the funding task and liquidity requirement of the Bank Group. 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.

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Note 29
Financial risk management continued

Note 29.2 Liquidity risk continued

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on a contractual undiscounted repayment basis and hence would vary from the carrying value as reported on the Statement of financial position at the balance date. Repayments subject to notice are treated as if notice were given immediately.

	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
							2022
Margin money and settlement liabilities	2,197	832	1,216	149	-	-	2,197
Derivative liabilities[1]	2,763	-	2,763	-	-	-	2,763
Other financial liabilities	370	51	121	102	47	66	387
Borrowings	2,902	-	19	64	2,943	-	3,026
Due to other related body corporate entities	10,666	696	5,140	2,699	2,130	22	10,687
Total	18,898	1,579	9,259	3,014	5,110	88	19,050
Contingent liabilities	-	-	35	-	-	-	35
Commitments	-	-	42	-	-	15	57
Total undiscounted contingent liabilities and commitments[2]	-	-	77	-	-	15	92

[1] Derivative liabilities (trading) are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently settled in the short-term at fair value

[2] 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

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Note 29
Financial risk management continued

Note 29.2 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
							2021
Due to related body corporate entities	-	-	4	-	1	-	5
Total	-	-	4	-	1	-	5
Contingent liabilities	-	-	107	-	-	-	107
Total undiscounted contingent liabilities and commitments [1]	-	-	107	-	-	-	107

[1] Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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Note 29
Financial risk management continued

Note 29.3 Market risk

Traded market risk

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

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

It is recognised that all trading activities contain calculated elements of risk taking. The MGL 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 MGL 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 at an MGL level:

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

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

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

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Note 29
Financial risk management continued

Note 29.3 Market risk continued

	2022		
	Average $m	Maximum $m	Minimum $m
Interest rates	0.80	0.99	0.48
Foreign exchange and bullion	3.95	6.13	1.91
Commodities [1]	27.49	36.15	21.27
Aggregate	27.84	36.20	21.42

Value-at-Risk

MGL's 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.

Non-traded market risk

MIFL 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.

MGL 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 MGL'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, MGL 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.

[1] Includes commodity contracts.

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Note 29
Financial risk management continued

Note 29.3 Market risk continued

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 difference in accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 38(ix) *Derivative instruments and hedging activities and* Note 28 *Hedge accounting.*

Interest rate risk- Interest Rate Benchmark Reform (IBOR)

During 2018, the Consolidated Entity initiated a group-wide project, 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 and comprised of 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 progress outlined in Consolidated Entity's annual financial report for the year ended 31 March 2022 the project achieved several important milestones that included:

- has successfully transitioned all contracts referencing LIBOR's that ceased publication on 31 December 2021
- is transacting across a broad range of ARR currencies and products, supported by changes to key systems and processes
- ceased using USD LIBOR in new contracts after 31 December 2021 aside from exceptional use cases.
- transitioned its internal USD LIBOR, EURIBOR and CDOR funding to Secured overnight financing rate (SOFR), Euro Short-Term Rate (ESTR) and Canadian Overnight Repo Rate Average (CORRA) respectively, and re-hedged external funding exposure to the relevant currency ARR, given sufficient liquidity in the relevant markets.
- has transitioned all hedge accounting relationships impacted by IBOR cessation except for a small number of USD LIBOR positions which will mature prior to cessation.

Given progress in recent years, including the recent achievements outlined above, there has been a significant reduction in the remaining LIBOR transition effort and risks. The key remaining task is to work with clients and counterparties to transition legacy USD LIBOR contracts, or ensure these contracts contain robust fallbacks, to ARRs before USD LIBOR publication ceases on 30 June 2023. Whilst the transition of legacy USD LIBOR contracts exposes the Consolidated Entity to risks, including those outlined below, from 1 April 2022, the Consolidated Entity's IBOR transition governance model was decentralised, under which central oversight reduced and parameters were established for the operating groups to deliver appropriate outcomes for the remainder of the LIBOR transition effort and risks.

Macquarie has identified the following four inherent risks arising from transitions of legacy:

- **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) real or perceived unfair treatment of clients during transition, and (iii) 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 that result in errors upon transition, and (ii) 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.

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Note 29
Financial risk management continued

Note 29.3 Market risk continued

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

- **Derivatives:** exposure in USD LIBOR: $Nil (2021: $Nil), GBP LIBOR $Nil (2021: $Nil), JPY LIBOR $Nil (2021: $Nil) and other currencies $Nil (2021: $Nil)
- **Non-Derivative financial assets:** exposure in USD LIBOR $13.35 million (2021: $5Nil), GBP LIBOR $Nil (2021: $Nil) and other currencies $Nil (2021: $Nil)
- **Non-Derivative financial liabilities:** exposure in USD LIBOR $21.6 million (2021: $Nil) and GBP LIBOR $Nil (2021: $Nil).

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 to benchmark which are not subject to mandatory such as BBSW (Australia), EURIROR (Euro) and certain tenors of CDOR (Canada), will be considered in scope when the Consolidated Entity makes a determination that the client and counterparty exposures in such benchmarks are required to be to be transitioned to ARR as a consequence of IBOR reform. This determination is primarily impacted by market demand and the level of liquidity in respective benchmarks and products

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 MBL's 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 38(ix) *Derivative instruments and hedging activities* and Note 28 *Hedge accounting* for details regarding the application of hedge accounting to the Consolidated Entity's net investment in foreign operations.

[1] The notional amounts of hedged items and/or hedging instruments designated in hedge relationship are covered in Note 28 *Hedge accounting*.

Note 29
Financial risk management continued

Note 29.3 Market risk continued

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.

	2022		2021	
	Movement in exchange rates %	**Sensitivity of other comprehensive income after tax $m**	Movement in exchange rates %	Sensitivity of other comprehensive income after tax $m
Canadian dollar	+10	(10)	+10	-
Total		(10)		-
Canadian dollar	-10	13	-10	-
Total		13		-

Equity price risk

The Consolidated Entity is not exposed to significant equity risk on their non-trading investment portfolios.

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Note 30
Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, Amortised cost) of assets and liabilities of the Consolidated Entity. The descriptions of measurement categories are included in Note 38(vi) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 31 *Fair value of assets and liabilities*.

	Financial Instruments Carried at Fair value					Statement of financial position total	Fair value of Financial instruments carried at	
	HFT	DFVTPL	FVTPL	Amortised cost	Non-financial instruments		Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m
								2022
Assets								
Cash and bank balances	-	-	-	1,594	-	1,594	-	1,594
Cash collateralised lending and reverse repurchase agreements	-	-	-	441	-	441	-	441
Trading assets [1]	348	-	-	-	1,237	1,585	1,585	-
Margin money and settlement assets	-	-	518	1,283	-	1,801	518	1,283
Derivative assets	2,159	-	-	-	-	2,159	2,159	-
Other financial assets	-	805	11	152	-	968	816	152
Other assets	-	-	-		201	201	-	-
Loan assets	-	-	3	456	-	459	3	456
Due from related body corporate entities[2]	4,388	-	7	6,642	139	11,176	4,395	6,642
Interests in associates and joint ventures	-	-	11	-	272	283	11	-
Property, plant and equipment and right-of-use assets	-	-	-	-	397	397	-	-
Deferred tax assets	-	-	-	-	146	146	-	-
Total assets	6,895	805	550	10,568	2,392	21,210	9,487	10,568
Liabilities								
Margin money and settlement liabilities	-	-	-	2,197	-	2,197	-	2,197
Derivative liabilities	2,763	-	-	-	-	2,763	2,763	-
Other financial liabilities	-	169	-	202	-	371	169	202
Other liabilities[3]	-	-	-	-	632	632	-	-
Borrowings	-	-	-	2,902	-	2,902	-	2,902
Due to related body corporate entities[2]	3,922	236	1	6,507	128	10,794	4,158	6,507
Deferred tax liabilities	-	-	-	-	8	8	-	-
Total liabilities	6,685	405	1	11,808	768	19,667	7,090	11,808

[1] Non-financial assets under 'Trading assets' represent commodities carried at fair value less costs to sell. Non-financial assets under 'Other assets' primarily represents tax receivables.
[2] Due from related body corporate entities and due to related body corporate entities includes derivatives and trading positions classified as HFT. All other receivables or intercompany payables are carried at amortised cost except for non-financial instruments.
[3] Non-financial liabilities primarily represent accrued charges, employee-related provisions and tax payable.

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Note 30
Measurement categories of financial instruments continued

	Financial Instruments Carried at Fair value						Fair value of Financial instruments carried at	
	HFT	DFVTPL	FVTPL	Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m
								2021
Assets								
Due from related body corporate entities	-	-	-	408	-	408	-	408
Total assets	–	–	–	408	–	408	–	408
Liabilities								
Due to related body corporate entities	–	–	–	5	–	5	–	5
Total liabilities	–	–	–	5	–	5	–	5

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Note 31
Fair value of assets and liabilities

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

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

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

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

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

The fair values calculated for financial instruments which are carried in the Statement of financial position at amortised cost (as disclosed in Note 30 *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 are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on lending and borrowing and repurchase agreements approximates their carrying amounts
- the fair values of all loan assets and debt liabilities carried at amortised cost, is determined with reference to changes in interest rates 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
- 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.

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Note 31
Fair value of assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of Items that 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 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.
- fair values of fixed rate loans classified as FVTPL are estimated by reference to current market rates offered on similar loans and issued debt securities
- for financial assets carried at fair value, in order to reflect 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
- 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 those 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 31
Fair value of assets and liabilities continued

Assets and Liabilities measured at amortised cost

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
				2022
Assets				
Loan assets	–	81	379	460
Due from related body corporate entities	-	6,782	-	6,782
Total assets	–	6,863	379	7,242
Liabilities				
Borrowings	–	2,805	103	2,908
Due to related body corporate entities	-	6,636	-	6,636
Other financial liabilities	31	15	–	46
Total liabilities	31	9,456	103	9,590
				2021
Assets				
Due from related body corporate entities	–	408	–	408
Total assets	–	408	–	408
Liabilities				
Due to related body corporate entities	–	5	–	5
Total liabilities	–	5	–	5

The fair value of all financial assets and liabilities approximates their carrying value as at 31 March 2021 and are predominantly classified as level 2 in the fair value hierarchy. The Consolidated Entity had no Cash, bank and other demand deposits as at 31 Mar 2021 which would have been classified as level 1.

Note 31
Fair value of assets and liabilities continued

Assets and liabilities measured at fair value on a recurring basis

The following table summarises the levels of the fair value hierarchy for assets and liabilities that are recognised and measured at fair value in the financial statements on recurring basis:[1]:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				2022
Assets				
Cash collateralised lending and reverse repurchase agreements	–	–	–	–
Trading assets[2]	9	1,210	366	1,585
Margin money and settlement assets	–	518	–	518
Derivative assets	–	1,873	286	2,159
Other Financial asset	2	763	71	836
Other assets[2]	–	–	–	–
Loan assets	–	–	3	3
Due from related body corporate entities[3]	–	4,394	–	4,394
Total assets	11	8,758	726	9,495
Liabilities				
Derivative liabilities	–	1,913	850	2,763
Other Financial liabilities	–	169	–	169
Other liabilities	–	–	–	-
Due to related body corporates entities[3]	–	4,158	–	4,158
Total liabilities	–	6,240	850	7.090

The Consolidated Entity has no assets and liabilities that were recognised and measured at fair value in the financial statements on recurring basis as at 31 March 2021.

[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.
[3] Includes balances with related body corporates. For details, refer to Note 30 *Measurement categories of financial instruments*

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Note 31
Fair value of assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

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

	Trading assets $m	Other Financial assets $m	Derivative financial instruments (net replacement values)[1] $m	Total $m
Balance as at 1 Apr 2021	–	–	–	–
Purchase, originations, issuances and other additions	187	105	19	311
Sales, settlements and repayments	(6)	(26)	14	(19)
Transfers into Level 3[2]	18	–	18	35
Transfers out of Level 3[2]	(31)	–	(5)	(37)
Fair value movements recognised in the income statement	**199**	**(7)**	**(609)**	**(416)**
Net trading income/ (loss)[3, 4]	199	–	(609)	(409)
Other income/(loss) [5]	–	(7)	-	(7)
Balance as at 31 Mar 2022	**366**	**72**	**(563)**	**(125)**
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year[3]	197	(5)	(567)	(375)

[1] The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $286 million (2021: $Nil) and derivative liabilities are $850 million (2021: $Nil).
[2] Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the financial year.
[3] The Consolidated Entity employs various hedging techniques in order to manage 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.

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Note 31
Fair value of assets and 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:

	2022 $m	2021 $m
Balance at the beginning of the financial year	–	–
Deferred gains/(losses) on new transactions and other adjustments	(15)	–
Foreign exchange movements	–	–
Recognised in net trading income during the year [1]	5	–
Balance at the end of the financial year	10	–

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. 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	**Profit or loss $m**
		2022
Product type		
Commodities	74	(82)
Equity and equity-linked products	1	(1)
Interest rate and other products	2	(2)
Total	77	(85)
		2021
Product type		
Equity and equity-linked products	–	–
Commodities	–	–
Interest rate and other products	–	–
Total	–	–

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

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Note 31
Fair value of assets and liabilities continued

Sensitivity analysis of valuations using unobservable inputs continued

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.

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.

					Range of inputs	
	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Minimum value	Maximum value
						2022
Equity and equity-linked products	**18**	-	Market comparability	Price in % [1]		
Commodities	**650**	**850**	Pricing model	Volatility and related variables	**(12.6%)**	**90.9%**
Interest rate and other products	**59**	-	Discounted cash flows	Discount rate	**1.0%**	**10.0%**
			Pricing model	Bond Yield	**2.7%**	**3.5%**
Total	**726**	**850**				

Correlation

Correlation is a measure of the relationship between the movements of input variables (i.e. how the change in one input 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.

[1] The range of inputs related to market comparability has not been disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

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Note 31
Fair value of assets and liabilities continued

Volatility

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

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

Inputs for unlisted equity securities

Unlisted equity instruments are generally valued by referencing market transactions for comparable companies adjusted as appropriate for current economic conditions. Other significant unobservable inputs may include discount rates, determined using inputs specific to the underlying investment, and forecast cash flows and earning or revenue 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.

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Note 32
Offsetting financial assets and financial liabilities

The Consolidated Entity present financial assets and financial liabilities on a net basis in the Statement of financial position when they meet the criteria described in Note 38(vi) *Financial instruments: Offsetting of financial instruments*. The following tables provide information on the impact of offsetting of financial instruments in the Statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore presented gross in the Statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's financial position in that circumstance is to settle these contracts as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity. Refer to Note 29.1 *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
								2022
Settlement assets[4,7]	2,076	(1,058)	1,018	(43)	-	975	559	1,577
Derivative assets	1,973	(68)	1,905	(939)	(210)	756	254	2,159
Due from related body corporate entities[5,6]	30,131	(21,459)	8,672	(4,152)	(665)	3,855	2,504	11,176
Total assets	**34,180**	**(22,585)**	**11,595**	**(5,134)**	**(875)**	**5,586**	**3,317**	**14,912**
Settlement liabilities[7]	(2,060)	1,058	(1,002)	42	-	(960)	(366)	(1,368)
Derivative liabilities	(1,624)	68	(1,556)	939	83	(534)	(1,207)	(2,763)
Due to related body corporate entities[5,6]	(30,067)	21,459	(8,608)	4,152	2,466	(1,990)	(2,186)	(10,794)
Total liabilities	**(33,751)**	**22,585**	**(11,166)**	**5,133**	**2,549**	**(3,484)**	**(3,759)**	**(14,925)**

[1]Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over collateralisation.
[2]Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
[3]Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
[4]The Consolidated Entity holds sufficient collateral for the amounts not subject to enforceable netting arrangements. Refer Note 29.1 *Credit risk* for collateral and credit enhancements held.
[5]Amount not subject to enforceable netting arrangements includes balances with related body corporate entities which have not acceded to the MLA or other balances not governed by netting provisions of any Master Netting Arrangement.
[6]Excludes margin money and non-financial assets of $2,322 million and liabilities of $1,926 million presented under due from related body corporate entities and due to related body corporate entities respectively on the Statements of financial position
[7]Excludes margin money assets of $224 million and liabilities of $829 million presented under Note 6 *Margin money and settlement assets* and Note 15 *Margin money and settlement liabilities* respectively on the Statement of financial position.

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Note 32
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
								2021
Due from related body corporate entities[4]	389	(6)	383	(5)	–	378	25	408
Total assets	389	(6)	383	(5)	–	378	25	408
Due to related body corporate entities[4]	(11)	6	(5)	5	–	-	–	(5)
Total liabilities	(11)	6	(5)	5	–	-	–	(5)

[1] Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over collateralisation .

[2] Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.

[3] Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.

[4] Amount not subject to enforceable netting arrangements includes balances with related body corporate entities which have not acceded to the MLA or other balances not governed by netting provisions of any Master Netting Arrangement

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Note 33
Pledged assets and transfers of financial assets

Pledged assets

Items 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
- other types of financial and non-financial assets disclosed in the following table provided as collateral for borrowings and issued debt

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

	2022 $m	2021 $m
On Balance Sheet items:		
Trading assets [1]	8	–
Loan assets [2]	74	–
Property, plant and equipment	86	-
Other assets	236	–
Total On Balance Sheet items pledged for liabilities	**404**	**–**
Off Balance Sheet items:		
Securities and commodities [3]	2,338	–
Total	**2,742**	**–**

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 38(vi) *Financial instruments*, the Consolidated Entity may be unable to derecognise the transferred asset 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, some continuing involvement may be retained in the assets in the form of liquidity support, financial guarantees, certain derivatives, or retention of the securitisation interest through interest rate or basis swaps. The Consolidated Entity does not have any material transfers of financial assets where the Consolidated Entity retained a continuing involvement in the transferred assets.

[1] Includes transfers for repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statement of financial position. For trading assets pledged by the Consolidated Entity, the transferee has the right to sell or re-pledge the entire value of securities received.
[2] Includes $61 million held by Consolidated SEs, which are available as security to note holders and debt providers.
[3] Represent securities amounting $ 2,338 million (2021: $Nil) pledged under repurchase agreement with MBL which the consolidated entity borrowed under an uncollateralised stock loan agreement from third parties for fees.

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Note 33
Pledged assets and transfers of financial assets continued

Transferred financial assets that are not derecognised continued

The Consolidated Entity did not derecognise any financial assets to the extent of continuing involvement in the years ended 31 March 2022 and 31 March 2021. 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 Statement of financial position and an associated liability is recognised for the consideration received.

Where securities are transferred in return for the loan of other securities or on an unsecured basis in return for a fee, 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.

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 obligation to pay those cash flows to the external funder.

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Note 33
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
					2022
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	8	-	-	-	-
Other financial assets not derecognised:					
Loan assets[2]	13	-	-	-	-
Total financial assets not derecognised	21	-	-	-	-
					2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	–	–	–	–	–
Other financial assets not derecognised:	–	–	–	–	–
Trading assets	–	–	–	–	–
Loan assets	–	–	–	–	–
Total financial assets not derecognised	–	–	–	–	–

[1] Includes transfers for repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statement of financial position.
[2] Balance related to assets pledged against funding arrangements with third party ($13m) under Specialised asset finance (SAF) business.

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Note 34
Audit and other services provided by PricewaterhouseCoopers

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

	2022 $'000	2021 $'000
PwC – Australia		
Audit of the Group and controlled entities[1]	584	31
Total audit services	584	31
Other statutory assurance services[2]	-	-
Other assurance services[3]	157	-
Advisory services	-	-
Taxation	-	-
Total non-audit services	157	-
Total remuneration paid to PwC Australia	741	-
Network firms of PwC Australia		
Audit of the controlled entities[1]	889	-
Total audit services	889	-
Other statutory assurance services[2]	-	-
Other assurance services[3]	3	-
Advisory services	9	-
Taxation	56	-
Total non-audit services	67	-
Total remuneration paid to network firms of PwC Australia	957	-
Total audit services remuneration paid to PwC	1,473	-
Total non-audit services remuneration paid to PwC	225	-
Total remuneration paid to PwC	1,698	31

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] Audit fees for some non-ELEs is borne by Macquarie Group Services Australia Pty Limited, a wholly owned subsidiary within the Macquarie group.
[2] 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.
[3] 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.

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Note 35
Acquisitions and disposals of subsidiaries and businesses

Acquisitions of businesses and subsidiaries

To ensure compliance with the revised Prudential Standard APS 222 Associations with Related Entities ("APS 222"), appropriate management, board and regulatory approvals were obtained between December 2021 and February 2022 for the restructure of the majority of the Bank Group's Non-Extended Licensed Entities (Non-ELE) within the Macquarie Bank Group (the Restructure). To affect the Restructure, in February 2022 a number of Share Sale and Purchase Agreements between relevant buying and selling entities were entered such that the Company became a direct subsidiary of MBL and in turn became the holding company for the various Non-ELE for total consideration of $4,175 million. This represents completion of the majority of the Restructure, with a small number of remaining entities to be transferred to the Company or its subsidiaries in future reporting periods

The Company borrowed $2,799 million from a syndicate of third-party banks under a senior unsecured bank facility and issued ordinary shares for a value of $1,709 million to its parent MBL to fund the restructure with surplus placed on deposit with MBL.

The acquisition was recognised as a purchase of businesses under the common control of MGL, and therefore, the net assets were recognised at the original carrying values in MGL at the date of disposal with the excess of consideration paid being recognised as reserves on restructure in equity as shown in Note 22 *Reserves, retained earnings and non-controlling interest*.

Had the acquisition occurred on 1 April 2021, the Consolidated Entity's net operating income for the year ending 31 March 2022 would have been $2,572m and profit after income tax of $1,068m.

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

Aggregate details of the net assets acquired or consolidated due to above mentioned acquisitions are as follows:-

	2022 $m	2021 $m
Book value of net assets acquired		
Cash and bank balances	1,447	-
Loan assets, other financial assets and other assets[1,2]	36,125	-
Property, plant and equipment and right-of-use assets	437	-
Payables, provisions, borrowings and other liabilities[2]	(34,589)	-
Non-controlling interests	(5)	-
Total book value of net assets acquired	3,415	-
Total cash consideration	4,175	-
Restructure reserve recognised on acquisition	760	-
Net cash flow		
Cash consideration	4,175	-
Less: cash and cash equivalents acquired[1]	2,455	-
Net cash outflow	1,720	-

Disposal of subsidiaries and businesses:

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

[1] This includes $1,008m balance relating to cash and cash equivalent which is acquired as part of group restructure.

[2] The amounts of book values presented do not include the impact of offsetting as on the date of acquisition.

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Note 36
Company Financial Information

The parent entity of the Consolidated Entity was Macquarie International Finance Limited ("the Company"). Summary of financial information for the Company is as follows:

	2022[1] $m	2021 $m
Statement of financial position		
Assets		
Current Assets[2]	5,007	25
Non Current Assets[3,4]	5,264	383
Total assets	10,271	408
Liabilities		
Current liabilities[5]	4,986	4
Non-current liabilities[6]	3,095	1
Total liabilities	8,081	5
Equity		
Contributed equity	2,176	400
Accumulated profits	14	3
Total equity	2,190	403
Statement of Comprehensive Income		
Profit after Income tax for the financial year	11	4
Total comprehensive income for the financial year	11	4
Contingent Liabilities		
Contingent liabilities exist in respect of:		
Guarantees[2,7]	2,805	107
Performance-related contingencies	121	-
Total Contingent Liabilities[8]	2,926	107

Note 37
Events after the reporting date

There were no material events subsequent to 31 March 2022 and up until the authorisation of the financial statements for issue, that have not been disclosed elsewhere in the financial statements.

[1] Current year includes impact of acquisition of businesses under common control. For detail, please refer Note 35 *Acquisitions and disposal of subsidiaries and businesses* and Note 24 *Related Party Information*.
[2] The Company provided $2,665 million (2021: $Nil) of guarantees to MBL for its exposures with certain related body corporate entities. The Company has placed cash collateral of a similar amount with MBL as per the terms of the guarantee arrangement.
[3] Non-current asset primarily comprises of investments in and long-term loans to subsidiaries and related parties. All investment in subsidiaries in hedge accounting relationships are designated as Fair value hedge at the Company level to hedge the Company's exposure to changes in the value of its net investment in a foreign operations that could occur as a result of changes in foreign exchange rates between a foreign investee's local currency and the Company's reporting currency.
[4] In accordance with the Company's accounting policies the Company reviewed its investment in subsidiaries for indicators of impairment. Since the Company acquired its investments in subsidiaries in February 2022 there were no indicators of impairment in majority of the subsidiaries. Where its investments have indicators of impairment, the investment's carrying value was compared to its recoverable value which was determined to be its fair value less costs to sell.
[5] Includes $2,338 million of unsecured government bonds borrowed by the Company under a stock loan agreement from third parties and subsequently entered into a stock loan agreement with MBL in return for cash to generate short term funding for the Non-ELE Group and to reduce MBL's non-ELE exposures. Also, includes an evergreen loan of $1,136 million taken by the Company from MFHPL.
[6] The Company borrowed $2,799 million from a syndicate of third party banks under a senior unsecured bank facility to fund its acquisition of the Non-ELE Group.
[7] The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $836 million (2021: $Nil) 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.
[8] It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

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Note 38
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 which the Consolidated Entity controls. The Consolidated Entity controls an entity where it has:

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

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

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

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.

The Consolidated Entity determines the dates of obtaining control (i.e. acquisition 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, adjusted for changes in fair value attributable to the spot foreign exchange risk where such subsidiaries are designated in qualifying fair value hedge relationships.

Note 38
Significant accounting policies continued

i. Principles of consolidation continued

Interests in associates and joint ventures

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

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

Investments (including in-substance existing ownership interests) in associates and joint ventures held by the Company are carried in its financial statements at cost less accumulated impairment.

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Note 38
Significant accounting policies continued

i. Principles of consolidation continued

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.

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.

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Note 38
Significant accounting policies continued

ii. Business combinations continued

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

Combinations between entities or businesses under common control

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

Where the Consolidated Entity acquires, as part of a common control transaction, assets that meet the definition of a business, the assets and liabilities acquired are recorded using the book values included in the consolidated financial statements of the entity having the highest level within the common control group where applicable, are presented gross of any accumulated amortisation, depreciation and impairment and reflected on a prospective basis. The Consolidated Entity accounts for the difference between the consideration paid and the book value of the assets and liabilities acquired as a restructure reserve in equity, generally in retained earnings.

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

iii. Foreign currency translation

Functional and presentation currency

The functional currency of each entity (including branches) 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 28 *Hedge accounting* and Note 38(ix) *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:

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Note 38
Significant accounting policies continued

iii. Foreign currency translation continued

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

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

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

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

iv. Revenue and expense recognition

Net interest income

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

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

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

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

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Note 38
Significant accounting policies continued

iv. Revenue and expense recognition continued

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:

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.

Service fee from related body corporates

Service fee for provision of resources or other ancillary services to other Group entities, when the Company or its subsidiaries performs a service for other entities within the Macquarie Group as per group shared services agreements, is recognised over time as those services are performed.

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, portfolio administration, lending services, stock borrow and lending activities and income on structured products which is recognised when the performance obligation is satisfied.

The revenue recognition policies above are applied to internal fee sharing arrangements between the entities within the Macquarie Group. Management fees and other cost recoveries are recognised as and when the Company performs a service to other entities within the Macquarie Group as per the agreed cost or profit sharing arrangements.

Net operating lease income

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

Other operating income and charges

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

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

Gains or losses on the change of control, joint control and/or significant influence and reclassifications to/from held for sale also forms part of investment income. Refer to Note 38(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 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.

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Note 38
Significant accounting policies continued

iv. Revenue and expense recognition continued

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.

Expenses

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

v. Taxation

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

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

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

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

All eligible Australian resident wholly owned subsidiaries of Macquarie Group Limited ("MGL", the Company's ultimate parent entity) comprise a tax consolidated group (TCG) with MGL as the head entity. As a consequence, the Company and its 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 or credits.

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Note 38
Significant accounting policies continued

v. Taxation continued

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

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

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

Goods and Services tax (GST)

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

vi. Financial instruments

Recognition of financial instruments

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

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

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

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.

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Note 38
Significant accounting policies continued

vi. 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
- prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
- 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.

Note 38
Significant accounting policies continued

vi. Financial instruments continued

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, 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
- 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 consistent with a basic lending arrangement. 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.

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Note 38
Significant accounting policies continued

vi. Financial instruments continued

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 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.

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.

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Note 38
Significant accounting policies continued

vi. Financial instruments continued

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 38(ix) *Derivative instruments and hedging activities* for the detailed hedge accounting policy.

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

vii. 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.

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
- 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 30 *Measurement categories of financial instruments*.

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Note 38
Significant accounting policies continued

vii. Cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements continued

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.

Similar transactions with related body corporates are reported as part of 'Due to/from related body corporate entities and subsidiaries.' Refer Note 38(xvii).

viii. Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets and liabilities that are classified as HFT. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised gain or loss arising from revaluing that contract to fair value as part of net trading income, except for interest income on HFT debt financial assets which is recognised in interest income. Refer to Note 38(vi) *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.

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 38(vi) *Financial instruments*), it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

ix. Derivative instruments and hedging activities

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

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

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 38(vi) *Financial instruments*.

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

Note 38
Significant accounting policies continued

ix. Derivative instruments and hedging activities continued

Hedge accounting

As part of its ongoing business, the Consolidated Entity is mainly exposed to, foreign exchange rate risk (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.

	Net investment hedge
Nature of hedge	The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates.
Nature of material hedged risks	• Foreign exchange risk.
Material hedged items	• Net Investment in foreign operations.
Material hedging instruments	• 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	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	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI.
Accounting treatment for hedge ineffectiveness	Recognised as part of net trading income in the income statement to the extent 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.

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Note 38
Significant accounting policies continued

ix. Derivative instruments and hedging activities continued

Accounting treatment if the hedge relationship is discontinued	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.

x. 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.

xi. Financial investments

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

Debt investment securities in this category comprise 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 38(vi) *Financial instruments*.

xii. Loan Assets

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

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost) and subsequently measured in accordance with Note 38 (vi) *Financial instruments.*

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 38(vi) *Financial instruments.*

xiii. 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 initially 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. Subsequently, it is stated at historical cost less accumulated depreciation and, where applicable, impairment losses, and adjusted for remeasurement of lease liabilities.

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

Note 38
Significant accounting policies continued

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

Depreciation is the process to allocate the difference between cost and residual values over the estimated useful life. Where the residual value exceeds the carrying value, no depreciation is charged. Depreciation is calculated on the following bases:

- 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]	1 to 33%
Meters	5 to 15%
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.

The depreciation charge is recognised as part of:

- Net operating lease income for assets given on operating lease
- Occupancy expenses for corporate buildings
- Non-salary technology expenses for technology assets
- Other operating expenses for all other assets.

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.

xiv. Financial & other assets and liabilities

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.

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.

[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.

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Note 38
Significant accounting policies continued

xiv. Financial & other assets and liabilities continued

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.

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 declared by the Company's Board of Directors, the provision for the dividend is recognised in the statement of financial position as a liability, with a corresponding reduction in retained earnings, on the declaration date. Where the Company's Board of Directors determine or resolve to pay a dividend, the liability and the corresponding reduction in retained earnings is recognised on the payment date.

xv. Borrowings

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

xvi. Due to/from related body corporate entities

Transactions between the Consolidated Entity and other related body corporate entities under common control of MGL and between the Company and its subsidiaries, principally arise from the provision of banking and other financial services, lending arrangements and acceptance of funds on deposit, the provision of management and administrative services, facilities and accommodation and the provision of financial guarantees, and are accounted for in accordance with Note 38(iv) *Revenue and expense recognition* and Note 38(vi) *Financial instruments*. Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 38(vi)), such that the net amount is reported in the Statement of financial position.

xvii. 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 38(vi) *Financial instruments*.

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Note 38
Significant accounting policies continued

xviii. Impairment

Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost, 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 information (FLI).

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

The ECL is determined with reference to the following stages:

i. Stage I – 12 month ECL

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

ii. Stage II – Not credit-impaired

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

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

iii. Stage III – Credit-impaired

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

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

Presentation of 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
- 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.

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Note 38
Significant accounting policies continued

xviii. Impairment continued

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

For 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). 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.

Note 38
Significant accounting policies continued

xix. Performance based remuneration

Share-based payments

The ultimate parent company, MGL, operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 26 *Employee equity participation*

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

Equity settled awards : The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. To the extent that the Consolidated Entity or Company does not compensate the ultimate parent for MEREP awards offered to its employees, a corresponding credit is recognised in contributed equity. To the extent the amount is paid in advance, a receivable due from the ultimate parent is recognised. The receivable is amortised to the income statement as share based payment expense over the vesting period. MEREP receivable amounts are recognised and disclosed in Note 24 Related party information.

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

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

Profit share remuneration

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

xx. 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 15 years and may include extension options. Leases are recognised as an ROU asset (as explained in Note 38(xiii) Property, plant and equipment and right-of-use assets) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

Lease liabilities are initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Lease payments are allocated between principal and interest expense. Interest expense is, unless capitalised on a qualifying asset which is not measured at fair value, recognised as part of interest and similar expense over the lease period on the remaining lease liability balance for each period. Any variable lease payments not included in the measurement of the lease liability are also recognised as net operating lease income in the period in which the event or condition that triggers those payments occurs. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in lease term, an assessment of an option to purchase the underlying asset, an index or rate, or a change in the estimated amount payable under a residual value guarantee.

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Note 38
Significant accounting policies continued

xx. Leases continued

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

Presentation

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

ii. Accounting where the Consolidated Entity is a lessor

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

Finance lease

Where finance leases are granted to third parties, the present value of the minimum lease payments plus an estimate of the value of any unguaranteed residual value is recognised as a receivable and included in loan assets. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Interest income is recognised over the term of the lease using the EIR method, which reflects a constant rate of return. Finance lease income is presented within interest and similar income in the income statement.

Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over its useful life in accordance with the rates specified in Note 38(xiii) *Property, plant and equipment and right-of-use assets*. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment and right of-use assets. When the Consolidated Entity is an intermediate lessor, it accounts for its interests in the head lease and the sub lease separately. The lease classification of the sublease is determined with reference to the ROU asset arising from the head lease.

xxi. 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.

xxii. 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.

xxiii. 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

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Note 38
Significant accounting policies continued

xxiv. 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.

xxv. Comparatives

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

xxvi. 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.

xxvii. 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 standard is not expected to have a material impact on the Consolidated Entity's financial statements.

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 2021 and have not been early adopted, are not likely to result in a material impact on the Consolidated Entity's financial statements.

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Directors' declaration

Macquarie International Finance Limited

In the Directors' opinion:

a. the financial statements and notes set out on pages 5 to 106 are in accordance with the Corporations Act 2001 (Cth) including:

   i. complying with Australian accounting standards and regulations, and

   ii. giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2022 and its performance for the financial year ended on that date, and

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

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

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

DocuSigned by:
Dan Saad
A672835EC422494...

Daniel Saad

Director

Sydney 28 July 2022

Independent auditor's report

To the members of Macquarie International Finance Limited

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 31 March 2022 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 March 2022
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

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

Liability limited by a scheme approved under Professional Standards Legislation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the consolidated annual report for the year ended 31 March 2022, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers

Ryan McMahon
Partner

Sydney
28 July 2022