



Annual Report 2022

Macquarie Bank
Year ended 31 March 2022



Macquarie Bank offers
transaction accounts, home
loans, credit cards, online banking,
business banking and more.

Macquarie Bank Limited is a subsidiary of Macquarie Group Limited ACN 112 169 279 and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit-taking institution (ADI). Macquarie Group Limited is regulated by APRA as a Non-Operating Holding Company of an ADI.

Cover image

We're proud to be the first Australian banking group to offer a specialised electric car-buying service to help Australians wanting to make the transition to an electric vehicle, launched as part of our Home of Electric Vehicles campaign in July 2021. We help customers find the right electric vehicle, organise test drives, access finance options, negotiate price and trade in cars.



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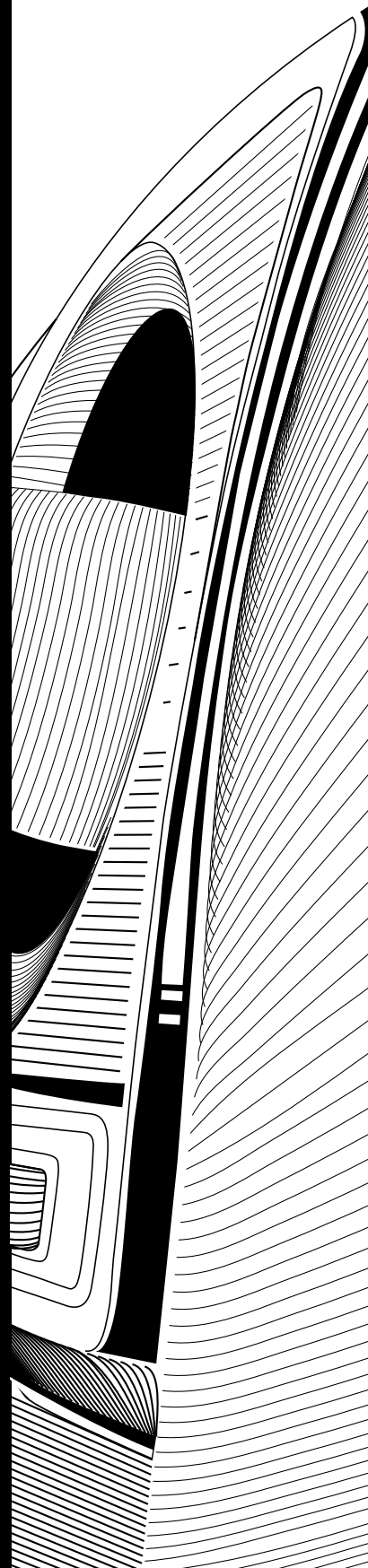
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01 About

The Home of Good Borrowers

Since we launched the Home of Good Borrowers campaign in November 2020, we have continued to generate awareness about how we reward good borrowers for their positive financial habits with flexible home loan options, great rates, low fees and an exceptional digital experience.





“

Underpinning this strong result are longstanding fundamentals that have positioned MBL well to support our clients and other stakeholders.”

Letter from the

Managing Director and CEO

Macquarie Bank's businesses collectively delivered a record result in FY2022 as our teams focused on supporting both retail and corporate clients through unprecedented market conditions.

As clients adapted to a second year of the global COVID-19 pandemic, Macquarie Bank (MBL) provided continued access to finance, a consistent level of service, a 24% increase in lending and a range of exceptional support approaches for our clients.

By the end of March 2022, less than 0.01% of our domestic retail clients remained on some form of pandemic assistance, down from peak levels of 13%. We recognise the structural shift COVID-19 has prompted for some clients, giving rise to near and longer-term changes in our approach to meeting their needs and ensuring their ongoing access to financing.

While clients have proven resilient to the uncertainty of the last two years, new challenges have emerged in recent months, whether in the form of geopolitical impacts on global markets or the continued rise in inflation, increasing the likelihood of tighter monetary policy in the period ahead. MBL's approach in this environment involves continued engagement and monitoring across our portfolios for impacted clients so that we can provide tailored support and solutions as and when required.

Macquarie Bank's consolidated net profit attributable to the ordinary equity holder of \$A2,717 million for the year ended 31 March 2022 increased 62% from \$A1,676 million in the prior year.

BFS benefited from strong growth in home loans, funds on platform and total BFS deposits together with releases in net credit impairments. This was partially offset by increased technology investment and higher average headcount to support business growth and regulatory requirements.

Commodities and Global Markets (CGM) saw increased revenue from Commodities with strong risk management demand driven by increased client hedging activity and trading activity as a result of elevated volatility and commodity price movements. The contribution from Commodities inventory management and trading was also up while Financial Markets continued to deliver strong performance. The contribution from Asset Finance also increased, largely related to the partial sale of the UK Meters portfolio and increased activity across its other sectors.

Underpinning this strong result are longstanding fundamentals that have positioned MBL well to support our clients and other stakeholders. These fundamentals include the diversity of our business mix, strong capitalisation, a well-funded balance sheet and a conservative approach to risk management. As we move forward, these same strengths position us well to adapt to ongoing changes in market conditions.

After over 20 years with Macquarie, most recently as Macquarie Group (MGL) Treasurer, I was privileged to be appointed as Macquarie Bank CEO in July 2021. I replaced Mary Reemst, who retired after 22 years with Macquarie. I would like to record my thanks to Mary, for her support to me through a lengthy handover period and for her significant contribution to our business over many years, serving in a range of investment banking and risk management roles before taking over as CEO of MBL. Mary also served as the Chair of the Macquarie Group Foundation.

Alongside my support for Macquarie Bank's businesses and clients, the first months in my new role have been focused on a range of initiatives to strengthen the voice of the Bank within the Macquarie Group and enhance MBL's governance, culture and structure to ensure full and ongoing compliance with prudential standards and management of MBL-specific risks.

As previously noted, we have been working with APRA to create a comprehensive remediation plan, and have made good progress in recent months including detailed programs of work across governance, remuneration, risk culture, regulatory reporting, prudential risk management, and group structure.

The plan was approved and endorsed by the MBL Board in FY2022. I'm pleased to note that the changes proposed under the plan, on which we will continue to deliver through FY2023 and beyond, will have a positive impact on MBL through improved systems, frameworks and processes, and further strengthen our risk culture.

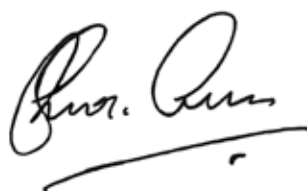
One of the most immediate and visible changes under the plan is the addition of three bank-only non-executive directors (BONDS) to the MBL Board. Consistent with similar structures in other markets where a banking entity sits within a broader group structure, the changes introduce additional safeguards to better protect the interests of MBL within the Group.

After these appointments, the MBL Board will comprise the MGL non-executive directors, Shemara Wikramanayake, Stuart Green and the three BONDS with all MBL Board committees benefiting from BONDS representation.

On behalf of the MBL Board, I'm pleased to welcome Ian Saines as MBL's first BOND, subject to completion of necessary approvals. Ian is an experienced leader in commercial and investment banking and asset management, having held senior roles at Commonwealth Bank of Australia, Challenger, Zurich Financial Services and Bankers Trust Australia. Ian began his career at the Reserve Bank of Australia and has a strong background in financial markets and highly regulated environments combined with audit, risk and investment committee experience. We expect to announce further BONDS appointments in due course.

The delivery of MBL's FY2022 record result marks the retirement of Peter Warne, who has chaired the MBL Board for the last six years. On behalf of all at MBL, I would like to thank Peter for his commitment and engagement as Chair and as a board member over many years. Peter has overseen a period of strong progress for Macquarie, including successful management transition of both the MGL and MBL CEOs, record profits and a robust response to recent challenges. I look forward to working with Glenn Stevens as MBL's new Chair and I'm delighted the Bank will benefit from Glenn's considerable markets and economics experience, most notably after a decade as Governor of the Reserve Bank of Australia.

In closing, I would like to thank MBL's staff for their tireless commitment to our clients and communities through FY2022. They have delivered an exceptional result in unpredictable markets and at times while working from home through lockdowns. As we move beyond the pandemic, I'm pleased to see so many members of the team spending time together in our offices, while also benefiting from the flexibility provided by our well-established approach to hybrid working.



Stuart Green
Managing Director and Chief Executive Officer

Sydney
6 May 2022

Financial Highlights

FY2022 net profit

\$A2,717m

↑ 62% on prior year

FY2022 net operating income

\$A9,554m

↑ 37% on prior year

FY2022 operating expenses

\$A5,887m

↑ 25% on prior year

BFS Australian clients

~ 1.7m

CGM celebrates

40+ years

of client partnerships

Total BFS deposits

\$A98.0b

↑ 21% on prior year

BFS home loan portfolio

34%

↑ on prior year

CGM ranked

**No.4 physical
gas marketer**

in North America⁽¹⁾

(1) Platts Q4-Dec 21

Operating and Financial Review

Our businesses

Macquarie Bank offers transaction accounts, home loans, credit cards, online banking, business banking and more.



Lending



Banking



**Capital
solutions**



**Asset
finance**



Further information is also available at
macquarie.com/company

For more details on the operational performance of the Operating Groups, see slides 15 to 18 of the presentation to investors and analysts available at
macquarie.com/fy22-investor-presentation

Operating and Financial Review

Our businesses continued

For internal reporting and risk management purposes, Macquarie Bank is divided into two Operating Groups, which are supported by four Central Service Groups.

Operating Groups

Banking and Financial Services (BFS)

BFS provides a diverse range of personal banking, wealth management, and business banking products, and services to retail clients, advisers, brokers and business clients.

Commodities and Global Markets (CGM)

CGM is a global business offering capital and financing, risk management, market access, physical execution and logistics solutions to its diverse client base across Commodities, Financial Markets and Asset Finance.

Central Service Groups

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

Risk Management Group (RMG)

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

Legal and Governance Group (LGG)

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

Financial Management Group (FMG)

Responsible for capital, funding, liquidity, tax and provides strategic analysis and advice in relation to financial performance to support the growth of the Macquarie business. It ensures Macquarie Bank continues to meet its financial, regulatory and tax reporting compliance obligations, as well as maintain significant relationships with a range of external stakeholders on behalf of the Bank.

Corporate Operations Group (COG)

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

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Operating and Financial Review

Our strategy

Our purpose

Empowering people to innovate and invest for a better future.

What we stand for



Opportunity



Accountability



Integrity

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

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



The *Code of Conduct* is available at [macquarie.com/what-we-stand-for](https://www.macquarie.com/what-we-stand-for)

Our business strategy

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

Risk management approach

Adopting a conservative approach to risk management underpinned by a sound risk culture. Macquarie Bank's robust risk management framework and risk culture are embedded across all Bank Group entities.

Strong balance sheet

Maintaining a strong and conservative balance sheet.

This is consistent with Macquarie Bank's longstanding policy of holding a level of capital that supports its business and managing its capital base ahead of ordinary business requirements.

Macquarie Bank has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet.

We continue to pursue the strategy of diversifying funding sources by growing our deposit base and accessing wholesale funding across a variety of products and markets.

Business mix

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

Diversification

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

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

Proven expertise

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

Adjacencies

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

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

Pursuit of growth opportunities

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

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

Risk management

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

Risk culture

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

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

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

Risk management framework

The risk management framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Operating and Central Service Groups (including Bank Group entities). The framework is supported by a Macquarie-wide approach to policies and procedures. Macquarie Bank adopts policies, procedures and risk limits in accordance with the risk profile of each Bank Group entity. Where appropriate, Macquarie's risk management framework is expanded for the Bank Group to appropriately manage contagion risk between the Bank Group and the Non-Bank Group.

The Risk Management Group (RMG) adopts the same level of rigour in relation to risk acceptance, monitoring and reporting for all Macquarie Group entities consistently.

During the year, Macquarie detected unauthorised trading activity by one individual in CGM and reported the issue promptly to all relevant regulators. While there have been no systemic issues identified and the impact is not material to CGM or MBL from a P&L perspective, there are learnings from the situation in relation to processes and enhancements to the control framework have been implemented. There were no client impacts from this issue.



Refer to the Risk Management section in the MGL Annual Report for details on Macquarie Group's risk management framework, risk culture and conduct risk management, which apply to all Macquarie Group businesses including the Bank Group entities

Macroeconomic and other factors

The key macroeconomic and other factors that impact Macquarie Bank are:

Market conditions

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

The value of the Australian dollar

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

Potential regulatory changes

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

Funding and liquidity

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

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



Further details on the management of these risks are available at [macquarie.com/risk-management](https://www.macquarie.com/risk-management)

Operating and Financial Review

Our strategy continued

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

Ownership of risk at the business level

Group Heads are responsible for ownership of material risks that arise in, or because of, the business' operations, including identification, measurement, control and mitigation of these risks. Before taking decisions, clear analysis of the risks is sought to ensure those taken are consistent with the risk appetite and strategy of the Bank Group entities.

Understanding worst-case outcomes

Macquarie Bank's risk management approach is based on examining the consequences of worst-case outcomes and determining whether these are acceptable and within Macquarie Bank's risk appetite. This approach is adopted for all material risk types and is often achieved by stress testing. Macquarie Bank operates a number of sophisticated quantitative risk management processes, but the foundation of the approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals.

Requirement for an independent sign-off by RMG

Macquarie Bank places significant importance on having a strong, independent risk management function charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals from a range of disciplines, including those with trading or advisory and capital markets experience. For all material proposals, RMG's opinion must be sought at an early stage in the decision-making process. The approval document submitted to senior management must include independent input from RMG on risk and return.

Operating and Financial Review

Review of performance and financial position

Group performance

Overview

Macquarie Bank's consolidated net profit attributable to the ordinary equity holder of \$A2,717 million for the year ended 31 March 2022 increased 62% from \$A1,676 million in the prior year.

| | FULL YEAR TO | | |
|---|-------------------|-------------------|---------------|
| | 31 Mar 22 \$Am | 31 Mar 21 \$Am | Movement % |
| Net operating income | 9,554 | 6,995 | 37 |
| Operating expenses | (5,887) | (4,697) | 25 |
| Income tax expense | (950) | (622) | 53 |
| Profit attributable to the ordinary equity holder | 2,717 | 1,676 | 62 |

Corporate updates

In November 2020, the transfer of MGL's service entities from the Non-Bank Group to the Consolidated Entity was executed following approval from both the MGL and MBL Boards. The service entities largely employ staff in Central Service Groups, together with some back and middle office staff from the Operating Groups. The transfer resulted in an increase of approximately 7,500 permanent headcount for the Consolidated Entity. Where staff provide services to the Non-Bank Group, the Consolidated Entity earns fees for these services, which are charged on an arms-length basis.

Refer to Note 39 *Acquisitions and disposals of subsidiaries and businesses* for additional information.

Operating and Financial Review

Review of performance and financial position continued

FY2022 net profit contribution by Operating Group⁽¹⁾

Banking and Financial Services

\$A1,001m

↑ 30% on prior year

- Higher net interest and trading income mainly driven by volume growth in the loan portfolio and BFS deposits.
- Decreased credit and other impairment charges driven by the partial release of COVID-19 overlays. Credit provisioning levels remain prudent with the combined downside macroeconomic scenarios having a higher weighting than the upside scenario.

Partially offset by:

- higher employment, technology and other operating expenses, including increased headcount, to support business growth and to meet regulatory requirements.

Commodities and Global Markets

\$A3,932m

↑ 62% on prior year

- Increased risk management income with gains across the platform, particularly in Gas and Power, Resources, Agriculture, and Global Oil driven by increased client hedging activity and trading activity due to elevated levels of volatility and price movements in commodity markets, partially offset by the impact of fair value adjustments across the derivatives portfolio.
- Net income on equity, debt and other investments up significantly driven by the gain on the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio.
- Decreased credit and other impairment charges driven by the partial release of COVID-19 overlays. Credit provisioning levels remain prudent with the combined downside macroeconomic scenarios having a higher weighting than the upside scenario.

Partially offset by:

- increased operating expenses mainly due to the transfer of MGL's service entities from the Non-Bank Group to the Consolidated Entity in the prior year, which included back and middle office staff in CGM, higher expenditure on technology platform and infrastructure, as well as increasing compliance and regulatory management spend.

(1) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

Net operating income

Net operating income of \$A9,554 million for the year ended 31 March 2022 increased 37% from \$A6,995 million in the prior year mainly driven by higher Net interest and trading income, Fee and commission income, Net other operating income and lower Credit and other impairment charges.

Net interest and trading income

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 6,667 | 5,404 |

↑ **23%**
on prior year

- Higher commodities income mainly driven by increased risk management income reflecting strong results across the platform, particularly from Gas and Power, Resources, Agriculture and Global Oil in CGM.
- Growth in the average loan portfolio as well as average deposit volumes in BFS.

Fee and commission income

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 1,954 | 1,326 |

↑ **47%**
on prior year

- Higher income due to fees received from the Non-Bank Group for services provided by the Central Service Groups which were transferred to MBL during the prior year.

Net operating lease income

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 339 | 395 |

↓ **14%**
on prior year

- Reduction in secondary income in Technology, Media and Telecoms as well as the partial sale of the UK Meters portfolio of assets, partially offset by an increase in income from other areas of the Macquarie Energy, Resources & Sustainability portfolio, in CGM.

Credit and other impairment charges

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| (27) | (333) |

↓ **92%**
on prior year

- Partial release of COVID-19 overlays in BFS and CGM. Credit provisioning levels remain prudent with the combined downside macroeconomic scenarios having a higher weighting than the upside scenario.

Net other operating income

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 621 | 203 |

↑
significantly
on prior year

- Gain on the partial sale of the UK Meters portfolio of assets in CGM.

Operating and Financial Review

Review of performance and financial position continued

Operating expenses

Total operating expenses of \$A5,887 million for the year ended 31 March 2022 increased 25% from \$A4,697 million in the prior year mainly driven by higher Employment expenses and higher Non-salary technology expenses. This was partially offset by lower Other operating expenses.

Employment expenses

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 3,696 | 2,103 |

↑ **76%**
on prior year

- Higher employment expenses mainly due to the transfer of staff from MGL's service entities during the prior year resulting in an increase in permanent headcount of approximately 7,500 for the Consolidated Entity.
- Increase in performance-related profit share and share-based payments as a result of increased headcount due to the transfer of the service entities, as well as the improved performance of the Consolidated Entity.

Brokerage, commission and fee expenses

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 505 | 525 |

↓ **4%**
on prior year

- The cessation of grandfathered commission payments to third party advisors in line with legislation in BFS.

Non-salary technology expenses

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 716 | 327 |

↑
significantly
on prior year

- Higher technology expenses mainly due to the transfer of costs of Central Service Groups during the prior year to the Consolidated Entity.

Other operating expenses

FULL YEAR TO

| 31 Mar 22 \$Am | 31 Mar 21 \$Am |
|-------------------|-------------------|
| 970 | 1,742 |

↓ **44%**
on prior year

- Reduced Other operating expenses mainly driven by the transfer of MGL's service entities to the Bank Group in November 2020:
 - prior to the transfer, the Bank Group recognised its allocation of charges from the service entities in Other expenses which were charged on an arms-length basis
 - since the transfer, the costs of the service entities have been incurred directly by the Bank Group and recognised in the underlying expense categories, including Employment expenses and Non-salary technology expenses.

Income tax expense

Income tax expense for the year ended 31 March 2022 of \$A950 million increased 53% from \$A622 million in the prior year; primarily reflecting the higher operating profit before income tax. The effective tax rate for the year ended 31 March 2022 was 25.9%, down from 27.1% in the prior year.

The lower effective tax rate compared to the prior year was mainly driven by the geographic composition and nature of earnings.

Statement of Financial Position

The Consolidated Entity's statement of financial position was impacted during the year ended 31 March 2022 by changes resulting from a combination of business activities, Group Treasury management initiatives and the elevated levels of volatility and price movements in commodity markets.

Total assets

| AS AT | | ↑ 61% on 31 March 2021 |
|-------------------|-------------------|---------------------------|
| 31 Mar 22 \$Am | 31 Mar 21 \$Am | |
| 349,628 | 216,848 | |

The principal drivers for the increase in the Consolidated Entity's total assets were as follows:

- derivative assets of \$A84.6 billion as at 31 March 2022 increased significantly from \$A20.6 billion as at 31 March 2021 primarily due to an increase in CGM's Energy market business driven by client trade volumes and mark-to-market movements. Exposures in UK and EMEA Gas increased significantly during the year due to elevated levels of volatility and price movements. After taking into account related financial instruments, cash and other collateral, the residual derivative asset was \$A15.8 billion (31 March 2021: \$A5.1 billion). Residual derivative exposure is short term in nature and managed within our market and credit risk frameworks, with a substantial portion of the exposure with investment grade counterparties
- cash and bank balances of \$A49.0 billion as at 31 March 2022 increased significantly from \$A16.0 billion as at 31 March 2021 primarily due to an increase in high quality liquid assets held as overnight deposit with the Reserve Bank of Australia (RBA)
- loan assets of \$A123.0 billion as at 31 March 2022 increased 24% from \$A99.0 billion as at 31 March 2021 primarily due to growth in BFS home loan and business banking portfolios, partially offset by a reduction in the BFS car loan portfolio
- margin money and settlement assets of \$A19.4 billion as at 31 March 2022 increased significantly from \$A8.3 billion as at 31 March 2021 primarily due to higher trade volumes resulting in an increase in margin placed with financial institutions and trade settlement balances by CGM
- cash collateralised lending and reverse repurchase agreements of \$A42.5 billion as at 31 March 2022 increased 23% from \$A34.6 billion as at 31 March 2021 primarily due to an increase in Group Treasury holdings of liquid assets through reverse repurchase agreements and client financing requirements in CGM.

These increases were partially offset by:

- trading assets of \$A11.7 billion as at 31 March 2022 decreased 45% from \$A21.2 billion as at 31 March 2021 primarily due to a decrease in government bonds and metal inventories in CGM.

Total liabilities

| AS AT | | ↑ 64% on 31 March 2021 |
|-------------------|-------------------|---------------------------|
| 31 Mar 22 \$Am | 31 Mar 21 \$Am | |
| 331,660 | 202,774 | |

The principal drivers for the increase in the Consolidated Entity's total liabilities were as follows:

- derivative liabilities of \$A84.2 billion as at 31 March 2022 increased significantly from \$A17.5 billion as at 31 March 2021 primarily due to an increase in CGM's Energy market business driven by client trade volumes and mark-to-market movements. Exposures in UK and EMEA Gas increased significantly during the year due to elevated levels of volatility and price movements on short positions. After taking into account related financial instruments, cash and other collateral, the residual derivative liability was \$A15.9 billion (31 March 2021: \$A3.7 billion)
- issued debt securities of \$A72.1 billion as at 31 March 2022 increased 61% from \$A44.7 billion as at 31 March 2021 primarily due to the net issuance of short and long-term debt by Group Treasury and additional net issuance of bondholder notes by securitisation vehicles in BFS
- deposits of \$A101.6 billion as at 31 March 2022 increased 21% from \$A84.1 billion as at 31 March 2021 primarily due to an increase in retail and business banking deposits in BFS
- cash collateralised borrowing and repurchase agreements of \$A16.9 billion as at 31 March 2022 increased significantly from \$A4.5 billion as at 31 March 2021 primarily due to the additional draw down of the RBA Term Funding Facility by Group Treasury
- margin money and settlement liabilities of \$A21.6 billion as at 31 March 2022 increased 33% from \$A16.3 billion as at 31 March 2021 primarily due to higher trade volumes resulting in an increase in margin placed by financial institutions and broker settlement balances with CGM.

These increases were partially offset by:

- due to related body corporate entities of \$A11.6 billion as at 31 March 2022 which decreased 27% from \$A15.9 billion as at 31 March 2021 primarily due to a decrease in deposits from the Non-Bank Group.

Total equity

| AS AT | | ↑ 28% on 31 March 2021 |
|-------------------|-------------------|---------------------------|
| 31 Mar 22 \$Am | 31 Mar 21 \$Am | |
| 17,968 | 14,074 | |

The increase in the Consolidated Entity's equity was predominantly attributable to earnings of \$A2.7 billion generated during the year, and the issuance of Contributed equity of \$A1.0 billion.

Operating and Financial Review

Review of performance and financial position continued

Funding

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.

Macquarie Bank has diversity of funding across a range of tenors, currencies and products. The weighted average term to maturity of term funding maturing beyond one year (excluding Term Funding Facility (TFF), equity and securitisations) was 3.8 years and the weighted average term to maturity of term funding maturing beyond one year including TFF (excluding equity and securitisations) was 3.3 years as at 31 March 2022.

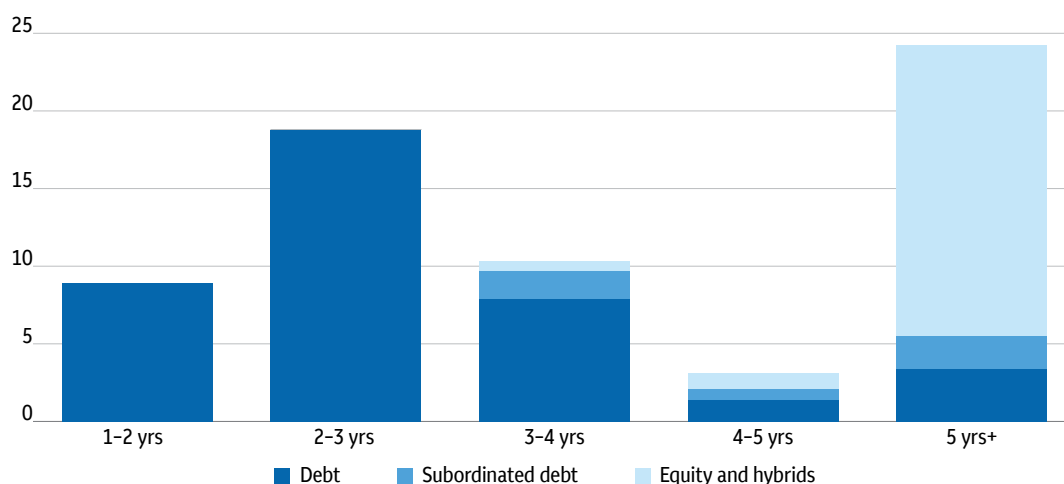
3.8
years

Weighted
average
maturity

Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion



Macquarie Bank has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2021, Macquarie Bank has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2021 and 31 March 2022:

| | | Total \$Ab |
|----------------------------|---|---------------|
| Issued paper | - Senior and subordinated | 7.8 |
| Secured funding | - Term securitisation and other secured finance | 9.0 |
| | - RBA Term Funding Facility ⁽¹⁾ | 9.5 |
| Loan facilities | - Syndicated unsecured loan facilities | 3.0 |
| Hybrids | - Hybrid Instruments | 0.7 |
| Total⁽²⁾ | | 30.0 |

Macquarie Bank has continued to develop its major funding markets and products during the year ended 31 March 2022.

(1) \$A9.5 billion of Supplementary and Additional Allowance drawn in June 2021. \$A1.7 billion of Initial Allowance was drawn in September 2020.

(2) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance. Includes refinancing of loan facilities.

Capital

Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110⁽¹⁾. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum BCBS Basel III leverage ratio requirement of 3% was effective from 1 January 2018⁽²⁾.

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 31 March 2022.

| Bank Group Level 2 Basel III ratios as at 31 March 2022 | Harmonised Basel III ⁽³⁾ | APRA Basel III |
|---|-------------------------------------|----------------|
| Common Equity Tier 1 Capital Ratio | 14.6% | 11.5% |
| Tier 1 Capital Ratio | 16.5% | 13.2% |
| Leverage Ratio | 5.6% | 5.0% |



For further information relating to the capital adequacy of Macquarie Bank, refer to section 6.0 Capital of the Management Discussion and Analysis at [macquarie.com/fy22-mda](https://www.macquarie.com/fy22-mda)

(1) Based on materiality, the countercyclical capital buffer (CCyB) of ~1bps has not been included.

(2) APRA released the final 'Prudential Standard APS 110 Capital Adequacy' on 29 November 2021 which has a minimum requirement for the leverage ratio of 3.5% effective 1 January 2023.

(3) 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework, noting that MBL is not regulated by the BCBS and so impacts shown are indicative only.



02

Directors' Report

Helping more Australians transition to electric

At Macquarie, we're committed to helping Australians transition to an electric car easily. Since launching our Home of Electric Vehicles campaign in July 2021, we have developed a range of tools and insights to help guide our customers through the process.

With information ranging from comparisons of electric vehicles in the market to answering the top questions and concerns, we want to empower our customers to make the right choice for their lifestyle.



Directors' Report

For the financial year ended 31 March 2022

The Directors of MBL submit their report with the financial report of the Consolidated Entity and the Company for the year ended 31 March 2022.

Directors

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

Independent Directors

P.H. Warne, Chairman

J.R. Broadbent AC

P.M. Coffey

M.J. Coleman

M.A. Hinchliffe

R.J. McGrath

M. Roche

G.R. Stevens AC

N.M. Wakefield Evans

Executive Voting Directors

S.D. Green, Managing Director and Chief Executive Officer (CEO)

S.R. Wikramanayake

Other than Mr Green and Ms Hinchliffe, the Directors listed above each held office as a Director of MBL throughout the financial year ended 31 March 2022. Mr Green was appointed as Managing Director and Chief Executive Officer, and as an Executive Voting Director of MBL, on 1 July 2021. Ms Hinchliffe joined the Board of Directors as an Independent Director effective from 1 March 2022.

Mr G.M. Cairns retired as an Independent Director on 7 May 2021 and Ms D.J. Grady AO retired as an Independent Director on 24 February 2022. Ms M.J. Reemst retired from her roles as Managing Director and Chief Executive Officer, and as an Executive Voting Director of MBL, on 1 July 2021. Mr Warne will retire as an Independent Director and Chairman on 9 May 2022. Mr Stevens will become Chairman effective 10 May 2022.

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



Details of the qualifications, experience and special responsibilities of the Directors and qualifications and experience of the Company Secretaries at the date of this report are set out on pages 28 to 34 of this report

Principal activities

The principal activity of MBL during the financial year ended 31 March 2022 was to act as a full-service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. MBL is a subsidiary of MGL and is regulated by APRA as an authorised deposit-taking institution (ADI). In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2022 and 31 March 2021, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to the ordinary equity holders for the financial year ended 31 March 2022 was \$A2,717 million (2021: \$A1,676 million).

Dividends and distributions

No dividends or distributions were declared or paid during the financial year by MBL.

State of affairs

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

Operating and financial review

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

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

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

Directors' Report

For the financial year ended 31 March 2022 continued

Directors' relevant interests

At the date of this report, none of the Directors held a relevant interest, as required to be notified by the Directors to the Australian Securities Exchange (ASX) in accordance with the *Corporations Act 2001* (Cth) (the Act), in ordinary shares or share options of MBL. The relevant interests of Directors in MBL securities, managed investment schemes made available by related companies of MBL and other disclosable relevant interests are listed in the table below:

| Name and position | Direct and indirect interests | Number held |
|----------------------------------|---|-------------|
| Executive Voting Director | | |
| S.D. Green | Macquarie ordinary shares (MQG) | 166 |
| | Macquarie Group Retained Equity Plan (MEREP) Restricted Share Units (RSUs) ⁽¹⁾ | 27,951 |
| | Macquarie Private Infrastructure Fund units | 90,000 |
| | | |
| S.R. Wikramanayake | MQG | 1,007,159 |
| | MEREP RSUs ⁽¹⁾ | 397,522 |
| | MEREP PSUs ⁽¹⁾ | 98,832 |
| | MAFCA Investments Pty Ltd ordinary shares | 2,000,000 |
| Independent Directors | | |
| J.R. Broadbent | MQG | 16,062 |
| | Macquarie Group Capital Notes 3 (MCN3) | 7,177 |
| | Macquarie Group Capital Notes 4 (MCN4) | 4,000 |
| | Macquarie Bank Capital Notes 2 (BCN2) | 1,500 |
| P.M. Coffey | MQG | 8,895 |
| | Walter Scott Global Equity Fund units | 408,699.89 |
| M.J. Coleman | MQG | 7,480 |
| | Macquarie Group Capital Notes 5 (MCN5) | 2,000 |
| | Macquarie Bank Capital Notes 3 (BCN3) | 3,000 |
| M.A. Hinchliffe | - | - |
| R.J. McGrath | MQG | 2,210 |
| M. Roche | MQG | 2,156 |
| G.R. Stevens | MQG | 4,847 |
| N.M. Wakefield Evans | MQG | 7,267 |
| P.H. Warne | MQG | 14,933 |

(1) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in Note 29 Employee equity participation disclosure to the financial statements in the Financial Report.

Meeting attendance

Board and Board Committee meetings and attendance

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

| Number of meetings | Regular Board meetings ⁽¹⁾ 9 | BAC meetings ⁽¹⁾ 6 | BRiC meetings ⁽¹⁾ 6 | Special Board meetings ⁽¹⁾ 3 |
|--------------------------------|--|----------------------------------|-----------------------------------|--|
| P.H. Warne | 9/9 | - | 6/6 | 3/3 |
| S.D. Green ⁽²⁾ | 7/7 | - | - | 2/2 |
| S.R. Wikramanayake | 9/9 | - | - | 3/3 |
| J.R. Broadbent | 9/9 | - | 6/6 | 3/3 |
| G.M. Cairns ⁽³⁾ | 1/1 | - | 1/1 | - |
| P.M. Coffey | 9/9 | 6/6 | 6/6 | 3/3 |
| M.J. Coleman | 9/9 | 6/6 | 6/6 | 3/3 |
| D.J. Grady ⁽⁴⁾ | 9/9 | - | 5/5 | 3/3 |
| M.A. Hinchliffe ⁽⁵⁾ | - | 1/1 | 1/1 | 1/1 |
| R.J. McGrath | 9/9 | - | 6/6 | 3/3 |
| M.J. Reemst ⁽⁶⁾ | 2/2 | - | - | 1/1 |
| M. Roche | 9/9 | - | 6/6 | 3/3 |
| G.R. Stevens | 9/9 | 6/6 | 6/6 | 3/3 |
| N.M. Wakefield Evans | 9/9 | 6/6 | 6/6 | 3/3 |

The Board Audit Committee (BAC) is a joint committee of MGL and MBL. The BAC assists the Boards of MGL and MBL in fulfilling the Boards' responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting of the Macquarie Group, including MBL.

The Board Risk Committee (BRiC) is a joint committee of MGL and MBL. The membership of the Committee consists of all the Non-Executive Voting Directors (NEDs) of MGL and MBL. The BRiC assists the Boards of MGL and MBL by providing oversight of the Macquarie Group's risk management framework and advising the Boards on Macquarie Group's and MBL's risk appetite, risk culture and risk management strategy.

In addition to the BAC and the BRiC, the MGL and MBL Boards are also assisted by the Board Governance and Compliance Committee (BGCC) and the Board Remuneration Committee (BRC).

The BGCC assists the Board of MGL for itself and its subsidiaries with adopting the most appropriate corporate governance standards for the Macquarie Group, including MBL, and assists the MGL Board in fulfilling its responsibility for oversight of the regulatory and compliance risk framework of the Macquarie Group, including MBL. The BRC makes recommendations to the Boards of MGL and MBL that promote appropriate remuneration policies and practices for the Macquarie Group consistent with Macquarie Group's risk management framework.

There was one Board sub-committee convened during the period, with two meetings held. The meetings were attended by all the eligible sub-committee members, being Mr Warne, Ms Wikramanayake, Mr Coleman and the Chief Financial Officer, Mr Harvey, for both meetings and by Ms Reemst and Mr Green, for one meeting each.

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

The Chairman of the Board, Macquarie Group CEO and the Macquarie Bank CEO, attend BAC meetings by invitation as a matter of course. The Macquarie Group CEO and Macquarie Bank CEO attend BRiC meetings as a matter of course.

(1) Number of meetings attended by the member/total number of meetings eligible to attend as a member.

(2) Mr Green was appointed as Managing Director and Chief Executive Officer, and as an Executive Voting Director of MBL, on 1 July 2021.

(3) Mr Cairns retired from the Board as an Independent Voting Director on 7 May 2021.

(4) Ms Grady retired from the Board as an Independent Voting Director on 24 February 2022.

(5) Ms Hinchliffe was appointed to the Board as an Independent Voting Director, and as a member of the Board Audit and Board Risk Committees, on 1 March 2022.

(6) Ms Reemst retired from her roles as Managing Director and Chief Executive Officer, and as an Executive Voting Director of MBL, on 1 July 2021.

Directors' Report

For the financial year ended 31 March 2022 continued

Directors' and officers' indemnification and insurance

Under MBL's Constitution, MBL indemnifies all past and present directors and secretaries of MBL and its wholly-owned subsidiaries (including at this time the Directors named in this report and the Secretaries) certain liabilities and costs incurred by them in their respective capacities.

The indemnity covers the following liabilities and legal costs (subject to the exclusions described as follows):

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

The indemnity does not apply to the extent that:

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

MBL has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (as amended from time to time) (Deed) with each of the Directors.

Under the Deed, MBL agrees to, among other things:

- indemnify the Director upon terms broadly consistent with the indemnity contained in MBL'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 MBL 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 MBL's position. Insurance must be maintained for seven years after the Director ceases to be a Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings)
- grant access to Directors to all relevant company papers (including Board papers and other documents) for seven years after the Director ceases to be a Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings).

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

However, the Deed Poll does not provide for access to company documents. The Deed Poll largely supersedes previous deed polls

which were provided by MBL which were on similar terms. Certain directors and secretaries still have the benefit of the previous deed polls.

A Directors' and Officers' insurance policy, taken out by Macquarie Group, is in place that provides cover for each person in favour of whom such insurance is required to be taken out under the Deed and the Deed Poll and for MBL in indemnifying such persons pursuant to the Deed and the Deed Poll. Relevant individuals pay the premium attributable to the direct coverage under the policy and Macquarie Group pays 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.

To the extent permitted by law, MBL has agreed to reimburse its auditor, PricewaterhouseCoopers (PwC), for any liability (including reasonable legal costs) PwC incurs in connection with any claim by a third party arising from MBL's breach of the letter of engagement dated 22 June 2021.

Environmental regulations

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

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

Non-audit services

Fees paid or payable to PwC, being the auditor of the Consolidated Entity, for non-audit services during the year ended 31 March 2022 total \$A8.4 million (2021: \$A6.9 million). Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 38 *Audit and other services provided by PricewaterhouseCoopers* in the Financial Report.

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

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

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

Rounding of amounts

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

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

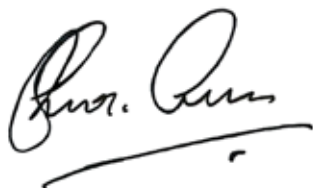
Events subsequent to balance date

At the date of this report the Directors are not aware of any matter or circumstance, other than transactions disclosed in the financial statements, that has arisen and has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2022.



Peter Warne

Independent Director and Chairman



Stuart Green

Managing Director and Chief Executive Officer

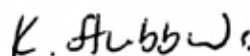
Sydney
6 May 2022

Auditor's independence declaration

As lead auditor for the audit of Macquarie Bank 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 (Cth)* in relation to the audit, and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Kristin Stubbins

Partner
PricewaterhouseCoopers

Sydney
6 May 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

Liability limited by a scheme approved under
Professional Standards Legislation.

Directors' experience and special responsibilities



Peter H Warne

BA (Macquarie), FAICD

Age: 66

Resides: New South Wales

Independent Chairman of MGL and MBL since April 2016

Independent Voting Director of MGL since August 2007

Independent Voting Director of MBL since July 2007

Mr Warne is a member of the BRiC

Experience

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

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

Listed company directorships (last three years)

- Chairman, IPH Limited (since February 2022); Chairman-elect (November 2021–February 2022); Director (since November 2021)
- Director, ASX Limited (July 2006–September 2020)

Other current directorships/appointments

- Board member, Allens
- Member, ASIC Corporate Governance Consultative Panel
- Member, NSW Net Zero Emissions and Clean Economy Board
- Member, Corporate Governance Committee, Australian Institute of Company Directors



Stuart D Green

BA (Hons) (UCL), MBA (CUL Business School), FCA, AMCT

Age: 57

Resides: New South Wales

Managing Director and Chief Executive Officer of MBL since July 2021

Executive Voting Director of MBL since July 2021

Experience

Stuart joined Macquarie Group in 2001 and was appointed Group Treasurer in August 2013, a role he held until July 2021.

On joining Macquarie, Stuart worked in the Corporate & Asset Finance group, responsible for originating asset financing transactions for Macquarie. In 2002, Stuart assumed responsibility for investor relations for Macquarie's listed airport fund, Macquarie Airports, before moving to become Global Head of Investor Relations for Macquarie's portfolio of listed funds. In 2008 he was appointed Macquarie Group's Head of Corporate Communications and Investor Relations, responsible for managing the Group's relationships with investors and analysts, government and media.

Prior to joining Macquarie, Stuart worked in the UK as a Chartered Accountant in public practice for BDO Binder, where he obtained his professional qualifications, and later in a number of corporate roles as head of finance and corporate strategy.

From 2010 to 2020, Stuart served on the Board of the Juvenile Diabetes Research Foundation (JDRF) where he was the Treasurer and Chair of the Finance & Audit Committee.

Other current directorships/appointments

- Director, Australian Financial Markets Association
- Member, Australian Banking Association Council
- Member, Macquarie Group Foundation Committee



Shemara R Wikramanayake

BCom LLB (UNSW)

Age: 60

Resides: New South Wales
Managing Director and Chief Executive Officer of MGL since December 2018
Executive Voting Director of MGL and MBL since August 2018

Experience

Shemara Wikramanayake has been Macquarie Group's Managing Director and CEO since late 2018.

Shemara joined Macquarie in 1987 in Macquarie Capital in Sydney. In her time at Macquarie, Shemara has worked in six countries and across several business lines, establishing and leading Macquarie's corporate advisory offices in New Zealand, Hong Kong and Malaysia, and the infrastructure funds management business in the US and Canada. Shemara has also served as Chair of the Macquarie Group Foundation.

As Head of Macquarie Asset Management for 10 years before her appointment as CEO, Shemara led a team of 1,600 staff in 24 markets. Macquarie Asset Management grew to become a world-leading manager of infrastructure and real assets and a top 50 global public securities manager.

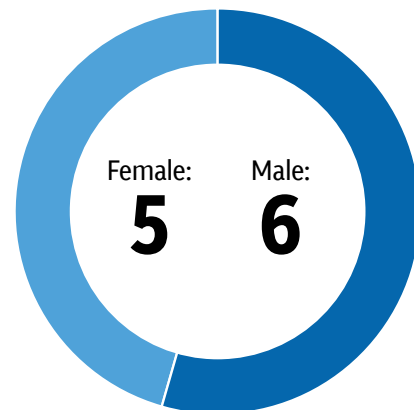
Shemara sits on the World Bank's Global Commission on Adaptation and was a founding CEO of the United Nations Climate Finance Leadership Initiative (CFLI). She currently leads emerging markets workstreams for CFLI and the Glasgow Financial Alliance for Net Zero (GFANZ).

Before joining Macquarie, Shemara worked as a corporate lawyer at Blake Dawson Waldron in Sydney. She holds Bachelor of Commerce and Bachelor of Laws degrees from UNSW and completed the Advanced Management Program at Harvard Business School in 1996.

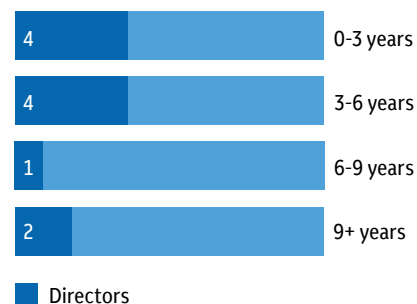
Other current directorships/appointments

- Board member, Institute of International Finance
- Founding Member, Glasgow Financial Alliance for Net Zero (GFANZ)
- Founding Member, Climate Finance Leadership Initiative; Co-Chair, CFLI India
- Founding Commissioner, Global Commission on Adaptation
- Member, Australian Federal Government's University Research Commercialisation Scheme Taskforce
- Member, Australian Federal Government's Technology Investment Advisory Council
- Member, UK Investment Council
- Member, Investment Attraction Council, Investment New South Wales

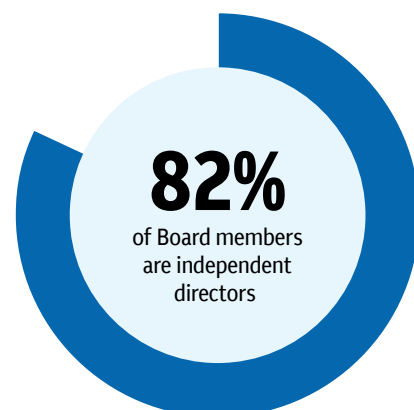
Gender diversity



Board tenure



Board independence



Directors' experience and special responsibilities

Continued



Jillian R Broadbent AC

BA (Maths & Economics)
(Sydney)

Age: 74

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

Ms Broadbent is a member
of the BRiC

Experience

Jillian Broadbent has extensive investment banking industry knowledge and markets expertise, including a deep knowledge of risk management and regulation in these areas. She also has considerable executive management and listed company board experience.

Ms Broadbent spent 22 years at Bankers Trust Australia until 1998, initially as an economic strategist and then as executive director responsible for risk management and derivatives in foreign exchange, interest rates and commodities.

Ms Broadbent was also a Member of the Reserve Bank of Australia Board between 1998 and 2013 and has previously served as Chair of the Board of Clean Energy Finance Corporation, and as a director of ASX Limited, SBS, Coca Cola Amatil Limited, Woodside Petroleum Limited, Qantas Airways Limited, Westfield Management Limited, Woolworths Group Limited and the National Portrait Gallery of Australia.

Listed company directorships (last three years)

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

Other current directorships/appointments

- Director, National Portrait Gallery Board Foundation
- Director, Sydney Dance Company



Philip M Coffey

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

Age: 64

Resides: New South Wales
Independent Voting Director
of MGL and MBL since
August 2018

Mr Coffey is Chairman of
the BRiC and a member
of the BAC

Experience

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

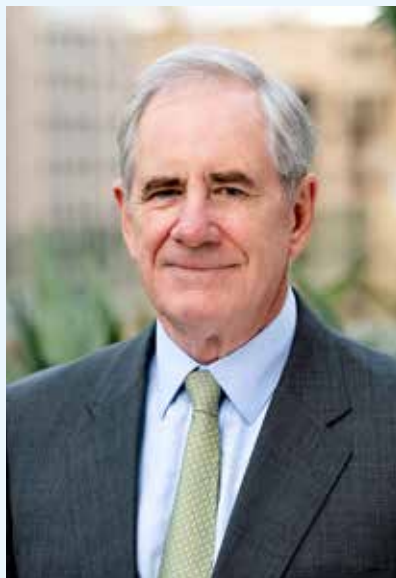
He has successfully led operations based in Australia, New Zealand, the United States, the United Kingdom and Asia, and has extensive experience in financial markets, funds management, balance sheet management and risk management. He began his career at the Reserve Bank of Australia and has also held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

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited
(since January 2017)

Other current directorships/appointments

- Director, Clean Energy Finance Corporation
- Director, Goodstart Early Learning Ltd



Michael J Coleman

MCom (UNSW), FCA,
FCPA, FAICD

Age: 71

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

Mr Coleman is Chairman
of the BAC and a member
of the BRiC

Experience

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

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

Listed company directorships (last three years)

- Chairman, Bingo Industries Limited
(March 2017–August 2021)

Other current directorships/appointments

- Deputy Chair and Chair of the Audit and Risk Committee, Planet Ark Environmental Foundation
- Chairman, Reporting Committee, Australian Institute of Company Directors
- Board member, Legal Aid NSW
- Councillor, NSW Division, Australian Institute of Company Directors
- Member, Nominations and Governance Committee, Chartered Accountants Australia and New Zealand



Michelle A Hinchliffe

BCom (UQ), FCA, ACA

Age: 57

Resides: Queensland
Independent Voting Director
of MGL and MBL since
March 2022

Ms Hinchliffe is a member
of the BAC and BRiC

Experience

Michelle Hinchliffe has more than 35 years' professional experience within the financial services sector in the United Kingdom and Australia, with extensive experience in leading large global teams in the provision of external audit, internal audit and advisory services to clients across financial services.

Michelle was the Global Lead Audit Partner for a number of global banking institutions as well as the Head of Audit, KPMG UK from September 2017 to April 2019 and then Chair of Audit, KPMG UK from May 2019 to September 2021. During the period from May 2019 to February 2022 she was a board member of KPMG UK. Prior to this she was the Head of Financial Services for KPMG Australia, where she was also a member of the board.

Listed company directorships (last three years)

- Director, BHP Group Limited (since March 2022)

Directors' experience and special responsibilities

Continued



Rebecca J McGrath

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

Age: 57

Resides: Victoria

Independent Voting Director of MGL and MBL since January 2021

Ms McGrath is a member of the BRiC

Experience

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

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

Listed company directorships (last three years)

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

Other current directorships/appointments

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



Mike Roche

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

Age: 69

Age: New South Wales

Independent Voting Director of MGL and MBL since January 2021

Mr Roche is a member of the BRiC

Experience

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

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

Listed company directorships (last three years)

- Director, Wesfarmers Limited (since February 2019)

Other current directorships/appointments

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



Glenn R Stevens AC

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

Age: 64

Resides: New South Wales
Independent Voting Director
of MGL and MBL since
November 2017

Mr Stevens is a member
of the BAC and BRIC

Experience

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

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

Other current directorships/appointments

- Board member, NSW Treasury Corporation
- Director, Anika Foundation
- Director, Lowy Institute
- Deputy Chair, Temora Aviation Museum



Nicola M Wakefield Evans

BJuris/BLaw (UNSW), FAICD

Age: 61

Resides: New South Wales
Independent Voting Director
of MGL and MBL since
February 2014

Ms Wakefield Evans is a
member of the BAC and BRIC

Experience

Nicola Wakefield Evans is an experienced Non-Executive Director and corporate finance lawyer. As a lawyer, Ms Wakefield Evans has significant Asia-Pacific experience and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors. She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.

Listed company directorships (last three years)

- Director, Lendlease Corporation Limited (since September 2013)
- Director, Viva Energy Group Limited (since August 2021)

Other current directorships/appointments

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

Directors' experience and special responsibilities

Continued

Company secretaries' qualifications and experience

Dennis Leong

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

Company Secretary since October 1993

Experience

Dennis Leong is an Executive Director of Macquarie and has had responsibility for Macquarie's company secretarial requirements, general and professional risks insurances and aspects of its employee equity plans. He has over 28 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Simone Kovacic

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

Assistant Company Secretary since June 2020

Experience

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

Remuneration Report

Introduction

Macquarie Bank is a subsidiary of Macquarie Group Limited. Whilst the Macquarie Group remuneration framework applies to all staff within the Macquarie Group, the MBL Board oversees the remuneration policies applicable to MBL staff and approves remuneration outcomes relating to the senior executives of Macquarie Bank.

The MBL Board believes our longstanding approach to remuneration has been a key driver of our sustained success. Staff are rewarded based on their performance against a range of financial and non-financial considerations, delivering positive outcomes over the long-term for our clients, shareholders, partners and communities. Nevertheless, we continue to review and adjust our approach to ensure the remuneration framework remains fit for purpose and balances the evolving expectations of all our stakeholders.

As noted in the MBL CEO's letter, work is underway with APRA to strengthen the voice of the Bank within the Macquarie Group and enhance MBL's governance, culture and structure to ensure full and ongoing compliance with prudential standards and management of MBL-specific risks. This incorporates detailed programs of work across governance, remuneration, risk culture, regulatory reporting, prudential risk management, and group structure. One of the most visible changes will be the addition of three bank-only non-executive directors (BONDS) to the MBL Board.

The remuneration program of work is underway to ensure that the MBL remuneration framework supports the best interests of MBL and strengthens the voice of the Bank in the oversight, design and determination of remuneration outcomes for MBL. This will see changes to MBL's remuneration governance arrangements including the establishment of an MBL Board Remuneration Committee (BRC) made up of members of the MGL BRC and BONDS.

This program of work is being carried out in conjunction with the implementation of broader changes to the remuneration framework related to APRA's new Prudential Standard CPS 511 *Remuneration* (CPS 511) that impacts the whole Macquarie Group (refer to pages 38 to 39).

Remuneration Report

Continued

Remuneration framework

This section explains the link between our purpose, our remuneration objectives and principles, and how these are reflected in the remuneration framework.

Macquarie Bank's longstanding and consistent approach to remuneration continues to meet our remuneration objectives and align with our principles. The MBL Board recognises that to achieve these objectives, we must attract, motivate and retain exceptional people with deep industry expertise, align their interests with shareholders to meet the needs of clients and customers and ensure that the spirit and intent of regulatory requirements are upheld. This broad approach is reviewed regularly to ensure the framework continues to meet our remuneration objectives and aligns with the expectations of our stakeholders. As a result of this year's review, agreed changes to the remuneration structure are set out on pages 38 to 39.

Our remuneration approach has been a key driver of our sustained success as an international organisation. Staff are motivated to grow businesses over the medium to long-term, taking accountability for all decisions and their accompanying risk management, customer, economic and reputational consequences.

This approach has been fundamental in ensuring we can continue to attract, motivate and retain exceptional, entrepreneurial and ethical people across the global markets in which we operate. We hire world-class people in 33 highly competitive markets. These people come from, and compete in, various industry sectors (including hedge funds, private equity firms, global investment banks, fund managers, advisory boutiques, commodity houses and other banks, as well as industries that are not specific to banking or financial services, for example, technology, accounting, and engineering) across many jurisdictions.

The table below shows the link between our purpose and our remuneration objectives and principles.

Our purpose:

Empowering people to innovate and invest for a better future



Opportunity



Accountability



Integrity



Remuneration objectives

Macquarie Bank's remuneration framework aims to:

- deliver strong company performance over the short and long-term whilst prudently managing risk
- attract, motivate and retain exceptional people with deep industry expertise
- align the interests of staff and shareholders to deliver sustained results for our customers, clients and community
- promote innovation and the building of sustainable businesses
- drive behaviours that reflect the best interests of Macquarie Bank, our culture and the principles of *What We Stand For*
- foster a diverse and inclusive work environment.








Remuneration principles

These objectives are achieved by:

- emphasising performance-based remuneration
- determining an individual's variable remuneration based on a range of financial and non-financial factors
- retaining a significant proportion of performance-based remuneration to enable risk outcomes to be considered over a long period
- delivering retained profit share in equity to ensure the interests of staff and shareholders are aligned over the long-term
- remunerating high-performing staff appropriately, relative to global peers
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives.

Remuneration framework continued

The remuneration framework works as an integrated whole. As summarised below, an individual's remuneration comprises fixed remuneration, profit share and, for Executive Committee members (our Executive KMP), Performance Share Units (PSUs).

| Remuneration framework | | | |
|---|---|---|--|
| Fixed Remuneration | | | |
| <ul style="list-style-type: none">• primarily comprises base salary, as well as superannuation contributions and standard country-specific benefits in line with local market practice• for Executive KMP, is set at a comparatively low level, relative to the industry, and a low proportion of total remuneration but sufficient to avoid inappropriate risk-taking• is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements• for risk and financial control staff, is generally a higher proportion of total remuneration than for front office staff. | | | |
| Performance-based Remuneration | | | |
| Criteria | Profit Share | Performance Share Units | |
|  Eligibility | <ul style="list-style-type: none">• all permanent employees | <ul style="list-style-type: none">• Executive Committee members | |
|  Determination | <ul style="list-style-type: none">• allocations reflect an individual's performance, which is assessed against a range of financial and non-financial factors including:<ul style="list-style-type: none">– contribution to financial results– approach to risk management and compliance– business leadership including outcomes for customers and the community– people leadership and professional conduct including the role-modelling of our culture and purpose and our long-standing principles of <i>What We Stand For</i> | <ul style="list-style-type: none">• individual allocations reflect their role as members of the Executive Committee and their contribution to driving the collective performance of MBL and Macquarie Group• allocations are based on the face value of shares on the grant date• allocations are subject to Board discretion | |
|  Structure | <ul style="list-style-type: none">• significant proportion is retained (80% for the MGL CEO and 60% for the MBL CEO and other Executive KMP)• long deferral periods (up to seven years for the MGL CEO, MBL CEO and other Executive KMP)• retained profit share is delivered in a combination of MGL equity and Macquarie-managed fund equity | <ul style="list-style-type: none">• PSUs vest after four years, subject to the achievement of two financial performance hurdles (no retesting of hurdles)• PSUs are structured as Deferred Share Units (DSUs)⁽¹⁾ with no exercise price• no right to dividend equivalent payments | |
|  Malus | <ul style="list-style-type: none">• applies for senior employees, including all Executive Directors | <ul style="list-style-type: none">• applies to all awards | |
|  Forfeiture | <ul style="list-style-type: none">• retained profit share is subject to forfeiture upon leaving Macquarie Group except in certain circumstances | <ul style="list-style-type: none">• unvested PSUs are subject to forfeiture upon leaving Macquarie Group except in certain circumstances | |

(1) A DSU is a Deferred Share Unit and is an award type under the Macquarie Group Employee Retained Equity Plan (MEREP). For further details, refer to Note 29 to the financial statements in the Financial Report.

Remuneration Report

Continued

Remuneration framework continued

The MBL and MGL Boards annually review and fine tune the remuneration framework to ensure it is consistent with changing market conditions and complies with regulatory expectations and corporate governance developments. During the year, to address both regulatory requirements under CPS 511 and the evolving expectations of our stakeholders, the Boards undertook a holistic review of all structural components of the remuneration framework to ensure that they are delivering on a broad range of objectives. As part of this review, the BRC considered diverse perspectives, including those of shareholders and regulators, as well as global peer group benchmarking and increased global competition for talent in many of Macquarie Bank's areas of activity.

The following changes to the remuneration framework have been approved by the MGL and MBL Boards and are being implemented in a phased approach from FY2022. The MBL Board believes that the revised arrangements are consistent with our longstanding remuneration principles and allow for ongoing attraction, motivation, retention and accountability of talent, respecting and recognising the expectations of all stakeholders.

| Component | Remuneration arrangements | Rationale/link to remuneration principles | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|-------------------|------------------------|-------------------|-----|---------------|-------------------|---------------|-------------------|---------------|----------|---------|----|--|---------|----|--|----|--|---------------|----|------------------------|----|------------------------|---|----|--|----|--|--|
| Fixed Remuneration | Fixed remuneration will be increased for the MBL and MGL CEOs and other Executive KMP from 1 April 2023. This is the first fixed remuneration increase for Executive KMP since 2010, noting that the MBL CEO and the Chief Risk Officer (CRO) are receiving a fixed remuneration increase from 1 April 2022 to recognise their appointments to these roles on 1 July 2021 and 1 January 2022 respectively. Fixed remuneration will remain set at a comparatively low level, relative to the industry, and at a low proportion of total remuneration but sufficient to avoid inappropriate risk-taking. | Preserves the underlying remuneration principles of paying for performance and having comparatively low fixed remuneration levels relative to the industry. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Addresses external market pressures. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table><tr><th>Role</th><th>Current (\$Am)</th><th>Revised (\$Am)</th></tr><tr><td>MBL CEO</td><td>0.7</td><td>1.3</td></tr><tr><td>MGL CEO</td><td>0.8</td><td>1.5</td></tr><tr><td>Executive KMP</td><td>0.7-0.75</td><td>1.0-1.1</td></tr></table> | Role | Current (\$Am) | Revised (\$Am) | MBL CEO | 0.7 | 1.3 | MGL CEO | 0.8 | 1.5 | Executive KMP | 0.7-0.75 | 1.0-1.1 | | | | | | | | | | | | | | | | | | |
| | Role | Current (\$Am) | Revised (\$Am) | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | MBL CEO | 0.7 | 1.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MGL CEO | 0.8 | 1.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Executive KMP | 0.7-0.75 | 1.0-1.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Profit Share | Retention and vesting arrangements: | Emphasises performance-based remuneration and continues to enable risk outcomes to be considered over a prolonged period. The changes ensure that regulatory requirements are upheld and that prevailing market conditions are taken into consideration. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | For profit share allocations made in respect of FY2024 onwards, retention rates and vesting periods will be reduced for certain senior employees but remain long enough to appropriately consider the time horizons of risk. Retention rates and vesting periods will meet or exceed both the minimums required under CPS 511 and deferral arrangements of many of Macquarie’s global comparators. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table><tr><th rowspan="2">Role</th><th colspan="2">Current</th><th colspan="2">Revised</th></tr><tr><th>Retention (%)</th><th>Vesting & release</th><th>Retention (%)</th><th>Vesting & release</th></tr><tr><td>MBL CEO</td><td>60</td><td></td><td>60</td><td></td></tr><tr><td>MGL CEO</td><td>80</td><td></td><td>70</td><td></td></tr><tr><td>Executive KMP</td><td>60</td><td>One-fifth in years 3-7</td><td>50</td><td>One-third in years 3-5</td></tr><tr><td>Designated Executive Directors⁽²⁾</td><td>50</td><td></td><td>40</td><td></td></tr></table> | Role | Current | | Revised | | Retention (%) | Vesting & release | Retention (%) | Vesting & release | MBL CEO | 60 | | 60 | | MGL CEO | 80 | | 70 | | Executive KMP | 60 | One-fifth in years 3-7 | 50 | One-third in years 3-5 | Designated Executive Directors ⁽²⁾ | 50 | | 40 | | |
| | Role | | Current | | Revised | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Retention (%) | Vesting & release | Retention (%) | Vesting & release | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MBL CEO | 60 | | 60 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MGL CEO | 80 | | 70 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Executive KMP | 60 | One-fifth in years 3-7 | 50 | One-third in years 3-5 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Designated Executive Directors ⁽²⁾ | 50 | | 40 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Note, the stated vesting periods do not include the performance year, whereas vesting periods under CPS 511 are defined as including the period over which performance is assessed (i.e. in the above table, for senior employees the current vesting period is defined by Macquarie Bank as years 3 to 7, whereas under the CPS 511 definition this would translate to a vesting period of years 4 to 8). | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

(2) Executive Directors who have a significant management or risk responsibility in the organisation (equivalent to "Material Risk Takers" under CPS 511).

| Component | Remuneration arrangements | Rationale/link to remuneration principles | | | | | | | | | | | | |
|---|--|---|-----------------|--------|--------|---|----------------|-----------------|----------------|---------------------------|--|--|-----------------|--|
| | <p>Vesting and release of retained profit share upon termination:</p> <p>Where the Board exercises its discretion to accelerate the vesting of retained profit share for Executive Directors (in cases of retirement from the Macquarie Group or redundancy), that release currently occurs over the period from six months to two years after termination.</p> <p>For profit share allocations made in respect of FY2023 onwards, the six-month release date post-termination will be removed. Amounts that would have vested after six months (i.e. retained profit share which does not relate to the final two years of employment) will now be released after 12 months and amounts that would have vested after 12 months will now be released after 24 months.</p> <p>For profit share allocations made in respect of FY2024 onwards, unvested retained profit share will no longer be released over a two-year period for certain employees and will instead be kept on its original vesting schedule, as set out in the following table:</p> <table><tr><th>Role</th><th>Current</th><th>FY2023</th><th>FY2024</th></tr><tr><td>Executive KMP, Designated Executive Directors</td><td>6 to 24 months</td><td>12 to 24 months</td><td>0 to 60 months</td></tr><tr><td>Other Executive Directors</td><td></td><td></td><td>12 to 24 months</td></tr></table> | Role | Current | FY2023 | FY2024 | Executive KMP, Designated Executive Directors | 6 to 24 months | 12 to 24 months | 0 to 60 months | Other Executive Directors | | | 12 to 24 months | |
| Role | Current | FY2023 | FY2024 | | | | | | | | | | | |
| Executive KMP, Designated Executive Directors | 6 to 24 months | 12 to 24 months | 0 to 60 months | | | | | | | | | | | |
| Other Executive Directors | | | 12 to 24 months | | | | | | | | | | | |
| PSUs | From FY2024, the vesting period for PSUs granted will be extended by a year, to five years for the MBL CEO and the MGL CEO (currently PSUs vest after four years). | Reflects regulatory expectations and increases the alignment of the interests of staff and shareholders over the long-term. | | | | | | | | | | | | |
| Malus | <p>From FY2022, the population subject to malus has been expanded to include all Executive Directors. The events that may trigger the application of malus provisions have also been expanded (see page 48), to align to CPS 511 and the expectations of other global regulators.</p> <p>From FY2024, the malus provisions will be further expanded to include all employees with deferred performance-based remuneration and clawback provisions will be introduced for certain senior employees to align with CPS 511.</p> | Strengthens the alignment between remuneration and prudent risk management and aligns the malus framework to APRA's expectations as set out in CPS 511. | | | | | | | | | | | | |

In addition to these changes, as set out in the Introduction, a program of work is underway to ensure that the MBL remuneration framework supports the best interests of MBL and strengthens the voice of the Bank in the oversight, design and determination of remuneration outcomes for MBL. This will see changes to MBL's remuneration governance arrangements including the establishment of a MBL BRC made up of members of the MGL BRC and bank-only non-executive directors (BONDS).

Remuneration Report

Continued

Profit share

This section describes the way in which profit share is determined, structured and delivered.

Annual process to determine profit share outcomes

Remuneration outcomes are based on realised outcomes and are determined through a principles-based approach, taking into consideration individual, business group and company-wide performance. Outcomes may be adjusted downwards at any level as a result of any risk management, compliance and conduct issues that have been identified during the year.

Individual profit share allocations

Individual profit share allocations reflect an employee's performance against their objectives, which are formally assessed annually. Permanent employees are required to have at least one formal Year in Review with their manager each year. The Year in Review comprises two core components:

- **what** was achieved over the past 12 months, including any Operating or Central Services Group/Division specific goals and objectives
- **how** cultural/behavioural expectations were demonstrated, including the principles of the *Code of Conduct* and the cultural standards of the business group.

An individual's performance is assessed against a range of financial and non-financial factors, which fall under the following four areas of focus and link to the "what" and "how" components of the Year in Review:

| Areas considered | |
|---|--|
| Financial/ business results | <ul style="list-style-type: none">• for front office staff, based on business profits and individual contribution to profits• for risk and financial control roles, primarily based on contribution to high quality control functions• for other support staff, based on their contribution to delivering high quality services to support the businesses, while managing costs and investing in people and technology to ensure the ongoing robustness of the risk management framework |
| Risk management and compliance | <ul style="list-style-type: none">• the active management and consideration of a wide range of financial and non-financial risks• motivating a culture of disciplined risk management, and regulatory, policy and business compliance that reflects the best interests of Macquarie Bank• performance against a risk management objective, which is mandatory for all employees and consistent across the organisation |
| Business leadership | <ul style="list-style-type: none">• business growth and innovation• delivering solutions for our customers and the communities in which we operate• relationship with external stakeholders, including regulators |
| People leadership and professional conduct | <ul style="list-style-type: none">• conduct and behaviour consistent with the <i>Code of Conduct</i> and <i>What We Stand For</i>• fostering a diverse and inclusive work environment• talent development• to drive the organisation's cultural expectations, all employees are assessed against a mandatory objective on Diversity, Equity and Inclusion (DEI) and all people managers against a people management objective aligned to our purpose and culture |

Three of these four factors are non-financial, with considerations given in varying proportions depending on the nature of the role. Individual profit share allocations also consider relativities in the market in which each business competes for talent. Significant judgement is applied in determining remuneration outcomes to ensure all factors that may potentially impact the quantum of profit share allocations are considered.

When determining individual allocations, consideration is given to any matters raised in the independent reports provided to the BRC by the CRO and the Head of Internal Audit, or matters raised through the consequence management process, which may result in downward adjustments to profit share allocations for relevant individuals (see page 49).

Profit share pools

The initial business group profit share pools are determined through a combination of a top-down and bottom-up approach. The company-wide profit share pool is an aggregate of the assessments conducted at both the business and individual level. The initial profit share pools are then adjusted up or down to reflect consideration of the factors below:

| Operating / Central Service Group Level | | | |
|---|---|---|--|
| Financial performance For Operating Groups: <ul style="list-style-type: none"> • contribution to company-wide profits • returns on Economic and Regulatory Capital • funding requirements and usage. For Central Services Groups, based on the quality and integrity of control functions and support services, and not primarily determined with reference to profitability. | Risk management <ul style="list-style-type: none"> • risk profile of the business (e.g. capital usage) • extent and nature of financial and non-financial risks including any significant reputational, cultural or compliance matters • regulatory environment and regulatory risk considerations. | Business specific considerations <ul style="list-style-type: none"> • innovation, new business development (including acquisitions) and maturity of the business • reliance on intellectual versus financial capital • customer/client and community outcomes • impact of one-time gains/losses. | Market position and trends <ul style="list-style-type: none"> • overall remuneration levels in the market in which each business operates • staff retention considerations. |
| Macquarie Group / Macquarie Bank level | | | |
| Additional considerations at a Macquarie Group and Macquarie Bank level include: <ul style="list-style-type: none"> • Group profitability, including the balance of profit distribution between employees and shareholders • Group capital metrics (including prudential ratios) and liquidity considerations • impact of the profit share pool on Macquarie Bank's capital position and ability to strengthen its capital base (as confirmed by the Chief Financial Officer (CFO)) • reasonableness of the resultant estimated compensation expense to income ratio and how it compares to that of peers • regulatory considerations, including any company-wide risk and conduct matters • factors that impact the macro environment in which Macquarie Bank operates, including those that may affect our ability to attract and retain high performing staff • CRO confirmation as to whether there have been any matters of systemic concern during the year. | | | |

The Board retains discretion to amend the profit share pool as determined in accordance with the above process to ensure all relevant factors, including risk and conduct matters, have been appropriately taken into consideration.

Remuneration Report

Continued

Retained profit share: retention and vesting

A percentage of each individual's annual profit share allocation is retained (retained profit share) above certain thresholds. This is invested in a combination of MGL ordinary shares under the Macquarie Group Employee Retained Equity Plan (MEREP) and Macquarie-managed fund equity notionally invested under the Directors' Profit Share (DPS) Plan.⁽³⁾ While they are employed, an individual's retained profit share vests and is released over a period that reflects the scope and nature of their role and responsibilities.⁽⁴⁾ These arrangements ensure that Macquarie Bank continues to retain high-performing staff, provide significant long-term alignment to shareholders and customers, as well as enabling risk outcomes to be considered over long periods.

Retention and vesting arrangements are determined by the BRC according to prevailing market conditions, remuneration trends, and compliance with regulatory requirements (including under the Banking Executive Accountability Regime (BEAR)). For each year's allocation, once the vesting period has been determined it remains fixed for that allocation.

The table below summarises the standard retention and vesting arrangements applicable for FY2022. These vesting periods do not include the performance year but begin following the date remuneration is awarded.

FY2022 standard profit share retention and vesting arrangements

| Role | Profit share retention (%) | Vesting and release of profit share ⁽⁵⁾ |
|---|----------------------------|--|
| MBL CEO | 60 | One-fifth in each of years 3-7 |
| MGL CEO | 80 | |
| Executive Committee members | 60 | |
| Designated Executive Directors | 50 | |
| Executive Directors | 40 | One-third in each of years 3-5 |
| Staff other than Executive Directors ⁽⁶⁾ | 25-60 | One-third in each of years 2-4 |

The Board's discretion to change remuneration arrangements, as noted above, includes changes to profit share retention levels provided that the retention percentage is at least 30% for all Executive Directors.

Investment of retained profit share

An individual's retained profit share is invested in a combination of MGL ordinary shares under the MEREP and Macquarie-managed fund equity notionally invested under the DPS Plan. The allocation reflects the nature of their role as set out in the following table.

FY2022 standard investment of retained profit share

| Role | Retained profit share investment | |
|---|----------------------------------|---|
| | MEREP (MGL ordinary shares) % | DPS Plan (Macquarie-managed fund equity) % |
| CEOs of MGL and MBL | 90 | 10 |
| Executive Committee members | 80-90 | 10-20 |
| Executive Directors ⁽⁷⁾ | 80-100 | 0-20 |
| Staff other than Executive Directors ⁽⁸⁾ | 100 | 0 |

In addition to the arrangements set out in the tables above, different arrangements may apply in certain circumstances:

- retention rates and vesting and release schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in certain jurisdictions, for example in the UK or European Union (EU), to ensure compliance with local regulatory requirements
- in limited circumstances, retained profit share may be allocated under arrangements other than the DPS Plan or the MEREP. For example, this may include investment in funds or products of a specific business group where there is a need to directly align the interests of staff with those of their clients.

(3) Both the MEREP and DPS Plan are fundamental tools in Macquarie Bank's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in MGL ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 29 *Employee equity participation* to the financial statements in the Financial Report. The DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment.

(4) Profit share that is not retained ('available profit share') is delivered in cash except for certain staff subject to regulatory requirements under European remuneration regulations, where 50% of available profit share is delivered in Macquarie equity and is subject to a 12-month hold period.

(5) For certain staff subject to European remuneration regulations, retained profit share invested in Macquarie equity is subject to a further 6 or 12-month hold post the vesting period.

(6) Above certain monetary thresholds.

(7) For certain Executive Directors subject to European remuneration regulations, retained profit share is invested 60% in Macquarie equity and 40% in the DPS Plan.

(8) For staff other than Executive Directors, retained profit share is generally 100% invested in MGL equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of MGL equity and Macquarie-managed fund equity.

Forfeiture of retained profit share – malus and clawback

The Board or its delegate has the ability to reduce or eliminate unvested retained profit share for certain senior employees (including all Executive Directors) in certain circumstances (malus), as set out on page 48. For certain employees identified in the UK or EU, the Board also has the ability to recover (in whole or in part) vested profit share (clawback).

Early vesting and release of retained profit share

The standard policy is that staff who cease employment with the organisation will forfeit their unvested retained profit share. The Board may exercise discretion to accelerate the vesting of a departing employee's retained profit share and reduce the retention period including where, for example, their employment ends in the case of retirement from the Macquarie Group, redundancy, death, serious incapacitation, disability, or serious ill-health. The Board's discretion to accelerate the vesting of retained profit share under these circumstances is subject to the conditions of early release as set out below for Executive Directors.

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in relation to strategic business objectives, including in connection with the divestment or internalisation of Macquarie Group businesses, or when an employee resigns to fulfil a public service role in a governmental organisation or agency. Where such discretion is exercised, the Board may impose such other conditions as it considers appropriate. This year there were no executives for whom such discretion was exercised.

Conditions of early release to departing Executive Directors – Post Employment Events

Where discretion has been exercised to accelerate the vesting of retained profit share, the Board may reduce or eliminate their retained profit share, if it is determined that the Executive Director has, at any time during their employment or the relevant release periods after their employment, committed a Malus Event (as set out on page 48) or:

- (a) taken staff to a competitor of Macquarie Group or been instrumental in causing staff to go to a competitor, or
- (b) joined a competitor of Macquarie Group or otherwise participated in a business that competes with Macquarie Group.

Each of the above is a Post Employment Event.

In the case of death or serious incapacitation, the Board will typically accelerate the vesting of retained profit share and immediately release it. In other circumstances, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

| | First Period | Second Period | Third Period |
|--|---|---|---|
| Time post-departure | Six months | Six months to one year | One year to two years |
| Unvested retained profit share released | From all but the last two years of employment | From the second year prior to the end of employment | From the year prior to the end of employment |
| Subject to | No Malus Event or Post Employment Event as set out previously | No Malus Event or Post Employment Event during the First Period, and | No Malus Event or Post Employment Event during the First Period, and |
| | | No Malus Event or Post Employment Event (a) above during Second Period | No Malus Event or Post Employment Event (a) during the Second Period, and No Malus Event during the Third Period |
| Where the release is by reason of retirement from the Macquarie Group | As above | As above and in addition, the release is subject to no Post Employment Event (b) during the Second Period | As above and in addition, the release is subject to no Post Employment Event (b) during the Second or Third Period |

In addition to the above, for Accountable Persons, the exercise of discretion for any early release of retained profit share will be subject to Macquarie Bank meeting the minimum deferral periods required under the BEAR.

Where an Executive Director has a tax liability on termination of employment in respect of any unvested retained profit share, the Board has discretion to release unvested retained profit share up to an amount equal to the Executive Director's tax liability at an earlier time than noted above.

Remuneration Report

Continued

Performance Share Units

This section describes the way in which PSUs are determined, structured and delivered.

Allocation and structure

Executive Committee members are the only group of staff eligible to receive PSUs, which are subject to the achievement of two financial performance hurdles and determined with reference to Macquarie Group's performance as a whole. As such, they provide an additional incentive to Executive Committee members to drive company-wide performance over the long-term and beyond their business group responsibilities. PSU awards are a meaningful incentive but are generally not the major element of an Executive Committee member's total remuneration.

Individual allocations are based on their role as members of the Executive Committee and their contribution to driving the collective performance of Macquarie Bank and Macquarie Group, including their collaboration across businesses.

PSUs are granted in August each year, after Macquarie Group's Annual General Meeting (AGM), in respect of the previous financial year. The number of PSUs to be allocated is calculated by dividing the face value of the award by the price of MGL ordinary shares on or around the date of grant.

Since their introduction, PSUs have been structured as DSUs with performance hurdles. Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

Performance hurdles

The following table summarises the key terms of PSUs and the performance hurdles for FY2022:

| | EPS CAGR hurdle | ROE hurdle |
|----------------------------|---|--|
| Application | 50% of PSU award | 50% of PSU award |
| Performance measure | Compound annual growth rate (CAGR) in EPS over the vesting period (four years) ⁽⁹⁾ | Average annual ROE over the vesting period (four years) ⁽⁹⁾ relative to a reference group of global financial institutions. ⁽¹⁰⁾ The reference group for awards is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG. |
| Hurdle | Sliding scale applies: <ul style="list-style-type: none">• 50% becoming exercisable at EPS CAGR of 7.5%• 100% at EPS CAGR of 12% For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable | Sliding scale applies: <ul style="list-style-type: none">• 50% becoming exercisable above the 50th percentile• 100% at the 75th percentile For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable |
| Forfeiture | <ul style="list-style-type: none">• malus provisions apply• the standard policy is that unvested PSUs will be forfeited upon termination• in the case of retirement from the Macquarie Group, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles• should a change of control occur⁽¹¹⁾ the Board or the BRC has discretion to determine how unvested PSUs should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control. | |

(9) PSUs awarded prior to FY2020 vested in two equal tranches after three and four years.

(10) Comparator company information is presented in the same order throughout the Remuneration Report.

(11) Under the MEREP Plan Rules, a change in control occurs where a person acquires or ceases to hold a relevant interest in more than 30% of MGL ordinary shares or where the Board resolves that a person is in a position to remove one-half or more of the Non-Executive Directors.

Rationale for hurdles

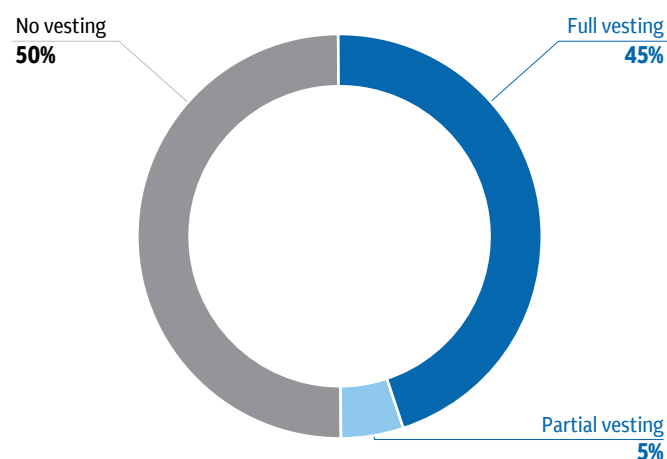
The PSU hurdles are annually reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC's review includes consideration of the most relevant performance metrics to be used as hurdles as well as the levels at which the hurdles are achieved. The international reference group used for the ROE hurdle is also reviewed to determine whether our comparators remain suitable for Macquarie Group's diversified business interests and global footprint. The BRC also considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators, as well as market practice.

In the FY2022 annual review, both the relative ROE and absolute EPS hurdles were considered to still be appropriate for the following reasons:

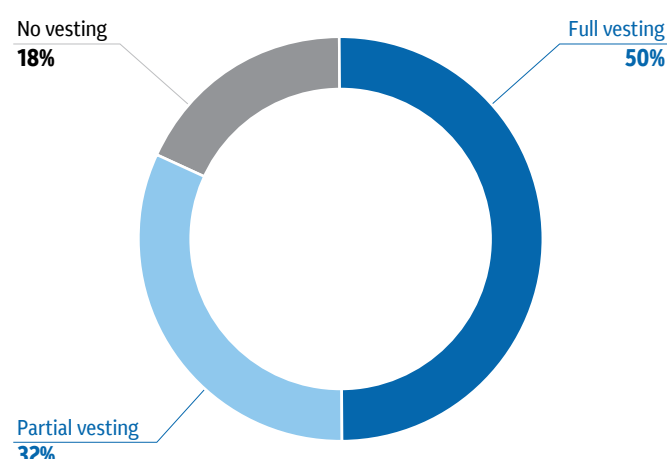
- ROE and EPS growth drive long-term shareholder value and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control
- the approach is consistent with that advocated by APRA in not using TSR as a measure
- ROE and EPS can be substantiated using information that is disclosed in Macquarie Group's annual reports
- a sliding scale diversifies the risk of not achieving the hurdles and provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test, which some have argued could promote excessive risk-taking
- the hurdles are designed to reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three- to seven-year deferral of profit share for members of the Executive Committee
- the EPS targets are confirmed as rigorous when market performance is considered, with the EPS threshold hurdle exceeding the performance of most of the ASX 20, global reference group and relevant indices over time
- for the EPS element to fully vest, Macquarie Group needs to achieve at least 12% CAGR over the vesting period. Supporting the rigour of the hurdle, cumulative EPS growth of 57% over four years is required to achieve full vesting
- the ROE vesting thresholds and sliding scale are in line with the domestic market and are particularly challenging when compared to international practice.

The charts below display Macquarie Group's historical EPS and ROE PSU outcomes, highlighting that since their introduction in 2009, 55% of the EPS tranches and 50% of the ROE tranches have resulted in either no vesting or partial vesting.

Historical EPS tranche outcomes



Historical ROE tranche outcomes



Use of an international reference group

An international reference group recognises the extent of Macquarie Group's diversification and internationalisation. As at 31 March 2022, total international income represented approximately 75% of Macquarie Group's total income, with approximately 54% of Macquarie Group's staff located outside Australia. The BRC considers an international reference group to be appropriate on the basis that:

- the international reference group is currently most representative of Macquarie Group's business operations and talent pool. These firms broadly operate in the same markets and in similar business segments, and compete for the same people as Macquarie Group
- Macquarie Group has no comparable Australian-listed peers.

In addition, the BRC considers it important to not intervene reactively to remove under-performers or over-performers in any given period. An organisation's period of under-performance is generally followed by a period of over-performance.

Remuneration Report

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Executive KMP – PSUs vesting during FY2022

The PSUs that completed their performance period on 30 June 2021 comprised the second tranche of those awards granted in 2017 and the first tranche of those granted in 2018. The performance hurdle tests were performed using data sourced from Bloomberg for all companies in the international reference group (as well as Macquarie Group) and the calculations were reviewed independently. The results showed that the performance hurdles:

- based on Macquarie Group's relative average annual ROE compared to the international reference group were fully met for both tranches; and
- based on the EPS CAGR in Macquarie Group's reported financial year were not met for either the 2017 or the 2018 PSU grants.

As a result, 50% of the awards became exercisable on 1 July 2021, as shown below:

| PSU tranche | EPS CAGR Hurdle | | | ROE Hurdle | | |
|-----------------------|---|--------------------------------------|----------------|---|--|------------------|
| | Macquarie Group result (for vesting period) | Hurdle | Outcome | Macquarie Group result (for vesting period) | Hurdle | Outcome |
| 2017 Tranche 2 | 6.40% | 50% at 7.5% CAGR 100% at 12% CAGR | 0% exercisable | 14.80% (88 th percentile) | 50% above the 50 th percentile ⁽¹²⁾ 100% at the 75 th percentile ⁽¹²⁾ | 100% exercisable |
| 2018 Tranche 1 | 3.59% | 50% at 7.5% CAGR 100% at 12% CAGR | 0% exercisable | 14.63% (88 th percentile) | 50% above the 50 th percentile ⁽¹³⁾ 100% at the 75 th percentile ⁽¹³⁾ | 100% exercisable |

(12) International reference group ROE at 50th percentile 9.78% and international reference group ROE at 75th percentile 12.36%.

(13) International reference group ROE at 50th percentile 11.36% and international reference group ROE at 75th percentile 13.19%.

Culture, accountability and remuneration

This section describes how risk and conduct are considered throughout the remuneration approach.

Risk culture

Our purpose of 'empowering people to innovate and invest for a better future' and *What We Stand For* principles of Opportunity, Accountability and Integrity remain pivotal to our culture. Our purpose and principles effectively guide our staff in balancing risk and reward and making decisions that realise opportunity for the benefit of our clients, shareholders, partners and the communities in which we operate. Staff are continually made aware that these principles must form the basis of all behaviours and actions. These behavioural expectations are outlined in the MBL Board approved *Code of Conduct*, which is actively promoted by management and cascaded through the organisation through multiple mechanisms. Significant time and effort is invested in communicating and reinforcing our culture through communications from senior management, policy reminders, training, and learning and development activities. The Board is able to assess our culture in a number of ways including through staff survey results, human capital reporting, strategy presentations, risk culture reports, consequence management reports as well as through personal observation of management, and staff behaviour and actions.

Strong risk management is a fundamental part of everyone's role. Staff understand they are rewarded not just for their contribution to financial results, but also for how those results are achieved. This includes an assessment of an individual's approach to managing risk, and their alignment to the *What We Stand For* principles. They understand there are potential consequences for non-compliance with the risk management framework and Macquarie Bank's behavioural expectations. Staff training and communications emphasise the link between risk, conduct, policy breaches and consequence management outcomes, including, where appropriate, adjustments to performance-based remuneration.

Alignment of remuneration with risk outcomes

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. The consideration of risk is embedded throughout the entire remuneration process including through the determination of individual profit share allocations, business and company-wide profit share pools as well as through the way in which remuneration is structured and delivered.

The Board is aware of the increasing focus of regulators and shareholders on ensuring risk-related matters that come to light subsequent to remuneration being awarded are appropriately factored into remuneration decisions. Macquarie Bank's retention and vesting arrangements provide a mechanism for the Board to consider risk outcomes over a long period. Furthermore, where an investigation has commenced into a risk or conduct-related matter that may result in forfeiture or, for senior employees, the application of malus, Macquarie Bank may further defer the payment, vesting and/or release of profit share to allow for the investigation to be completed.

Remuneration Report

Continued

Culture, accountability and remuneration continued

As set out on page 39, the BRC reviewed the malus framework for FY2022 and expanded its scope to apply to a wider group of employees (including all Executive Directors). The events that may trigger the application of the malus provisions were also expanded and aligned to CPS 511.

The following mechanisms exist to risk adjust remuneration outcomes:

In-year profit share adjustments

Applies to all staff

- determined as part of assessing an individual's performance each year
- the annual assessment includes consideration of compliance with the risk management framework and with the behavioural expectations outlined in the *Code of Conduct*
- in addition, any outcomes from the consequence management process (such as a formal warning) or the independent reporting from the CRO, Head of Internal Audit, and General Counsel are also considered.

Forfeiture

Applies to all staff with retained profit share

- where an individual's employment is terminated due to a compliance or conduct concern (or they resign), unvested remuneration is forfeited, as per our standard policy.

Malus Events (expanded for FY2022)

Applies to senior employees

The malus provisions, which apply across the whole Macquarie Group, provide the MBL and MGL Boards or their delegates with the ability to reduce or eliminate in full the retained profit share for senior employees, and for Executive Committee members unvested PSUs, where it is determined:

- there was a significant error in or a significant misstatement of criteria on which the remuneration determination was based; or
- the employee has at any time:
 - engaged in misconduct leading to significant adverse outcomes
 - acted dishonestly (including, but not limited to, misappropriating funds or deliberately concealing a transaction)
 - significantly failed in or breached their compliance, accountability or fitness and propriety requirements or
 - acted or failed to act in a way that contributed to, and/or by virtue of their role or seniority is accountable for:
 - a breach of a significant legal or significant regulatory requirement relevant to Macquarie Bank
 - MGL or Macquarie Bank making a material financial restatement or
 - MGL, MBL or any Group within Macquarie Group⁽¹⁴⁾ incurring significant reputational harm
 - MGL, MBL or any Group within Macquarie Group incurring a significant unexpected financial loss, impairment charge, cost or provision
 - a significant failure of financial or non-financial risk management or
 - a significant adverse outcome for customers, beneficiaries or other stakeholders.

Additional provisions may apply to staff in certain jurisdictions to ensure compliance with local regulations. This includes staff in the UK and EU who are subject to additional malus and clawback provisions under local regulatory requirements.

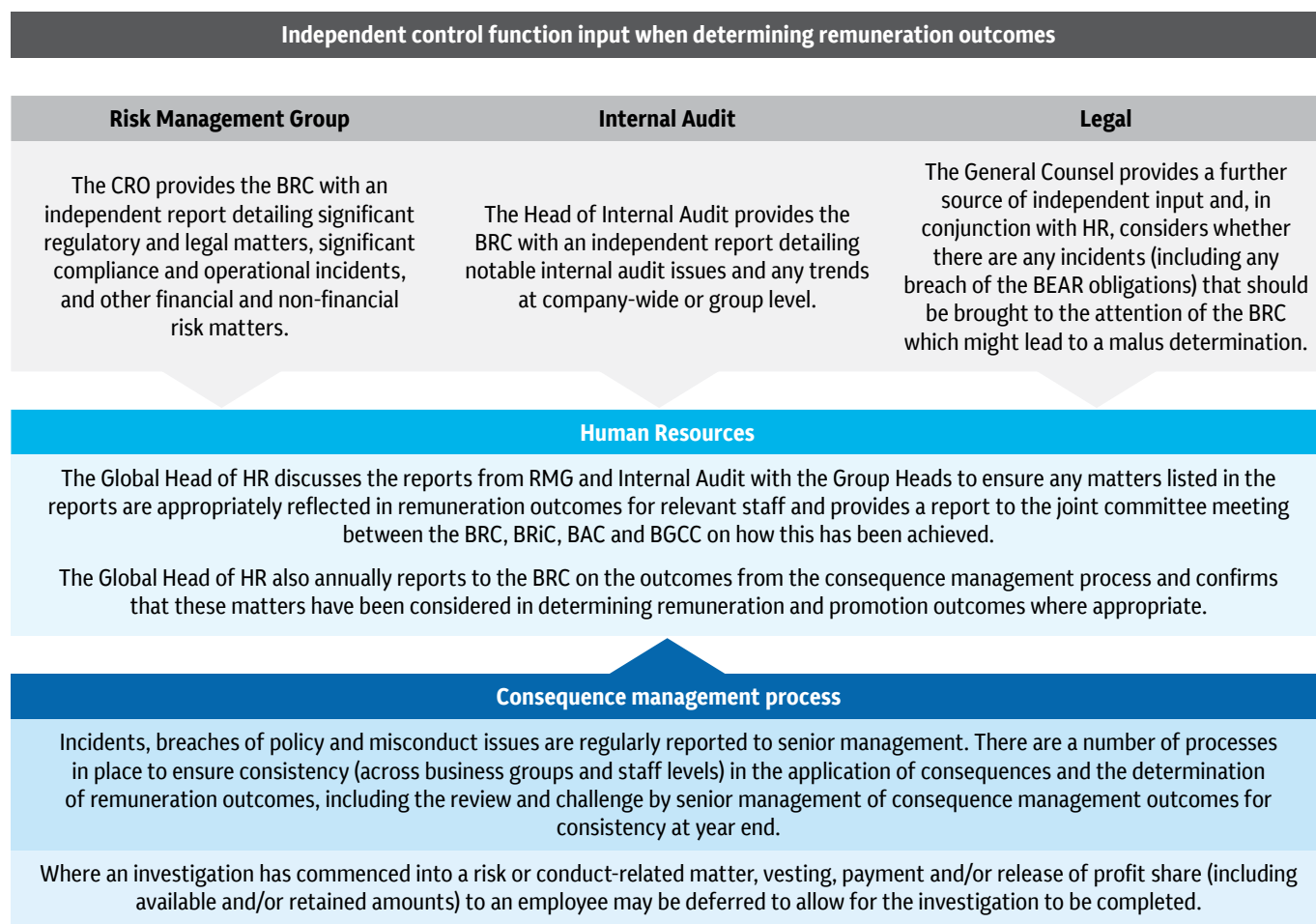
The BRC considers whether, and the extent to which, to apply malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

(14) A "Group within Macquarie Group" is a reference to any Operating Group or Central Services Group within MGL or MBL.

Risk adjustment processes

There are robust processes in place to ensure that all risk, reputation, and conduct-related matters are specifically considered when determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate. A wide range of risks that could have a financial or non-financial impact on Macquarie Bank are considered, including if there has been a detriment to customers or any impact on prudential standing.

The diagram below provides an overview of these processes:



Consequence management outcomes

The Consequence Management Guideline applies wherever a breach of internal policy or regulatory requirement is identified, including where there has been a BEAR breach. Consequences may include further training, removal of delegated authorities or permissions, adjustments to performance-based remuneration, impact on promotion, formal warnings or termination.

Where an employee has received a formal warning, their performance-based remuneration is subject to further review and in some cases, it will be reduced to zero. Promotion decisions may also be impacted. Impacts may also be applied where a formal warning has not been issued. In each case, judgement is exercised as to the appropriate consequence(s) based on all the relevant circumstances.

In FY2022, for Macquarie Bank, there were 63 (FY2021: 81) matters involving conduct or policy breaches that resulted in formal consequences. These included 29 (FY2021: 38) *Code of Conduct* or appropriate workplace behaviour related matters and 34 (FY2021: 43) other policy matters including risk management and technology breaches. Of the 63:

- for 25 matters, termination of employment was the outcome (FY2021: 15)
- for 38 matters, a formal warning was issued (FY2021: 66). Additional consequences were applied as appropriate including additional training, removal of delegated authorities or permissions, adjustments to profit share and/or impact to promotion (11 have resulted in individuals subsequently leaving Macquarie Bank before year-end outcomes were determined and 26 individuals had their profit share reduced by an average of 53%).

The 63 matters were considered isolated incidents and there was no evidence of broader systemic conduct issues.

Remuneration Report

Continued

Further details on the remuneration framework

This section describes other key features of the remuneration framework and of the employment contracts for Executive Committee members.

Other features of the remuneration framework

| | |
|---|---|
| Role-based allowances | <ul style="list-style-type: none">• Role-based allowances are a component of fixed remuneration that may be awarded to certain employees, including those identified as Material Risk Takers (MRTs) under UK or EU regulatory requirements. These allowances are determined based on the role and organisational responsibility of the individuals. |
| Minimum shareholding requirement | <ul style="list-style-type: none">• Executive Directors are required to hold a relevant interest in MGL ordinary shares that have a value equal to 5% of an Executive Director's aggregate profit share allocations for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy.• For Executive Committee members who were eligible for profit share allocations prior to the current year, compliance with this policy equates to a minimum shareholding requirement of between 110% to 970% of fixed remuneration based on share values unadjusted for market price changes. |
| Promotion and New Hire Awards | <ul style="list-style-type: none">• Staff who are promoted to or hired at Associate Director, Division Director or Executive Director level receive an allocation of MEREP awards set with reference to an Australian dollar value. Currently these awards range from \$A25,000 to \$A175,000 depending on the Director level. |
| Hedging | <ul style="list-style-type: none">• Macquarie Group prohibits staff from hedging<ul style="list-style-type: none">(i) shares held to meet the minimum shareholding requirement and(ii) unvested equity held in the MEREP. |

Employment contracts

The following table summarises key features of the employment contracts for Executive Committee members including the CEO.

| | |
|-------------------------------------|--|
| Length of contract | Permanent open-ended. |
| Remuneration review period | 1 April to 31 March annually. |
| Profit share participation | Executive Committee members are eligible to be considered for a profit share allocation that ensures a large part of their remuneration is 'at risk'. Refer to pages 40 to 43 for details. |
| PSU participation | Executive Committee members are eligible to receive PSUs. Refer to pages 44 to 45 for details. |
| Termination of employment | Requires no more than three months' notice by Macquarie Bank or the Executive Committee member (Post employment restrictions apply). |
| Post employment restrictions | Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie Bank's election, for up to three months post-termination. |

Macquarie Bank's performance

Macquarie Bank's results

Net profit after tax (NPAT) has increased 62%.

| | 2018 ⁽¹⁵⁾ | 2019 ⁽¹⁶⁾ | 2020 ⁽¹⁷⁾ | 2021 | 2022 |
|--|----------------------|----------------------|----------------------|-------|--------------|
| NPAT attributable to the ordinary equity holder (\$Am) | 1,023 | 1,066 | 1,297 | 1,676 | 2,717 |

(15) NPAT attributable to the ordinary equity holder reported above relates to continuing operations only. Additional profit of \$A545 million in FY2018 is attributable to discontinued operations.

(16) NPAT attributable to the ordinary equity holder reported above relates to continuing operations only. Additional profit of \$A956 million in FY2019 is attributable to discontinued operations.

(17) NPAT attributable to the ordinary equity holder reported above relates to continuing operations only. Additional profit of \$A164 million in FY2020 is attributable to discontinued operations.

Remuneration Report

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Executive KMP remuneration outcomes for FY2022

This section details the process for determining Executive KMP remuneration outcomes for FY2022 and demonstrates the link between pay and performance.

Executive KMP fixed remuneration outcomes

In line with our pay for performance approach to remuneration, fixed remuneration for our Executive KMP in FY2022 comprised approximately 6% of total awarded remuneration, with the balance at risk and explicitly linked to performance.

Mr Cassidy and Mr Green were appointed to the Executive Committee during FY2022. To reflect their new roles, their fixed remuneration has been increased, effective 1 April 2022. There are no fixed remuneration increases for other Executive KMP for FY2023, however as noted on page 38, fixed remuneration levels will be increased from 1 April 2023.

Process to determine Executive KMP profit share outcomes

There is a consistent and comprehensive process for the Board and the BRC to assess the performance of the CEO and each Executive KMP during the year to enable them to determine remuneration outcomes at the end of the year. The Board is always mindful of the external focus on overall remuneration levels and has spent considerable time determining remuneration outcomes. The BRC recognises the range of expectations and has made decisions that take into consideration the perspectives of all stakeholders. Significant judgement is applied to ensure that remuneration outcomes are aligned both with individual and company-wide performance and with outcomes delivered to our shareholders, our clients and the communities in which we operate.

As part of the Board's annual review of the CEO's performance, the CEO meets with the Non-Executive Directors (NEDs) of the Board towards the end of the financial year to consider formal documentation that outlines his views of Macquarie Bank's performance. The presentation includes a broad range of Macquarie Bank's activities covering the following main areas:

- financial performance
- risk management and compliance
- business leadership including customer and community outcomes
- people leadership and professional conduct consistent with the *Code of Conduct* and *What We Stand For* principles.

Over the course of the year the Board receives regular reports and updates on many of these areas. These are summarised in the CEO's presentation, together with additional information on matters of interest the Board has identified for further discussion as a part of the review process. This year, the NEDs requested that the CEO focus on the management of prudential and regulatory obligations, and the remediation work underway to strengthen the voice of the Bank. The Board, in conjunction with the MGL CEO's input, considers the MBL CEO's performance and progress against all of these topics in determining the MBL CEO's remuneration for the year.

The Board and the BRC review formal documentation for each Executive KMP, which includes consideration of the same factors as the CEO as set out above.

The BRC also considers risk-related matters raised in the independent reports from the CRO and the Head of Internal Audit. To ensure all matters are appropriately brought to the BRC's attention and to achieve an integrated approach to remuneration that reflects prudent and appropriate risk management, there is a joint meeting of the BRC, BRiC, BAC, and the BGCC. Finally, the BRC considers remuneration levels for organisations that broadly operate in the same markets and compete for the same people as Macquarie Bank.

The MBL Board's determination of remuneration outcomes for FY2022 for the MBL CEO and Executive KMP reflect the following factors:

- strong financial performance while delivering sound customer/client and community outcomes across all businesses
- the strong leadership of the whole Executive Committee demonstrating both an alignment to our purpose and ongoing resilience to the impacts of the COVID-19 pandemic
- increased cross-collaboration across the Macquarie Group, including strategic initiatives to reflect the evolving environment in climate solutions and energy transition
- continued focus on building a diverse, equitable and inclusive work environment
- the continued investment in technology and digitalisation
- role-modelling of and encouragement of behaviours that support a strong risk culture
- focus on regulatory engagement, in particular commitment to strengthening regulatory relationships, prudential compliance and governance across Macquarie Bank
- progress against the APRA remediation plan to strengthen the voice of the Bank. This incorporates the programs of work across governance, remuneration, risk culture, regulatory reporting, prudential risk management, and group structure
- the management of financial and non-financial risks. During the year, there has been a strong focus on enhancements of risk capabilities and risk frameworks. While we have no systemic concerns, there have been risk management issues during the year for which we have imposed remuneration impacts to the MGL CEO, the MBL CEO and relevant Executive KMP.

New Executive Committee member

The Board recognises that it is vital to secure the best executive talent. In January 2022, we were pleased to welcome Evie Bruce to the Macquarie Group in the role of incoming General Counsel. Ms Bruce was subsequently appointed to the MBL and MGL Executive Committees on 2 March 2022.

To secure Ms Bruce's appointment, the Board determined it was necessary and appropriate to provide competitive remuneration arrangements, with consideration of internal peers and external market comparators. The terms of Ms Bruce's appointment with the Macquarie Group included minimum profit share allocations of \$A0.7 million and \$A2.6 million for the performance years ending 31 March 2022 and 2023, respectively. The profit share allocations will be subject to the standard remuneration arrangements, including the retention, forfeiture, and release conditions as set out on pages 42 to 43 of the Remuneration Report. Ms Bruce will also receive a minimum PSU allocation of face value \$A2.0 million for FY2023, subject to the performance hurdles and other conditions applicable to the PSU allocations awarded to other Executive Committee members.

Remuneration Report

Continued

Remuneration governance

Effective governance is central to Macquarie Bank's remuneration strategy and approach. The key elements of the remuneration governance framework are described below.

| MGL AND MBL BOARDS | |
|---|--|
| Board Remuneration Committee | Board Risk Committee, Board Audit Committee & Board Governance and Compliance Committee |
| Oversees remuneration policies and practices, and makes recommendations to the Boards | Discuss any relevant matters that may impact remuneration in a joint meeting with the Board Remuneration Committee |

Strong Board oversight

The MBL Board oversees the application of the remuneration framework to MBL. The MGL Board has a BRC whose objective is to assist the Board of Macquarie Bank with remuneration policies and practices. The BRC currently comprises four independent Non-Executive Directors (NEDs):

| Board Remuneration Committee | |
|------------------------------|-------------|
| Chair | Members |
| J.R. Broadbent | P.M. Coffey |
| | M. Roche |
| | P.H. Warne |

The BRC members have the required experience and expertise in human resources, remuneration and risk to enable them to achieve effective governance of the remuneration framework. The BRC has a regular meeting cycle and met seven times during FY2022. Attendance at meetings by the BRC members is set out in the Directors' Report. Strict processes are in place to ensure conflicts of interest are appropriately managed.

BRC responsibilities

The BRC pays close attention to the design and operation of remuneration practices for all Macquarie Bank staff, not just for the most senior executives. The responsibilities of the BRC are outlined in its Charter, which is reviewed and approved annually by the Board.



The Charter is available at [macquarie.com/corporate-governance](https://www.macquarie.com/corporate-governance)

Some of the responsibilities include:

- overseeing the process for the annual review by the Macquarie Group and Macquarie Bank Boards of the CEOs' and other Executive KMPs' performance
- recommending to the Board the remuneration outcomes for all Executive KMP, Designated Executive Directors and other senior executives
- assessing the effectiveness of the *Remuneration Policy* to ensure compliance with legal and regulatory requirements, as well as to support the alignment of remuneration with prudent risk-taking and professional conduct across the organisation
- recommending the *Remuneration Policy* to the Board for approval.

As part of MBL's previously discussed plan to strengthen its governance framework, going forward the composition of the MBL Board will include three BONs, and a separate MBL BRC will be established made up of members of the MGL BRC and BONs.

Alignment to risk

The BRC liaises with the BRIC, BAC and BGCC to ensure there is effective co-ordination between the Committees to assist in producing an integrated approach to remuneration that reflects prudent and appropriate risk management.

As set out on page 49, the CRO and the Head of Internal Audit provide the BRC with independent reports detailing significant regulatory and legal matters, significant compliance and operational incidents, internal audit issues and other non-financial risk matters. A joint meeting of the BRC, BRIC, BAC and BGCC is held to discuss these matters, with the CRO and the Head of Internal Audit in attendance. The General Counsel attends as required to provide a further source of independent input, including on matters that might lead to a malus determination.

Engagement with external stakeholders

The Chairman of the Board and the BRC Chair undertook a series of meetings with investors and proxy advisors during the year to communicate our remuneration approach and to hear any concerns raised by the investor community.

They also engaged with APRA during the year as part of the development of the MBL remuneration framework and Macquarie Group's implementation plan for the incoming requirements of CPS 511.

Independent remuneration review

The BRC has retained Pay Governance as its independent remuneration consultant, for the use of the MGL Board to obtain advice on the appropriateness of Macquarie Group's remuneration framework.

The only service that Pay Governance provides to the Macquarie Group is executive compensation consulting to the BRC. Pay Governance has not made any remuneration recommendations, as defined by the *Corporations Act 2001* (Cth) (the Act). The BRC is responsible for making decisions within the terms of its Charter. Pay Governance's terms of engagement set out their independence from members of Macquarie Group's management. This year, Pay Governance:

- provided information on global remuneration and regulatory trends
- considered alignment with shareholder interests
- compared individual remuneration for Executive KMP where relevant comparator company information was available
- considered Macquarie Group's overall remuneration approach compared to comparator company organisations.

Pay Governance's findings included that:

- the objectives of Macquarie Group's remuneration framework are similar to those cited by other leading global investment banks
- Macquarie Group's remuneration components support its remuneration objectives and principles and are largely consistent with practices at other leading global investment banks, including that performance-based remuneration takes risk management into account.

Remuneration Report

Continued

Non-Executive Director remuneration

The Macquarie Bank Board seeks to attract and appoint high-calibre NEDs. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, differ significantly from the arrangements applicable to Executives.

Non-Executive Director remuneration

Non-Executive Director fees are set acknowledging the level required to appropriately remunerate highly qualified NEDs who have the relevant skills and experience to govern as a member of the Board.

The NED remuneration framework seeks to remunerate high calibre directors by:

- setting an overall fee that reflects the scale and complexity of the Macquarie Group (including Macquarie Bank), including risk management and regulatory responsibilities and the global financial nature of the Macquarie Group's activities
- setting Board and Committee fees to reflect the time commitment required to meet the responsibilities involved in the annual scheduled calendar, taking into account market rates for relevant organisations and market trends
- paying separate fees for additional responsibilities that may arise on an ad hoc basis
- delivering these fees in a form that is not contingent on the performance of the organisation
- setting a minimum shareholding requirement to align the interest of NEDs with shareholders.

All MBL NEDs are currently also NEDs of MGL and the framework governs the remuneration of NEDs of both MGL and MBL. The MBL and MGL CEOs are not remunerated separately for acting as Executive Voting Directors.

Unlike Macquarie Group executives, NEDs are not granted equity, nor are they eligible to receive profit share payments. There are no termination payments to NEDs on their retirement from office other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions over and above the minimum level of contribution required under applicable legislation.

Macquarie Group's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for this purpose. MGL shareholders approved the current limit (\$A5.0 million per annum) at MGL's 2019 Annual General Meeting. The Board ensures that NED remuneration for MGL Board members, including any fees as Board members of MBL, does not exceed this shareholder approved maximum amount.

MBL has a Board Audit Committee and a Board Risk Committee that are each a joint committee of MGL and MBL. The Macquarie Board Governance and Compliance Committee and Board Remuneration Committee assist both Boards.

Board and Committee fees are reviewed annually.⁽¹⁸⁾ The Board has reviewed NED remuneration in the context of external market factors, including trend and peer analysis of Australian and international comparator groups. Having regard to this analysis and to address the increasing demands on NEDs from the continued growth in the scale of MBL's operations and regulatory initiatives that have increased the responsibilities and time commitment of MBL NEDs, the Board determined to increase the Macquarie Bank Board member base fee from \$A78,000 to \$A137,500 and the Board Chairman fee was also increased from \$A267,000 to \$A467,500. The fee increases were effective from 1 July 2021.

Board fees were last increased in October 2018 and Macquarie Group Board Committee fees in October 2015. Board Committee Fees were allocated to MBL for FY2022.

MBL Annual Director Fees

| | Chairman \$A | Member \$A |
|-----------------------------|-----------------|---------------|
| Board | 467,500 | 137,500 |
| Board Risk Committee (BRiC) | 40,000 | 18,500 |
| Board Audit Committee (BAC) | 40,000 | 18,500 |

(18) Macquarie Group has five standing Board Committees. The BAC and BRiC are joint committees of Macquarie Group and Macquarie Bank. The BGCC and BRC assist both Boards. The BNC assists the Macquarie Group Board.

Appendix 1: Key Management Personnel (KMP) for FY2022

All the individuals listed below have been determined to be KMP for FY2022 for the purposes of the Act and as defined by AASB 124 *Related Party Disclosures*. KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of MBL and its controlled entities (together making Executive KMP) and NEDs. MBL's NEDs are required by the Act to be included as KMP for the purposes of disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management.

| Name | Position | Term as KMP for FY2022 |
|----------------------------------|--|--|
| Executive Voting Director | | |
| S. D. Green | Macquarie Bank CEO | Appointed to the Board and the Executive Committee on 1 July 2021 |
| M.J. Reemst | Former Macquarie Bank CEO | Ceased to be a member of the Board and the Executive Committee on 30 June 2021 |
| S.R. Wikramanayake | Macquarie Group CEO | Full year |
| Non-Executive Directors | | |
| J.R. Broadbent AC | Independent Director | Full year |
| G.M. Cairns | Independent Director | Ceased to be a member of the Board on 7 May 2021 |
| P.M. Coffey | Independent Director | Full year |
| M.J. Coleman | Independent Director | Full year |
| D.J. Grady AO | Independent Director | Ceased to be a member of the Board on 24 February 2022 |
| M.A. Hinchliffe | Independent Director | Appointed to the Board effective from 1 March 2022 |
| R.J. McGrath | Independent Director | Full year |
| M. Roche | Independent Director | Full year |
| G.R. Stevens AC | Independent Director | Full year ⁽¹⁹⁾ |
| N.M. Wakefield Evans | Independent Director | Full year |
| P.H. Warne | Independent Chairman | Full year ⁽²⁰⁾ |
| Executives⁽²¹⁾ | | |
| G.N. Bruce | Incoming Head of LGG | Appointed to the Executive Committee on 2 March 2022 |
| A. Cassidy | CRO, Head of RMG | Appointed to the Executive Committee on 1 January 2022 |
| A.H. Harvey | CFO, Head of FMG | Full year |
| N. O'Kane | Head of CGM | Full year |
| N. Sorbara | COO, Head of COG | Full year |
| P.C. Upfold | Former CRO, Head of RMG | Ceased to be a member of the Executive Committee on 31 December 2021 |
| G.C. Ward | Deputy Managing Director and Head of BFS | Full year |

(19) Mr Stevens will become Chairman of the MGL and MBL Boards effective 10 May 2022.

(20) Mr Warne will retire as a Director and Chairman of the MGL and MBL Boards on 9 May 2022.

(21) Except where otherwise indicated, all of the Executives as well as the MBL and MGL CEOs were members of the Executive Committee as at 6 May 2022.

Remuneration Report

Continued

Appendix 2: Executive KMP remuneration disclosure (in accordance with Australian Accounting Standards)

| | | | SHORT-TERM EMPLOYEE BENEFITS | | |
|--|---------------------------------------|------|--|---|---|
| Name | Position | Year | Salary (including superannuation) \$A | Performance related remuneration \$A | Total short-term employee benefits \$A |
| Executive Voting Director | | | | | |
| S.R. Wikramanayake | Macquarie Group CEO | 2022 | 412,311 | 2,485,000 | 2,897,311 |
| | | 2021 | 396,677 | 2,143,821 | 2,540,498 |
| Other Executives | | | | | |
| A.H. Harvey | CFO, Head of FMG | 2022 | 435,179 | 1,708,100 | 2,143,279 |
| | | 2021 | 337,498 | 1,246,840 | 1,584,338 |
| N. O'Kane | Head of CGM | 2022 | 616,993 | 12,112,600 | 12,729,593 |
| | | 2021 | 684,075 | 8,542,273 | 9,226,348 |
| N. Sorbara | COO, Head of COG | 2022 | 545,611 | 2,128,600 | 2,674,211 |
| | | 2021 | 514,341 | 1,671,319 | 2,185,660 |
| G.C. Ward | Deputy Managing Director, Head of BFS | 2022 | 771,594 | 3,600,000 | 4,371,594 |
| | | 2021 | 771,319 | 3,220,000 | 3,991,319 |
| Total Remuneration – Comparable Executive KMP ⁽²²⁾ | | 2022 | 2,781,688 | 22,034,300 | 24,815,988 |
| | | 2021 | 2,703,910 | 16,824,253 | 19,528,163 |
| New and Former Executive Voting Directors | | | | | |
| S.D. Green ⁽²³⁾ | Macquarie Bank CEO | 2022 | 531,131 | 750,000 | 1,281,131 |
| | | 2021 | - | - | - |
| M.J. Reemst ⁽²⁴⁾ | Former Macquarie Bank CEO | 2022 | 125,773 | - | 125,773 |
| | | 2021 | 620,895 | 1,508,000 | 2,128,895 |
| New and Former Other Executives | | | | | |
| G.N. Bruce ⁽²⁵⁾ | Incoming Head of LGG | 2022 | 94,182 | 147,188 | 241,370 |
| | | 2021 | - | - | - |
| A. Cassidy ⁽²⁶⁾ | CRO, Head of RMG | 2022 | 81,234 | 148,400 | 229,634 |
| | | 2021 | - | - | - |
| P.C. Upfold ⁽²⁷⁾ | Former CRO, Head of RMG | 2022 | 330,841 | 1,038,800 | 1,369,641 |
| | | 2021 | 398,426 | 1,351,474 | 1,749,900 |
| Total Remuneration – Executive KMP (including new and former executives) | | 2022 | 3,944,849 | 24,118,688 | 28,063,537 |
| | | 2021 | 3,723,231 | 19,683,727 | 23,406,958 |

(22) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2022 and FY2021.

(23) Mr Green was appointed to the Board and the Executive Committee on 1 July 2021.

(24) Ms Reemst ceased to be a member of the Board and the Executive Committee on 30 June 2021 and retired on 2 August 2021. As a result of her retirement, the outstanding amortisation related to her equity awards was accelerated resulting in further accounting amortisation of \$A4.1 million included in her FY2022 statutory remuneration.

(25) Ms Bruce was hired by Macquarie on 1 January 2022 and appointed to the Executive Committee on 2 March 2022. To secure Ms Bruce's appointment, the Board determined it was necessary and appropriate to provide competitive remuneration arrangements. The terms of Ms Bruce's appointment with the Macquarie Group included awarding minimum profit share allocations of \$A0.7 million and \$A2.6 million for the performance years ending 31 March 2022 and 2023, respectively. The profit share allocations will be subject to Macquarie Group's standard remuneration arrangements. Ms Bruce will also receive a minimum PSU allocation of face value \$A2.0 million, subject to the performance hurdles and other conditions applicable to the PSU allocations awarded to other Executive Committee members for FY2023. Remuneration amounts disclosed in the statutory remuneration table for Ms Bruce represent remuneration since her date of hire.

(26) Mr Cassidy was appointed to the Executive Committee on 1 January 2022.

(27) Mr Upfold ceased to be a member of the Executive Committee on 31 December 2021. He remains currently employed with Macquarie but intends to retire during FY2023.

As a result of his intention to retire, the amortisation of his equity awards is being recognised over an accelerated vesting period. \$A1.7 million of his FY2022 statutory remuneration represents accelerated amortisation of equity awards, with further accounting amortisation being recognised of \$A2.8 million and \$A2.7 million in FY2022 and FY2023, respectively.

| LONG-TERM EMPLOYEE BENEFITS | | | SHARE BASED PAYMENTS | | | Total Remuneration \$A | Percentage of remuneration that consists of PSUs \$A |
|-----------------------------------|---|---|----------------------|------------------|---|------------------------------|---|
| Restricted profit share \$A | Earnings on prior years' restricted profit share \$A | Total long-term employee benefits \$A | Equity awards \$A | PSUs \$A | Total share-based payments \$A | | |
| 994,000 | 696,423 | 1,690,423 | 5,792,292 | 1,412,338 | 7,204,630 | 11,792,364 | 12% |
| 857,528 | (385,592) | 471,936 | 5,111,530 | 452,187 | 5,563,717 | 8,576,151 | 5% |
| 256,215 | 80,245 | 336,460 | 2,118,680 | 997,433 | 3,116,113 | 5,595,852 | 18% |
| 187,026 | (10,540) | 176,486 | 1,751,581 | 516,769 | 2,268,350 | 4,029,174 | 13% |
| 1,816,890 | 360,079 | 2,176,969 | 10,967,366 | 1,754,844 | 12,722,210 | 27,628,772 | 6% |
| 1,281,341 | (29,128) | 1,252,213 | 9,250,782 | 1,073,559 | 10,324,341 | 20,802,902 | 5% |
| 319,290 | 100,141 | 419,431 | 2,642,305 | 1,257,621 | 3,899,926 | 6,993,568 | 18% |
| 250,698 | (15,067) | 235,631 | 2,332,022 | 203,896 | 2,535,918 | 4,957,209 | 4% |
| 1,080,000 | 381,019 | 1,461,019 | 4,408,060 | 2,084,601 | 6,492,661 | 12,325,274 | 17% |
| 966,000 | (53,515) | 912,485 | 4,309,959 | 303,992 | 4,613,951 | 9,517,755 | 3% |
| 4,466,395 | 1,617,907 | 6,084,302 | 25,928,703 | 7,506,837 | 33,435,540 | 64,335,830 | |
| 3,542,593 | (493,842) | 3,048,751 | 22,755,874 | 2,550,403 | 25,306,277 | 47,883,191 | |
| 112,500 | 19,704 | 132,204 | 581,267 | 345,580 | 926,847 | 2,340,182 | 15% |
| - | - | - | - | - | - | - | -% |
| - | 27,423 | 27,423 | 4,118,505 | 1,259,090 | 5,377,595 | 5,530,791 | 23% |
| 226,200 | (15,730) | 210,470 | 4,874,638 | 584,132 | 5,458,770 | 7,798,135 | 7% |
| 22,078 | - | 22,078 | 14,517 | 37,239 | 51,756 | 315,204 | 12% |
| - | - | - | - | - | - | - | -% |
| 22,260 | 1,682 | 23,942 | 74,176 | 60,161 | 134,337 | 387,913 | 16% |
| - | - | - | - | - | - | - | -% |
| 155,820 | 57,111 | 212,931 | 2,471,116 | 760,774 | 3,231,890 | 4,814,462 | 16% |
| 202,721 | (14,710) | 188,011 | 1,979,352 | 164,876 | 2,144,228 | 4,082,139 | 4% |
| 4,779,053 | 1,723,827 | 6,502,880 | 33,188,284 | 9,969,681 | 43,157,965 | 77,724,382 | |
| 3,971,514 | (524,282) | 3,447,232 | 29,609,864 | 3,299,411 | 32,909,275 | 59,763,465 | |

Remuneration Report

Continued

Additional information regarding the statutory remuneration disclosures set out in this Appendix

The remuneration disclosures set out in this Appendix have been prepared in accordance with Australian Accounting Standards.

Under the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2022 and 31 March 2021 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP.

The following information provides more detail regarding some of the column headings in this Appendix:

(1) *Short-term employee benefits:*

- (a) *Salary:* includes salary, superannuation, any accrual for long service leave and other benefits
- (b) *Performance-related remuneration:* this represents the cash portion of each person's profit share allocation for the reporting period as an Executive KMP.

(2) *Long-term employee benefits:*

- (a) *Restricted profit share:* this represents the amount of retained profit share awarded for the current period that is deferred to future periods and held as a notional investment in Macquarie-managed fund equity (DPS Plan)
- (b) *Earnings on prior years' restricted profit share:* Profit share amounts retained under the DPS Plan are notionally invested in Macquarie-managed funds, providing Executive Directors with an economic exposure to the underlying investments. Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. The notional returns are calculated based on Total Shareholder Return. Where these amounts are positive, they may be paid to Executive Directors and are included in these remuneration disclosures as part of 'Earnings on prior years' restricted profit share'. If there is a notional loss, this loss will be offset against any future notional income until the loss is completely offset and is reported as a negative amount in the same column. These earnings reflect the investment performance of the assets in which prior years' retained amounts have been notionally invested. Their inclusion in the individual remuneration disclosures on the previous pages may, therefore, cause distortions when year-on-year remuneration trends are examined. They do not reflect remuneration review decisions made about the individual's current year performance.

(3) *Share-based payments:*

- (a) *Equity awards including shares:* This represents the current year expense for retained profit share that is invested in MGL ordinary shares under the MEREP as described on page 42. This is recognised as an expense over the respective vesting periods, or service period if shorter, as described on pages 42 to 43 and includes amounts relating to prior years equity awards that have been previously disclosed. Equity awards in respect of FY2022 performance will be granted during FY2023; however, Macquarie Group begins recognising an expense for these awards (based on an initial estimate) from 1 April 2021. The expense is estimated using the price of MGL ordinary shares as at 31 March 2022 and the number of equity awards expected to vest. In the following financial year, Macquarie Group will adjust the accumulated expense recognised for the final determination of the accounting fair value for each equity award when granted and will use this validation for recognising the expense over the remaining vesting period
- (b) *PSUs:* This represents the current year expense for PSUs that is recognised over the vesting period as described on page 44. This includes amounts relating to prior years' PSU awards. PSU awards in respect of FY2022 will be granted during FY2023; however, Macquarie Group begins recognising an expense for these awards (based on an initial estimate) from 1 April 2021. The expense is estimated using the price of MGL ordinary shares as at 31 March 2022 and the number of PSUs expected to vest. The estimate also incorporates an interest rate to maturity of 2.91% per annum, expected vesting date of 1 July 2026, and a dividend yield of 3.63% per annum. In the following financial year, Macquarie Group will adjust the accumulated expense recognised for the final determination of the accounting fair value for each PSU when granted and will use this validation for recognising the expense over the remaining vesting period. Performance hurdles attached to the PSUs allow for PSUs to become exercisable upon vesting only when the relevant performance hurdles are met. The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

Appendix 3: Non-Executive Director remuneration

The remuneration arrangements for all the persons listed below as NEDs are described on page 56 of the Remuneration Report. The fees shown include fees paid as members of the MBL Board.

| | Year | Fees \$A | Other benefits ⁽²⁸⁾ \$A | Total Compensation \$A |
|---|------|------------------|---------------------------------------|---------------------------|
| G.R. Banks ⁽²⁹⁾ | 2022 | - | - | - |
| | 2021 | 26,000 | - | 26,000 |
| J.R. Broadbent | 2022 | 153,875 | - | 153,875 |
| | 2021 | 78,000 | - | 78,000 |
| G.M. Cairns ⁽³⁰⁾ | 2022 | 15,067 | - | 15,067 |
| | 2021 | 78,000 | - | 78,000 |
| P.M. Coffey ⁽³¹⁾ | 2022 | 173,917 | - | 173,917 |
| | 2021 | 78,000 | - | 78,000 |
| M.J. Coleman | 2022 | 193,250 | 9,000 | 202,250 |
| | 2021 | 78,000 | 2,000 | 80,000 |
| D.J. Grady ⁽³²⁾ | 2022 | 139,018 | - | 139,018 |
| | 2021 | 78,000 | - | 78,000 |
| M.J. Hawker ⁽³³⁾ | 2022 | - | - | - |
| | 2021 | 39,000 | - | 39,000 |
| M.A. Hinchliffe ⁽³⁴⁾ | 2022 | 14,542 | - | 14,542 |
| | 2021 | - | - | - |
| R.J. McGrath | 2022 | 153,875 | - | 153,875 |
| | 2021 | 15,516 | - | 15,516 |
| M. Roche | 2022 | 153,875 | - | 153,875 |
| | 2021 | 15,516 | - | 15,516 |
| G.R. Stevens ⁽³⁵⁾ | 2022 | 191,458 | - | 191,458 |
| | 2021 | 78,000 | - | 78,000 |
| N.M. Wakefield Evans | 2022 | 172,125 | - | 172,125 |
| | 2021 | 78,000 | - | 78,000 |
| P.H. Warne | 2022 | 461,875 | - | 461,875 |
| | 2021 | 267,000 | - | 267,000 |
| Total Remuneration – Non-Executive KMP | 2022 | 1,822,877 | 9,000 | 1,831,877 |
| | 2021 | 909,032 | 2,000 | 911,032 |

(28) Other benefits for NEDs include due diligence fees paid to Mr Coleman of \$A9,000 in FY2022 (FY2021: \$A2,000).

(29) Mr Banks ceased to be a member of the MGL and MBL Boards on 30 July 2020.

(30) Mr Cairns ceased to be a member of the MGL and MBL Boards on 7 May 2021.

(31) Mr Coffey was appointed Chair of the Board Risk Committee on 1 March 2022.

(32) Ms Grady ceased to be a member of the MGL and MBL Boards on 24 February 2022.

(33) Mr Hawker ceased to be a member of the MGL and MBL Boards on 30 September 2020.

(34) Ms Hinchliffe was appointed to the MGL and MBL Boards as an Independent Voting Director on 1 March 2022. She became a member of the Board Audit Committee and the Board Risk Committee on 1 March 2022.

(35) Mr Stevens was Chairman of the Board Risk Committee until 1 March 2022. He continues to serve as a member of the Board Risk Committee.

Remuneration Report

Continued

Appendix 4: Loan disclosures

Loans to Key Management Personnel and their related parties

Details of loans provided by Macquarie Bank to KMP and their related parties are disclosed in the following table.

| Name and Position | Balance as at 1 April 2021 ⁽³⁶⁾ \$A'000 | Interest charged \$A'000 | Write downs \$A'000 | Balance as at 31 March 2022 ⁽³⁷⁾ \$A'000 | Highest balance during the year \$A'000 |
|--|--|--------------------------------|------------------------|---|---|
| Non-Executive Directors | | | | | |
| D.J. Grady (related party) | 468 | 17 | - | 459 | 468 |
| N.M. Wakefield Evans (related party) | 4,800 | 63 | - | 4,638 | 4,800 |
| P.H. Warne (related party) | 456 | 7 | - | 441 | 456 |
| Executives | | | | | |
| A. Cassidy | 3,696 | 21 | - | 3,671 | 3,696 |
| A.H. Harvey | 5,500 | 32 | - | 8,000 | 8,000 |
| Aggregate of KMP and related party loans ⁽³⁸⁾ | 14,921 | 140 | - | 17,210 | 17,421 |

This Remuneration Report has been prepared in accordance with the Act. The Remuneration Report contains disclosures as required by AASB 124 *Related Party Disclosures* as permitted by Corporations Regulation 2M.3.03 *Prescribed details*.

Throughout this Remuneration Report financial information for Macquarie Group and Macquarie Bank relating to the years ended 31 March 2018 through to 31 March 2022 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(36) Or date of appointment if later.

(37) Or date of ceasing to be a KMP if earlier.

(38) The aggregate of KMP and related party loans includes loans to KMP (including their related parties) and the table above details KMP (including their related parties) with loans above \$A100,000 during FY2022. All loans provided by Macquarie to KMP are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

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03

Financial Report

Building more rewarding relationships with brokers

At Macquarie, we're focused on building a rewarding relationship with our brokers, which is all about making it easy to do business with us and ultimately doing what we can to help them deliver great client outcomes.

We're proud to have built a leading digital experience in recent years and launching our broker portal was the next step in our digital journey and a natural extension of the first-class service we're already offering our broker partners.

Our portal has been built from broker insights and is designed to give brokers greater control and more time back, allowing them to focus on what's most important - their clients.



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The Financial Report was authorised for issue by the Board of Directors on 6 May 2022.
The Board of Directors has the power to amend and reissue the Financial Report.

Income statements

For the financial year ended 31 March 2022

| | Notes | CONSOLIDATED | | COMPANY | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Interest and similar income | | | | | |
| Effective interest rate method | 2 | 3,210 | 3,101 | 2,869 | 2,489 |
| Other | 2 | 264 | 261 | 272 | 222 |
| Interest and similar expense | 2 | (1,021) | (1,273) | (1,122) | (1,310) |
| Net interest income | | 2,453 | 2,089 | 2,019 | 1,401 |
| Net trading income | 2 | 4,214 | 3,315 | 2,068 | 2,020 |
| Fee and commission income | 2 | 1,954 | 1,326 | 724 | 1,282 |
| Net operating lease income | 2 | 339 | 395 | 153 | 130 |
| Net credit impairment charges | 2 | (16) | (287) | (223) | (132) |
| Net other impairment (charges)/reversals | 2 | (11) | (46) | 11 | 44 |
| Net other operating income | 2 | 621 | 203 | 4,666 | 1,473 |
| Net operating income | | 9,554 | 6,995 | 9,418 | 6,218 |
| Employment expenses | 2 | (3,696) | (2,103) | (1,205) | (1,008) |
| Brokerage, commission and fee expenses | 2 | (505) | (525) | (433) | (662) |
| Non-salary technology expenses | 2 | (716) | (327) | (152) | (138) |
| Other operating expenses | 2 | (970) | (1,742) | (2,038) | (1,821) |
| Total operating expenses | | (5,887) | (4,697) | (3,828) | (3,629) |
| Operating profit before income tax | | 3,667 | 2,298 | 5,590 | 2,589 |
| Income tax expense | 4 | (950) | (622) | (487) | (166) |
| Profit after income tax | | 2,717 | 1,676 | 5,103 | 2,423 |
| Profit attributable to the ordinary equity holder of Macquarie Bank Limited | | 2,717 | 1,676 | 5,103 | 2,423 |

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

Statements of comprehensive income

For the financial year ended 31 March 2022

| | Notes | CONSOLIDATED | | COMPANY | |
|---|-------|--------------|-------------|--------------|-------------|
| | | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Profit after income tax | | 2,717 | 1,676 | 5,103 | 2,423 |
| Other comprehensive income/(loss): ⁽¹⁾ | | | | | |
| Movements in items that may be subsequently reclassified to the income statement: | | | | | |
| Fair value through other comprehensive income (FVOCI) reserve: | | | | | |
| Revaluation movement | 25 | (28) | 71 | (16) | 46 |
| Changes in allowance for expected credit losses | 25 | (3) | (3) | 1 | 1 |
| Cash flow hedges: | | | | | |
| Net movement recognised in other comprehensive income (OCI) | 25 | 69 | 7 | 69 | (20) |
| Transferred to income statement | 25 | 44 | 39 | (27) | 27 |
| Share of other comprehensive income of associates and joint ventures | 25 | 3 | 1 | - | - |
| Foreign exchange movement on translation and hedge accounting of foreign operations | 25 | 41 | (800) | (181) | (6) |
| Movements in item that will not be subsequently reclassified to the income statement: | | | | | |
| Fair value changes attributable to own credit risk on debt designated at fair value through profit or loss (DFVTPL) | 25 | 12 | (79) | 12 | (79) |
| Total other comprehensive income/(loss) | | 138 | (764) | (142) | (31) |
| Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited | | 2,855 | 912 | 4,961 | 2,392 |

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

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

Statements of financial position

As at 31 March 2022

| | | CONSOLIDATED | | COMPANY | |
|--|-------|----------------|----------------|----------------|----------------|
| | Notes | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Assets | | | | | |
| Cash and bank balances | | 48,972 | 15,966 | 43,594 | 14,012 |
| Cash collateralised lending and reverse repurchase agreements | | 42,548 | 34,555 | 38,205 | 31,034 |
| Trading assets | 6 | 11,719 | 21,212 | 10,131 | 19,128 |
| Margin money and settlement assets | 7 | 19,410 | 8,302 | 16,115 | 6,417 |
| Derivative assets | 8 | 84,616 | 20,552 | 74,444 | 19,328 |
| Financial investments | 9 | 6,511 | 7,999 | 6,477 | 7,916 |
| Held for sale and other assets | 10 | 4,990 | 3,493 | 2,941 | 1,717 |
| Loan assets | 11 | 123,004 | 98,992 | 121,179 | 83,676 |
| Due from subsidiaries | 27 | - | - | 23,856 | 21,500 |
| Due from related body corporate entities | 27 | 3,425 | 2,154 | 2,954 | 1,645 |
| Property, plant and equipment and right-of-use assets | 13 | 3,536 | 2,797 | 2,801 | 672 |
| Investments in subsidiaries | 14 | - | - | 6,287 | 6,618 |
| Deferred tax assets | 15 | 897 | 826 | 402 | 493 |
| Total assets | | 349,628 | 216,848 | 349,386 | 214,156 |
| Liabilities | | | | | |
| Cash collateralised borrowing and repurchase agreements | | 16,947 | 4,542 | 16,947 | 4,542 |
| Trading liabilities | 16 | 5,206 | 6,134 | 5,210 | 6,137 |
| Margin money and settlement liabilities | 17 | 21,577 | 16,251 | 15,593 | 13,632 |
| Derivative liabilities | 18 | 84,191 | 17,475 | 71,521 | 15,732 |
| Deposits | 19 | 101,614 | 84,140 | 101,417 | 83,994 |
| Other liabilities | 20 | 5,744 | 4,350 | 3,022 | 2,054 |
| Borrowings | | 5,713 | 2,473 | 2,787 | 1,967 |
| Due to subsidiaries | 27 | - | - | 38,772 | 16,532 |
| Due to related body corporate entities | 27 | 11,637 | 15,901 | 10,203 | 15,684 |
| Issued debt securities | 21 | 72,107 | 44,668 | 58,722 | 34,764 |
| Deferred tax liabilities | 15 | 28 | 36 | 29 | - |
| Total liabilities excluding loan capital | | 324,764 | 195,970 | 324,223 | 195,038 |
| Loan capital | 23 | 6,896 | 6,804 | 6,896 | 6,804 |
| Total liabilities | | 331,660 | 202,774 | 331,119 | 201,842 |
| Net assets | | 17,968 | 14,074 | 18,267 | 12,314 |
| Equity | | | | | |
| Contributed equity | 24 | 9,562 | 8,523 | 9,416 | 8,400 |
| Reserves | 25 | 432 | 306 | (164) | (10) |
| Retained earnings | 25 | 7,974 | 5,245 | 9,015 | 3,924 |
| Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited | | 17,968 | 14,074 | 18,267 | 12,314 |
| Total equity | | 17,968 | 14,074 | 18,267 | 12,314 |

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

Statements of changes in equity

For the financial year ended 31 March 2022

| | Notes | Contributed equity \$m | Reserves \$m | Retained earnings \$m | Total \$m | Non-controlling interests \$m | Total equity \$m |
|---|-------|---------------------------|-----------------|--------------------------|--------------|----------------------------------|---------------------|
| CONSOLIDATED | | | | | | | |
| Balance as at 1 Apr 2020 | | 8,899 | 991 | 4,336 | 14,226 | 1 | 14,227 |
| Profit after income tax | | - | - | 1,676 | 1,676 | - | 1,676 |
| Other comprehensive loss, net of tax | | - | (685) | (79) | (764) | - | (764) |
| Total comprehensive (loss)/income | | - | (685) | 1,597 | 912 | - | 912 |
| Transactions with equity holders in their capacity as ordinary equity holder: | | | | | | | |
| Redemption of Macquarie Income Securities (MIS) | 24 | (400) | - | - | (400) | - | (400) |
| Dividends paid | 5 | - | - | (500) | (500) | - | (500) |
| Change attributable to group restructure | 25 | - | - | (189) | (189) | - | (189) |
| Non-controlling interests: | | | | | | | |
| Movement in non-controlling ownership interests | | - | - | 1 | 1 | (1) | - |
| Other equity movements: | | | | | | | |
| Contribution from ultimate parent entity ⁽¹⁾ in relation to share-based payments | 24 | 24 | - | - | 24 | - | 24 |
| | | (376) | - | (688) | (1,064) | (1) | (1,065) |
| Balance as at 31 Mar 2021 | | 8,523 | 306 | 5,245 | 14,074 | - | 14,074 |
| Profit after income tax | | - | - | 2,717 | 2,717 | - | 2,717 |
| Other comprehensive income, net of tax | | - | 126 | 12 | 138 | - | 138 |
| Total comprehensive income | | - | 126 | 2,729 | 2,855 | - | 2,855 |
| Transactions with equity holders in their capacity as ordinary equity holder: | | | | | | | |
| Contribution of ordinary equity | 24 | 1,000 | - | - | 1,000 | - | 1,000 |
| Other equity movements: | | | | | | | |
| Contribution from ultimate parent entity ⁽¹⁾ in relation to share-based payments | 24 | 39 | - | - | 39 | - | 39 |
| | | 1,039 | - | - | 1,039 | - | 1,039 |
| Balance as at 31 Mar 2022 | | 9,562 | 432 | 7,974 | 17,968 | - | 17,968 |

(1) Macquarie Group Limited.

| | Notes | Contributed equity \$m | Reserves \$m | Retained earnings \$m | Total equity \$m |
|---|-------|---------------------------|-----------------|--------------------------|---------------------|
| COMPANY | | | | | |
| Balance as at 1 Apr 2020 | | 8,789 | (58) | 2,080 | 10,811 |
| Profit after income tax | | - | - | 2,423 | 2,423 |
| Other comprehensive income/(loss), net of tax | | - | 48 | (79) | (31) |
| Total comprehensive income | | - | 48 | 2,344 | 2,392 |
| Transactions with equity holders in their capacity as ordinary equity holder: | | | | | |
| Redemption of MIS | 24 | (400) | - | - | (400) |
| Dividends paid | 5 | - | - | (500) | (500) |
| Other equity movements: | | | | | |
| Contribution from ultimate parent entity ⁽¹⁾ in relation to share-based payments | 24 | 11 | - | | 11 |
| | | (389) | - | (500) | (889) |
| Balance as at 31 Mar 2021 | | 8,400 | (10) | 3,924 | 12,314 |
| Profit after income tax | | - | - | 5,103 | 5,103 |
| Other comprehensive (loss)/income, net of tax | | - | (154) | 12 | (142) |
| Total comprehensive (loss)/income | | - | (154) | 5,115 | 4,961 |
| Transactions with equity holders in their capacity as ordinary equity holder: | | | | | |
| Contribution of ordinary equity | 24 | 1,000 | - | - | 1,000 |
| Change attributable to group restructure | 25 | - | - | (24) | (24) |
| Other equity movements: | | | | | |
| Contribution from ultimate parent entity ⁽¹⁾ in relation to share-based payments | 24 | 16 | - | - | 16 |
| | | 1,016 | - | (24) | 992 |
| Balance as at 31 Mar 2022 | | 9,416 | (164) | 9,015 | 18,267 |

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

(1) Macquarie Group Limited.

Statements of cash flows

For the financial year ended 31 March 2022

| | | CONSOLIDATED | | COMPANY | |
|---|-------|---------------|---------------|---------------|---------------|
| | Notes | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Cash flows generated from operating activities | | | | | |
| Interest income and expense: | | | | | |
| Received | | 3,466 | 3,370 | 3,109 | 2,691 |
| Paid | | (1,031) | (1,397) | (1,152) | (1,430) |
| Fees, commissions and other income and charges: | | | | | |
| Received | | 1,934 | 1,455 | 635 | 1,325 |
| Paid | | (471) | (522) | (399) | (650) |
| Operating lease income received | | 841 | 933 | 422 | 398 |
| Dividends and distributions received | | 13 | 5 | 3,259 | 1,369 |
| Operating expenses paid: | | | | | |
| Employment expenses | | (3,303) | (1,751) | (1,058) | (932) |
| Other operating expenses including brokerage, commission and fee expenses | | (1,078) | (2,005) | (1,969) | (1,924) |
| Income tax paid | | (395) | (212) | (57) | (45) |
| Changes in operating assets: | | | | | |
| Loan assets, receivables and balances with related parties | | (29,716) | (13,629) | (24,463) | (17,475) |
| Other assets | | (1,568) | (594) | (1,190) | 307 |
| Assets under operating lease | | (1,115) | (407) | (2,059) | 71 |
| Trading, trading-related and collateralised lending balances (net of liabilities) | | 14,089 | (3,709) | 4,582 | (6,249) |
| Changes in operating liabilities: | | | | | |
| Issued debt securities | | 27,369 | 2,321 | 24,182 | 6,425 |
| Deposits | | 17,472 | 17,205 | 17,415 | 17,118 |
| Borrowings and other funding | | 13,330 | 1,966 | 10,823 | 2,094 |
| Other liabilities | | (298) | 18 | (10) | (25) |
| Net cash flows generated from operating activities | 26 | 39,539 | 3,047 | 32,070 | 3,068 |
| Cash flows generated from/(utilised in) investing activities | | | | | |
| Net proceeds from financial investments | | 2,688 | 204 | 2,606 | 153 |
| Associates, joint ventures, subsidiaries and businesses: | | | | | |
| Proceeds from the distribution or disposal, net of cash deconsolidated | | 534 | 13 | 5,241 | 415 |
| Payments for additional contribution or acquisitions, net of cash acquired | | (51) | (324) | (3,625) | (1,637) |
| Property, plant and equipment and intangible assets: | | | | | |
| Payments for acquisitions | | (164) | (153) | (131) | (133) |
| Proceeds from disposals | | - | 20 | - | - |
| Net cash flows generated from/(utilised in) investing activities | | 3,007 | (240) | 4,091 | (1,202) |
| Cash flows generated from financing activities | | | | | |
| Loan capital: | | | | | |
| Issuance | | 1,405 | 3,694 | 1,405 | 3,694 |
| Redemption | | (1,101) | (740) | (1,101) | (740) |
| Dividends and distributions paid | | - | (503) | - | (500) |
| Issuance of ordinary shares | | 1,000 | - | 1,000 | - |
| Non-Controlling interests: | | | | | |
| Redemption of Macquarie Income Securities | | - | (400) | - | (400) |
| Payment to non-controlling interests | | - | (1) | - | - |
| Net cash flows generated from financing activities | | 1,304 | 2,050 | 1,304 | 2,054 |
| Net increase in cash and cash equivalents | | 43,850 | 4,857 | 37,465 | 3,920 |
| Cash and cash equivalents at the beginning of the financial year | 26 | 29,318 | 27,290 | 27,649 | 26,192 |
| Effect of exchange rate movement on cash and cash equivalents | | (807) | (2,829) | (436) | (2,463) |
| Cash and cash equivalents at the end of the financial year | 26 | 72,361 | 29,318 | 64,678 | 27,649 |

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

Notes to the financial statements

For the financial year ended 31 March 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). Macquarie Bank Limited is a for-profit Company for the purposes of preparing this Financial Report.

The principal accounting policies adopted in the preparation of this Financial Report are set out in Note 41 *Significant accounting policies*. These policies have been consistently applied to all the financial years presented and are applicable to both the Consolidated Entity (Macquarie Bank Limited and its subsidiaries) as well as the Company (Macquarie Bank Limited), unless otherwise stated.

(i) Compliance with IFRS as issued by the IASB

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

(ii) Basis of measurement

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

- financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL); financial assets classified as fair value through other comprehensive income (FVOCI) and financial instruments that have been designated as FVTPL (DFVTPL)
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships
- non-current assets and disposal groups that have been classified as held for sale and where a disposal group has been impaired to its fair value less costs to sell
- commodity inventories that are measured at fair value less costs to sell in accordance with the broker-trader exemption.

(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 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 41(vii)

- assessing whether the cash flows generated by a financial asset constitute solely payments of principal and interest (SPPI) may require the application of judgement, particularly for certain subordinated or non-recourse positions, and in the determination of whether compensation for early termination of a contract is reasonable (Note 41(vii))
- 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 41(xxii) and Note 12)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including the reversal thereof (Note 41(i), Note 41(xxii) and Note 14)
- fair value of assets and liabilities including the determination of non-recurring fair values and accounting for day 1 profits or losses for financial instruments (Note 41(vii), Note 41(x) and Note 35)
- 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 41(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 41(vi), Note 4 and Note 15)
- recognition and measurement of provisions related to actual and potential claims and the determination of contingent liabilities (Note 41(xvii) and Note 30)
- application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 41(x) and Note 32)
- timing of derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 41(i)).

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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 1

Basis of preparation continued

(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.

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 and 30 September 2021 financial statements. Those processes identified that expected credit losses (Note 12) required continued judgement as a result of the impact of COVID-19.

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

The Consolidated Entity drew down an additional \$9.5 billion from the Reserve Bank of Australia (RBA) under the Term Funding Facility (TFF) during the reporting period. As at 31 March 2022, the Consolidated Entity had drawn \$11.3 billion under the TFF which is in the form of repurchase agreements, is collateralised with issued loan notes in the Consolidated Entity's home loans' securitisation vehicles. The objective of the TFF is to reduce interest rates for borrowers and support businesses during this period through lending.

(v) New Australian Accounting Standards and amendments to Australian Accounting Standards and interpretations 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.

Note 1

Basis of preparation continued

(vi) Other developments continued

Impacts on financial reporting

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

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

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

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 2

Operating profit before income tax

| | CONSOLIDATED | | COMPANY | |
|--|--------------|---------|---------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$m | \$m | \$m | \$m |
| Net interest income | | | | |
| Interest and similar income: | | | | |
| Effective interest rate method ⁽¹⁾ | 3,210 | 3,101 | 2,869 | 2,489 |
| Other | 264 | 261 | 272 | 222 |
| Interest and similar expense ⁽²⁾ | (1,021) | (1,273) | (1,122) | (1,310) |
| Net interest income | 2,453 | 2,089 | 2,019 | 1,401 |
| Net trading income⁽³⁾ | | | | |
| Commodities trading ⁽⁴⁾ | 3,233 | 2,439 | 1,307 | 1,036 |
| Credit, interest rate, foreign exchange and other products | 645 | 535 | 656 | 747 |
| Equities trading | 336 | 341 | 105 | 237 |
| Net trading income | 4,214 | 3,315 | 2,068 | 2,020 |
| Fee and commission income | | | | |
| Service fee from related parties ⁽⁵⁾ | 1,006 | 365 | 132 | 292 |
| Brokerage and other trading-related fees | 275 | 360 | 171 | 259 |
| Portfolio administration fees | 247 | 216 | 69 | 55 |
| Lending fees | 133 | 129 | 117 | 163 |
| Other fee and commission income | 293 | 256 | 235 | 513 |
| Total fee and commission income | 1,954 | 1,326 | 724 | 1,282 |
| Net operating lease income | | | | |
| Rental income | 656 | 846 | 262 | 321 |
| Depreciation and other operating lease-related charges (Note 13) | (317) | (451) | (109) | (191) |
| Net operating lease income | 339 | 395 | 153 | 130 |

(1) Includes interest income of \$3,157 million (2021: \$3,032 million) in the Consolidated Entity and \$2,815 million (2021: \$2,420 million) in the Company on financial assets measured at amortised cost and \$53 million (2021: \$69 million) in the Consolidated Entity and \$54 million (2021: \$69 million) in the Company on financial assets measured at FVOCI.

(2) Includes interest expense on financial liabilities measured at amortised cost calculated using the effective interest rate method of \$963 million (2021: \$1,242 million) in the Consolidated Entity and \$1,072 million (2021: \$1,284 million) in the Company.

(3) 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 41(x) *Derivative instruments and hedging activities*.

(4) Includes \$409 million (2021: \$485 million) in the Consolidated Entity and \$79 million (2021: \$126 million) in the Company for transportation, storage and certain other trading related costs and \$10 million (2021: \$11 million) in the Consolidated Entity for depreciation on right-of-use (ROU) assets held for trading-related business.

(5) Consolidated Entity includes fee and service income earned from the Non-Bank Group by the service entities acquired from MGL during the previous financial year. For details, refer to Note 39 *Acquisition and disposals of subsidiaries and businesses*.

Note 2

Operating profit before income tax continued

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Credit and other impairment (charges)/reversals | | | | |
| Credit impairment (charges)/reversals | | | | |
| Loan assets | 77 | (196) | (147) | (110) |
| Margin money and settlement assets | (28) | (29) | (39) | 1 |
| Financial investments, other assets, off balance sheet exposures | (67) | (64) | (46) | (23) |
| Gross credit impairment charges | (18) | (289) | (232) | (132) |
| Recovery of amounts previously written off | 2 | 2 | 9 | - |
| Net credit impairment charges | (16) | (287) | (223) | (132) |
| Other impairment (charges)/reversals | | | | |
| Interests in associates and joint ventures | 13 | (24) | - | (2) |
| Intangible and other non-financial assets | (24) | (22) | (10) | (14) |
| Investments in subsidiaries | - | - | 21 | 60 |
| Net other impairment (charges)/reversals | (11) | (46) | 11 | 44 |
| Total credit and other impairment charges | (27) | (333) | (212) | (88) |
| Net other operating income | | | | |
| Investment income | | | | |
| Net gain from: | | | | |
| Disposal of businesses and subsidiaries ⁽¹⁾ | 460 | 8 | 1,403 | 9 |
| Financial investments and other assets | 61 | 117 | 64 | 78 |
| Dividends from subsidiaries ⁽¹⁾ | - | - | 3,259 | 1,369 |
| Total investment income | 521 | 125 | 4,726 | 1,456 |
| Share of net profits from associates and joint ventures | 39 | 41 | - | - |
| Other income/(charges) | 61 | 37 | (60) | 17 |
| Total net other operating income | 621 | 203 | 4,666 | 1,473 |
| Net operating income | 9,554 | 6,995 | 9,418 | 6,218 |

(1) Company includes gains on disposal of certain subsidiaries and dividend received from subsidiaries as part of common control business combination transaction. For details, refer to Note 27 Related party information.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 2

Operating profit before income tax continued

| | CONSOLIDATED | | COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Employment expenses | | | | |
| Salary and related costs including commissions, superannuation and performance-related profit share | (3,315) | (1,875) | (1,065) | (893) |
| Share-based payments | (324) | (206) | (121) | (97) |
| Provision for long service leave and annual leave | (57) | (22) | (19) | (18) |
| Total employment expenses | (3,696) | (2,103) | (1,205) | (1,008) |
| Brokerage, commission and fee expenses | | | | |
| Brokerage and other trading-related fee expenses | (397) | (457) | (275) | (338) |
| Other fee and commission expenses | (108) | (68) | (158) | (324) |
| Total brokerage, commission and fee expenses | (505) | (525) | (433) | (662) |
| Non-salary technology expenses | | | | |
| Information services | (107) | (92) | (48) | (58) |
| Depreciation on own use assets: equipment (Note 13) | (18) | (10) | (3) | (4) |
| Service provider and other non-salary technology expenses | (591) | (225) | (101) | (76) |
| Total non-salary technology expenses | (716) | (327) | (152) | (138) |
| Other operating expenses | | | | |
| Occupancy expenses | | | | |
| Lease and other occupancy expenses | (163) | (134) | (74) | (88) |
| Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements (Note 13) | (38) | (16) | (2) | (3) |
| Total occupancy expenses | (201) | (150) | (76) | (91) |
| Other expenses | | | | |
| Service cost recoveries by related parties | - | (1,108) | (1,506) | (1,404) |
| Professional fees | (223) | (178) | (111) | (111) |
| Indirect and other taxes | (115) | (86) | (85) | (69) |
| Audit fees | (29) | (28) | (17) | (18) |
| Amortisation of intangible assets | (23) | (22) | (20) | (19) |
| Advertising and promotional expenses | (45) | (26) | (42) | (22) |
| Other | (334) | (144) | (181) | (87) |
| Total other expenses | (769) | (1,592) | (1,962) | (1,730) |
| Total other operating expenses | (970) | (1,742) | (2,038) | (1,821) |
| Total operating expenses | (5,887) | (4,697) | (3,828) | (3,629) |
| Operating profit before income tax | 3,667 | 2,298 | 5,590 | 2,589 |

Note 3

Segment reporting

(i) Operating segments

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

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

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

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

- **BFS** provides a diverse range of personal banking, wealth management, and business banking products and services to retail clients, advisers, brokers and business clients
- **CGM** is a global business offering capital and financing, risk management, market access, physical execution and logistics solutions to its diverse client base across Commodities, Financial Markets and Asset Finance.

The Corporate segment, which is not considered an Operating Group, comprises head office and Central Service Groups, including Group Treasury. As applicable, the Corporate segment holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups. Consequent to a group internal restructuring, any balances pertaining to an operating segment that are not individually material are also reported as part of the Corporate segment.

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

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

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

Internal funding arrangements

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

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

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

Transactions between Operating Segments

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

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

Accounting for derivatives that hedge interest rate risk

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 3

Segment reporting continued

(i) Operating segments continued

Central Service Groups

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

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

In November 2020, MGL's service entities were transferred from the Non-Bank Group to the Consolidated Entity following approval from both the MGL and MBL Boards.

The transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity acquired a 100% interest in Macquarie Group Services Australia (MGSA) and its subsidiaries from MGL and a 100% interest in Macquarie Global Services Private Limited (MGSP) from Macquarie Global Finance Services (Mauritius) Limited (an indirect subsidiary of MGL).

The service entities largely employ staff in Central Service Groups, together with some back and middle office staff from MGL's Operating Groups. The transfer resulted in an increase of approximately 7,500 permanent headcount for the Consolidated Entity. Where staff provide services to the Non-Bank Group, the Consolidated Entity earns fees for these services, which are charged on arms-length basis.

Please refer to Note 39 *Acquisition and disposals of subsidiaries and businesses* for additional information.

Performance-related profit share and share-based payments expense

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

Income tax

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

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

Presentation of segment income statements

The income statements on the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the Consolidated Entity's financial performance. The financial information disclosed relates to the Consolidated Entity's ordinary activities.

Reportable segment assets

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

Note 3

Segment reporting continued

(i) Operating segments continued

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

| | Banking and Financial Services \$m | Commodities and Global Markets \$m | Corporate ⁽¹⁾ \$m | Total \$m |
|---|--|--|---------------------------------|----------------|
| CONSOLIDATED 2022 | | | | |
| Net interest and trading income | 1,972 | 4,633 | 62 | 6,667 |
| Fee and commission income | 457 | 486 | 1,011 | 1,954 |
| Net operating lease income | - | 336 | 3 | 339 |
| Net other operating income: | | | | |
| Credit and other impairment reversals/(charges) | 22 | (66) | 17 | (27) |
| Other operating income and charges | 9 | 606 | 6 | 621 |
| Internal management revenue/(charges) | 1 | 26 | (27) | - |
| Net operating income | 2,461 | 6,021 | 1,072 | 9,554 |
| Total operating expenses | (1,460) | (2,089) | (2,338) | (5,887) |
| Operating profit/(loss) before income tax | 1,001 | 3,932 | (1,266) | 3,667 |
| Income tax expense | - | - | (950) | (950) |
| Net profit/(loss) contribution | 1,001 | 3,932 | (2,216) | 2,717 |
| Reportable segment assets | 111,106 | 171,741 | 66,781 | 349,628 |
| CONSOLIDATED 2021 | | | | |
| Net interest and trading income | 1,746 | 3,576 | 82 | 5,404 |
| Fee and commission income | 416 | 447 | 463 | 1,326 |
| Net operating lease income | - | 384 | 11 | 395 |
| Net other operating income: | | | | |
| Net credit and other impairment (charges)/reversals | (115) | (240) | 22 | (333) |
| Other operating income and charges | 27 | 140 | 36 | 203 |
| Internal management revenue/(charges) | 1 | (3) | 2 | - |
| Net operating income | 2,075 | 4,304 | 616 | 6,995 |
| Total operating expenses | (1,306) | (1,880) | (1,511) | (4,697) |
| Operating profit/(loss) before income tax | 769 | 2,424 | (895) | 2,298 |
| Income tax expense | - | - | (622) | (622) |
| Net profit/(loss) contribution | 769 | 2,424 | (1,517) | 1,676 |
| Reportable segment assets | 90,227 | 94,668 | 31,953 | 216,848 |

(1) The Corporate segment in the current and previous year includes certain balances relating to the Cash Equities business - primarily margin money and settlements assets amounting to \$518 million (2021: \$335 million). Following the transfer of the business from the CGM segment to the Macquarie Capital segment in the Non-Bank Group during the prior year, certain balances have remained on the Consolidated Entity's balance sheet for an interim transition period.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 3

Segment reporting continued

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

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

| | Banking and Financial Services \$m | Commodities and Global Markets \$m | Corporate \$m | Total \$m |
|--|--|--|------------------|--------------|
| Fee and commission income | CONSOLIDATED 2022 | | | |
| Service fee from related body corporates entities ⁽¹⁾ | - | - | 1,006 | 1,006 |
| Brokerage and other trading-related fee income | 45 | 230 | - | 275 |
| Portfolio administration fees | 245 | 2 | - | 247 |
| Lending and structured financing | 121 | 12 | - | 133 |
| Other fee and commission income | 46 | 242 | 5 | 293 |
| Total fee and commission income | 457 | 486 | 1,011 | 1,954 |
| Fee and commission income | CONSOLIDATED 2021 | | | |
| Service fee from related body corporates entities ⁽¹⁾ | - | - | 365 | 365 |
| Brokerage and other trading-related fee income | 47 | 201 | 112 | 360 |
| Portfolio administration fees | 212 | 4 | - | 216 |
| Lending fees | 118 | 11 | - | 129 |
| Other fee and commission income/(expense) | 39 | 231 | (14) | 256 |
| Total fee and commission income | 416 | 447 | 463 | 1,326 |

(1) Represents fee and service income earned by the service entities from the Non-Bank Group. The service entities were acquired from MGL during the previous financial year. For details, refer to Note 39 *Acquisition and disposals of subsidiaries and businesses*.

Note 3

Segment reporting continued

(iii) Products and services

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

- **financial markets:** Broker services and trading in fixed income, equities, foreign exchange and commodities
- **lending and structured financing:** Home loans, corporate loans, structured financing, banking activities, asset financing and leasing
- **corporate support services:** Business support services including staff, technology, occupancy and other ancillary services provided for day-to-day operations to MGL's subsidiaries
- **wealth management:** Distribution and management of wealth management products.

| | CONSOLIDATED | |
|--|---------------|--------------|
| | 2022 \$m | 2021 \$m |
| Revenue from external customers | | |
| Financial markets | 5,671 | 4,874 |
| Lending and structured financing | 4,338 | 4,008 |
| Corporate support services | 1,006 | 365 |
| Wealth management | 324 | 304 |
| Total revenue from external customers⁽¹⁾ | 11,339 | 9,551 |

(iv) Geographical areas

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

| | CONSOLIDATED 2022 | | CONSOLIDATED 2021 | |
|---|---|---|---|---|
| | Revenue from external customers \$m | Non-current assets ⁽²⁾ \$m | Revenue from external customers \$m | Non-current assets ⁽²⁾ \$m |
| Australia | 4,901 | 1,122 | 4,684 | 1,092 |
| Americas ⁽³⁾ | 2,900 | 329 | 2,448 | 252 |
| Europe, Middle East and Africa ⁽⁴⁾ | 2,703 | 2,358 | 1,684 | 1,593 |
| Asia Pacific | 835 | 218 | 735 | 287 |
| Total | 11,339 | 4,027 | 9,551 | 3,224 |

(v) Major customers

The Consolidated Entity does not rely on any major customers.

(1) Revenue from external customers includes operating income in the nature of fee and commission income, interest and similar income, net trading income, operating lease income, share of net profits/(losses) of associates and joint ventures, and gain on disposal of businesses, subsidiaries, associates and other financial/non-financial assets.

(2) Non-Current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and right-of-use assets and investment properties.

(3) Includes external revenue generated in the United States of \$2,804 million (2021: \$2,276 million).

(4) Includes external revenue generated in the United Kingdom of \$2,442 million (2021: \$1,606 million).

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 4

Income tax expense

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| (i) Income tax (expense)/benefit | | | | |
| Current tax expense | (982) | (755) | (329) | (172) |
| Deferred tax benefit/(expense) | 32 | 133 | (158) | 6 |
| Total income tax (expense)/benefit | (950) | (622) | (487) | (166) |
| (ii) Reconciliation of income tax expense to <i>prima facie</i> tax expense | | | | |
| <i>Prima facie</i> income tax expense on operating profit @30% (2021: 30%) | (1,100) | (689) | (1,677) | (777) |
| Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income: | | | | |
| Rate differential on offshore income | 156 | 68 | (162) | 197 |
| Intra-group dividends | - | - | 978 | 411 |
| Gain on internal restructures | - | - | 415 | - |
| Impairment reversal on subsidiaries | - | - | 6 | 18 |
| Other items | (6) | (1) | (47) | (15) |
| Total income tax expense | (950) | (622) | (487) | (166) |
| (iii) Tax benefit/(expense) relating to OCI | | | | |
| FVOCI reserve | 12 | (14) | 17 | (13) |
| Own credit risk | (5) | 34 | (5) | 34 |
| Cash flow hedges and cost of hedging | (11) | (4) | 7 | 12 |
| Foreign currency translation reserve | 1 | - | - | - |
| Total tax (expense)/benefit relating to OCI | (3) | 16 | 19 | 33 |
| (iv) Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities | | | | |
| Property, plant and equipment | 3 | 6 | (3) | (3) |
| Intangible assets | 15 | 17 | 7 | 14 |
| Financial investments and interests in associates and joint ventures | 6 | (29) | 11 | (14) |
| Tax losses | 11 | (42) | 10 | (29) |
| Operating and finance leases | 1 | 48 | (109) | (21) |
| Loan assets and derivatives | (5) | 6 | (103) | 1 |
| Other assets and liabilities | 1 | 127 | 29 | 58 |
| Total deferred tax benefit/(expense) represents movement in deferred tax assets and liabilities | 32 | 133 | (158) | 6 |

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.

Note 5

Dividends

| | CONSOLIDATED | | COMPANY | |
|---------------------------------------|--------------|-------------|-------------|-------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Dividend paid | - | 500 | - | 500 |
| Total dividends paid (Note 25) | - | 500 | - | 500 |

Note 6

Trading assets

| | | | | |
|--|---------------|--------|---------------|--------|
| Listed equity securities | 4,733 | 6,657 | 4,679 | 6,593 |
| Commodity contracts | 3,261 | 3,345 | 2,971 | 3,037 |
| Commodities | 3,119 | 6,691 | 1,876 | 4,980 |
| Debt securities: | | | | |
| Commonwealth and foreign government securities | 453 | 4,385 | 453 | 4,385 |
| Corporate loans and securities | 152 | 133 | 151 | 132 |
| Other debt securities | 1 | 1 | 1 | 1 |
| Total trading assets | 11,719 | 21,212 | 10,131 | 19,128 |

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

Note 7

Margin money and settlement assets

| | | | | |
|---|---------------|-------|---------------|-------|
| Margin money | 13,649 | 4,552 | 11,922 | 4,027 |
| Commodity settlements | 4,294 | 1,922 | 2,926 | 933 |
| Security settlements | 1,467 | 1,828 | 1,267 | 1,457 |
| Total margin money and settlement assets | 19,410 | 8,302 | 16,115 | 6,417 |

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 8 Derivative assets

| | CONSOLIDATED | | COMPANY | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Held for trading | 84,171 | 19,972 | 74,028 | 18,755 |
| Designated in hedge relationships | 445 | 580 | 416 | 573 |
| Total derivative assets | 84,616 | 20,552 | 74,444 | 19,328 |

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 and the Company.

The Consolidated Entity's approach to financial risk management, as set out in Note 33 *Financial risk management*, remained unchanged during the year. This includes entering into margining and collateralisation arrangements and enforceable master netting arrangements (MNA) with counterparties, particularly in respect of derivatives and maintaining the risk within agreed risk limits as described in Note 33.3 *Market Risk*. 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 36 *Offsetting financial assets and financial liabilities* for net exposure of derivative trades after offsetting positions and collateral margin money received from counterparties.

Note 9 Financial investments

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Equity securities: | | | | |
| Listed | 111 | 53 | 108 | 50 |
| Unlisted | 144 | 153 | 113 | 97 |
| Debt securities: | | | | |
| Bonds and Negotiable Certificate of Deposits (NCDs) | 6,216 | 7,638 | 6,216 | 7,638 |
| Other | 40 | 155 | 40 | 131 |
| Total financial investments | 6,511 | 7,999 | 6,477 | 7,916 |

Of the above amounts, \$1,587 million (2021: \$2,023 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Company.

Note 10

Held for sale and other assets

| | CONSOLIDATED | | COMPANY | |
|--|--------------|-------------|--------------|-------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Held for sale assets | | | | |
| Assets held for sale | 3 | 74 | - | - |
| Other financial assets | | | | |
| Commodity-related receivables | 2,508 | 1,661 | 1,647 | 1,091 |
| Trade debtors and other receivables ⁽¹⁾ | 1,300 | 644 | 910 | 308 |
| Other | 23 | 12 | 2 | - |
| Total other financial assets | 3,831 | 2,317 | 2,559 | 1,399 |
| Other non-financial assets | | | | |
| Interests in associates and joint ventures | 379 | 281 | 128 | 40 |
| Income tax receivables | 180 | 277 | 78 | 165 |
| Intangible assets | 101 | 146 | 23 | 55 |
| Prepayments | 287 | 297 | 63 | 58 |
| Indirect taxes and other receivables | 209 | 101 | 90 | - |
| Total other non-financial assets | 1,156 | 1,102 | 382 | 318 |
| Total held for sale and other assets | 4,990 | 3,493 | 2,941 | 1,717 |

Of the above other financial and non-financial asset amounts, \$3,337 million (2021: \$2,755 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$1,700 million (2020: \$1,388 million) by the Company.

(1) Includes \$194 million (2021: \$117 million) of fee and commission receivables.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 11 Loan assets

| | 2022 | | | 2021 | | |
|---|----------------|-------------------------------------|----------------|---------------|-------------------------------------|---------------|
| | Gross \$m | ECL allowance ⁽¹⁾ \$m | Net \$m | Gross \$m | ECL allowance ⁽¹⁾ \$m | Net \$m |
| CONSOLIDATED | | | | | | |
| Home loans | 94,922 | (76) | 94,846 | 71,588 | (67) | 71,521 |
| Corporate, commercial and other lending | 18,590 | (290) | 18,300 | 14,596 | (366) | 14,230 |
| Asset financing | 10,082 | (224) | 9,858 | 13,584 | (343) | 13,241 |
| Total loan assets | 123,594 | (590) | 123,004 | 99,768 | (776) | 98,992 |
| COMPANY | | | | | | |
| Home loans | 94,853 | (75) | 94,778 | 69,124 | (65) | 69,059 |
| Corporate, commercial and other lending | 18,214 | (264) | 17,950 | 10,569 | (289) | 10,280 |
| Asset financing | 8,591 | (140) | 8,451 | 4,370 | (33) | 4,337 |
| Total loan assets | 121,658 | (479) | 121,179 | 84,063 | (387) | 83,676 |

Of the above amounts, \$33,026 million (2021: \$26,937 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$32,203 million (2021: \$21,381 million) by the Company.

Finance lease receivables

Finance lease receivables are included within loan assets. The Consolidated Entity provides finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment. The following table represents the maturity profile of the contractual undiscounted cashflows of the Consolidated Entity and the Company:

| | 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 |
| CONSOLIDATED | | | | | | |
| Within one year | 1,015 | (66) | 949 | 1,458 | (117) | 1,341 |
| Between one to two years | 752 | (47) | 705 | 1,095 | (84) | 1,011 |
| Between two to three years | 484 | (31) | 453 | 725 | (55) | 670 |
| Between three to four years | 273 | (18) | 255 | 388 | (30) | 358 |
| Between four to five years | 146 | (8) | 138 | 128 | (9) | 119 |
| Later than five years | 39 | (1) | 38 | 43 | (1) | 42 |
| Total | 2,709 | (171) | 2,538 | 3,837 | (296) | 3,541 |
| COMPANY | | | | | | |
| Within one year | 685 | (49) | 636 | 140 | (10) | 130 |
| Between one to two years | 553 | (38) | 515 | 133 | (10) | 123 |
| Between two to three years | 402 | (27) | 375 | 108 | (8) | 100 |
| Between three to four years | 250 | (17) | 233 | 75 | (5) | 70 |
| Between four to five years | 122 | (8) | 114 | 78 | (5) | 73 |
| Later than five years | 16 | (1) | 15 | 7 | - | 7 |
| Total | 2,028 | (140) | 1,888 | 541 | (38) | 503 |

(1) The ECL allowance carried against loan assets measured at FVOCI is not presented in the table as the allowance is included in reserves. Refer to Note 12 *Expected credit losses*.

Note 12

Expected credit losses

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

Model inputs

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

The Consolidated Entity has developed several models to predict the ECL. These models incorporate a range of components 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 and other similar criteria. 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 exposures that are

classified as stage I. Accordingly, while similar 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 of behavioural score movements have been established that, where exceeded, result in the exposure being categorised as stage II.

Wholesale exposures

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

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

For both retail and wholesale portfolios:

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

Definition of default

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 12

Expected credit losses continued

Forward-looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR in retail portfolio 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, 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 \$275 million (2021: \$350 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.

The scenarios have been developed using a combination of publicly available data, internal forecasts and third-party information to form the initial baseline. Internal specialists within the Consolidated Entity are consulted to assist in refining and challenging the baseline and the alternate scenarios. For the current reporting period, the Consolidated Entity has generated three alternate scenarios in addition to the baseline scenario, where the alternate scenarios are anchored relative to the baseline scenario.

Refinement of these scenarios includes benchmarking to external data from reputable sources. These sources includes forecasts published from a range of market economists and official data sources, including major central banks, where 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 on the following pages. 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 a 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.

Note 12

Expected credit losses continued

Forward-looking information (FLI) continued

| Scenario | Weighting | Expectation |
|--|-----------|--|
| Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$800 million ⁽¹⁾ | Probable | <p>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.</p> <p>Australia: Lockdowns in 2021 temporarily delayed, but did not derail, the economy's recovery. 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 projected to decline by approximately 10% over 2022 and 2023.</p> <p>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.</p> <p>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.</p> |
| 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 ~\$900 million ⁽¹⁾ | Possible | <p>Global: The downside scenario projects growth in global GDP that is approximately 1% lower than the baseline scenario baseline through to 2025.</p> <p>Australia: The scenario projects the early 2022 post lockdown 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.</p> <p>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.</p> <p>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. This is expected to result in unemployment levels of 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.</p> |

(1) This number provides ECL provision information as at the reporting date assuming the scenarios outlined, but does not reflect changes in the credit rating of the counterparties that may occur if these scenarios were to occur, nor changes to individually assessed stage 3 provisions. Changes in credit ratings or these individually assessed provisions may have a material impact on these ECL provisions.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 12

Expected credit losses continued

Forward-looking information (FLI) continued

| Scenario | Weighting | Expectation |
|--|-----------|---|
| Severe Downside A 100% weighting to this scenario would result in a of total expected credit loss provision on balance sheet at the reporting date of ~\$1,150 million ⁽¹⁾ | Unlikely | <p>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.</p> <p>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 expansionary monetary policy.</p> <p>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 decline by approximately 18% by mid 2023.</p> <p>Europe: The scenario projects a recession that spans most of 2022 and 2023 with output expected to end significantly below its pre-pandemic level. The unemployment rate is expected to peak near 9% at end 2023 and equity markets are projected to suffer sizeable losses.</p> |
| 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 ~\$750 million ⁽¹⁾ | Unlikely | <p>Global: The upside scenario projects growth in global GDP that is approximately 1% higher than the baseline scenario throughout the forecast period to 2025.</p> <p>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 is projected to result in a 10% decline in house prices by the end of 2023.</p> <p>United States: The scenario projects GDP to sustain strong growth in 2022 and 2023. The unemployment rate is projected to fall below 3% for a brief period in early 2023. Equity markets are projected to perform well on the back of robust growth. Interest rates are projected to rise by 250 Bps over the span of two years.</p> <p>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.</p> |

(1) This number provides ECL provision information as at the reporting date assuming the scenarios outlined, but does not reflect changes in the credit rating of the counterparties that may occur if these scenarios were to occur, nor changes to individually assessed stage 3 provisions. Changes in credit ratings or these individually assessed provisions may have a material impact on these ECL provisions.

Note 12

Expected credit losses continued

The table below presents the gross exposure and related ECL allowance for assets measured at amortised cost or FVOCI and off-balance sheet exposures subject to 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 | FVOCI \$m | Other \$m | Gross exposure \$m | Amortised cost \$m | FVOCI \$m | Other \$m | Total ECL allowance \$m |
| CONSOLIDATED 2022 | | | | | | | | |
| Cash and bank balances | 48,972 | - | - | 48,972 | - | - | - | - |
| Cash collateralised lending and reverse repurchase agreements | 11,155 | 27,223 | - | 38,378 | - | - | - | - |
| Margin money and settlement assets | 18,967 | - | - | 18,967 | 81 | - | - | 81 |
| Financial investments | 4 | 6,262 | - | 6,266 | - | 1 | - | 1 |
| Held for sale and other assets | 2,316 | - | - | 2,316 | 158 | - | - | 158 |
| Loan assets | 123,435 | - | - | 123,435 | 590 | - | - | 590 |
| Due from related body corporate entities | 1,399 | - | - | 1,399 | - | - | - | - |
| Off balance sheet exposures ⁽²⁾ | - | - | 6,630 | 6,630 | - | - | 17 | 17 |
| Total | 206,248 | 33,485 | 6,630 | 246,363 | 829 | 1 | 17 | 847 |
| CONSOLIDATED 2021 | | | | | | | | |
| Cash and bank balances | 15,966 | - | - | 15,966 | - | - | - | - |
| Cash collateralised lending and reverse repurchase agreements | 9,284 | 17,362 | - | 26,646 | - | - | - | - |
| Margin money and settlement assets | 8,024 | - | - | 8,024 | 54 | - | - | 54 |
| Financial investments | 18 | 7,624 | - | 7,642 | - | 6 | - | 6 |
| Held for sale and other assets | 1,160 | - | - | 1,160 | 111 | - | - | 111 |
| Loan assets | 99,575 | - | - | 99,575 | 776 | - | - | 776 |
| Due from related body corporate entities | 1,508 | - | - | 1,508 | 1 | - | - | 1 |
| Off balance sheet exposures ⁽²⁾ | - | - | 6,338 | 6,338 | - | - | 24 | 24 |
| Total | 135,535 | 24,986 | 6,338 | 166,859 | 942 | 6 | 24 | 972 |

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 33.1 *Credit risk*.

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statements 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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 12

Expected credit losses continued

| | GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT ⁽¹⁾ | | | | ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT | | | | Total ECL allowance \$m |
|---|---|---------------|---------------|--------------------------|--|--------------|--------------|------------|-------------------------------|
| | Amortised cost \$m | FVOCI \$m | Other \$m | Gross exposure \$m | Amortised cost \$m | FVOCI \$m | Other \$m | | |
| COMPANY 2022 | | | | | | | | | |
| Cash and bank balances | 43,594 | - | - | 43,594 | - | - | - | - | |
| Cash collateralised lending and reverse repurchase agreements | 10,447 | 23,588 | - | 34,035 | - | - | - | - | |
| Margin money and settlement assets | 16,173 | - | - | 16,173 | 64 | - | - | 64 | |
| Financial investments | 4 | 6,262 | - | 6,266 | - | - | - | - | |
| Held for sale and other assets | 1,825 | - | - | 1,825 | 113 | - | - | 113 | |
| Loan assets | 118,268 | 3,304 | - | 121,572 | 479 | 48 | - | 527 | |
| Due from related body corporate entities | 1,122 | - | - | 1,122 | - | - | - | - | |
| Due from subsidiaries | 11,521 | 140 | - | 11,661 | 15 | - | - | 15 | |
| Off balance sheet exposure ⁽²⁾ | - | - | 13,882 | 13,882 | - | - | 17 | 17 | |
| Total | 202,954 | 33,294 | 13,882 | 250,130 | 671 | 48 | 17 | 736 | |
| COMPANY 2021 | | | | | | | | | |
| Cash and bank balances | 14,012 | - | - | 14,012 | - | - | - | - | |
| Cash collateralised lending and reverse repurchase agreements | 6,588 | 16,896 | - | 23,484 | - | - | - | - | |
| Margin money and settlement assets | 6,438 | - | - | 6,438 | 25 | - | - | 25 | |
| Financial investments | - | 7,623 | - | 7,623 | - | 1 | - | 1 | |
| Held for sale and other assets | 612 | - | - | 612 | 77 | - | - | 77 | |
| Loan assets | 81,195 | 2,692 | - | 83,887 | 387 | 46 | - | 433 | |
| Due from related body corporate entities | 1,181 | - | - | 1,181 | - | - | - | - | |
| Due from subsidiaries | 17,975 | - | - | 17,975 | 15 | - | - | 15 | |
| Off balance sheet exposure ⁽²⁾ | - | - | 5,831 | 5,831 | - | - | 14 | 14 | |
| Total | 128,001 | 27,211 | 5,831 | 161,043 | 504 | 47 | 14 | 565 | |

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal to amount 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.

Note 12

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 | Financial investments \$m | Held for sale and other assets \$m | Loan assets \$m | Due from related body corporate entities \$m | Off balance sheet exposures \$m | Total \$m |
|--|--|---------------------------------|--|-----------------------|---|---|--------------|
| CONSOLIDATED | | | | | | | |
| Balance as at 1 Apr 2020 | 66 | 10 | 77 | 688 | 1 | 10 | 852 |
| Credit impairment charge/(reversal) (Note 2) | 29 | (3) | 52 | 196 | - | 15 | 289 |
| Amount written off, previously provided for | (33) | - | (7) | (75) | - | - | (115) |
| Reclassifications, foreign exchange, and other movements | (8) | (1) | (11) | (33) | - | (1) | (54) |
| Balance as at 31 Mar 2021 | 54 | 6 | 111 | 776 | 1 | 24 | 972 |
| Credit impairment charge/(reversal) (Note 2) | 28 | - | 74 | (77) | - | (7) | 18 |
| Amount written off, previously provided for | - | - | (26) | (74) | - | - | (100) |
| Reclassifications, foreign exchange, and other movements | (1) | (5) | (1) | (35) | (1) | - | (43) |
| Balance as at 31 Mar 2022 | 81 | 1 | 158 | 590 | - | 17 | 847 |

The decrease of \$125 million in ECL allowance for the Consolidated Entity reflects net impact of amounts written off partially offset by the net additional impairment charges for the current financial year.

| | Margin money and settlement assets \$m | Financial investments \$m | Held for sale and other assets \$m | Loan assets \$m | Due from subsidiaries \$m | Off balance sheet exposures \$m | Total \$m |
|--|--|---------------------------------|--|-----------------------|---------------------------------|---|--------------|
| COMPANY | | | | | | | |
| Balance as at 1 Apr 2020 | 28 | 10 | 53 | 407 | 22 | 9 | 529 |
| Credit impairment charge/(reversal) (Note 2) | (1) | (9) | 33 | 110 | (7) | 6 | 132 |
| Amount written off, previously provided for | - | - | (3) | (29) | - | - | (32) |
| Reclassifications, foreign exchange, and other movements | (2) | - | (6) | (55) | - | (1) | (64) |
| Balance as at 31 Mar 2021 | 25 | 1 | 77 | 433 | 15 | 14 | 565 |
| Credit impairment charge/(reversal) (Note 2) | 39 | - | 44 | 147 | - | 2 | 232 |
| Amount written off, previously provided for | - | - | (6) | (43) | - | - | (49) |
| Reclassifications, foreign exchange, and other movements | - | (1) | (2) | (10) | - | 1 | (12) |
| Balance as at 31 Mar 2022 | 64 | - | 113 | 527 | 15 | 17 | 736 |

The increase \$171 million in ECL allowance for the Company reflects the net impact of impairment charges partially offset by amounts written off.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 12

Expected credit losses continued

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

| | LIFETIME ECL | | | |
|--|--------------------------------|---|-------------------------------------|--------------|
| | Stage I 12 month ECL \$m | Stage II Not credit impaired \$m | Stage III Credit impaired \$m | Total \$m |
| CONSOLIDATED | | | | |
| Balance as at 1 Apr 2020 | 173 | 288 | 227 | 688 |
| Transfers during the year | 30 | (25) | (5) | - |
| Credit impairment charge/(reversal) (Note 2) | 123 | (57) | 130 | 196 |
| Amount written off, previously provided for | - | - | (75) | (75) |
| Reclassifications, foreign exchange, and other movements | (11) | (4) | (18) | (33) |
| Balance as at 31 Mar 2021 | 315 | 202 | 259 | 776 |
| Transfers during the year | 33 | (3) | (30) | - |
| Credit impairment charge/(reversal) (Note 2) | (107) | (11) | 41 | (77) |
| Amount written off, previously provided for | - | - | (74) | (74) |
| Reclassifications, foreign exchange, and other movements | (27) | (1) | (7) | (35) |
| Balance as at 31 Mar 2022 | 214 | 187 | 189 | 590 |
| COMPANY | | | | |
| Balance as at 1 Apr 2020 | 114 | 169 | 124 | 407 |
| Transfers during the year | 25 | (21) | (4) | - |
| Credit impairment charge/(reversal) (Note 2) | 31 | (2) | 81 | 110 |
| Amount written off, previously provided for | - | - | (29) | (29) |
| Reclassifications, foreign exchange, and other movements | (13) | (14) | (28) | (55) |
| Balance as at 31 Mar 2021 | 157 | 132 | 144 | 433 |
| Transfers during the year | 40 | (27) | (13) | - |
| Credit impairment charge/(reversal) (Note 2) | (1) | 61 | 87 | 147 |
| Amount written off, previously provided for | - | - | (43) | (43) |
| Reclassifications, foreign exchange, and other movements | (3) | 2 | (9) | (10) |
| Balance as at 31 Mar 2022 | 193 | 168 | 166 | 527 |

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 |
| CONSOLIDATED | | | | | | |
| Assets for own use | | | | | | |
| Land and buildings | 626 | (36) | 590 | 491 | (31) | 460 |
| Furniture, fittings and leasehold improvements | 478 | (416) | 62 | 511 | (417) | 94 |
| Equipment and other | 93 | (61) | 32 | 87 | (58) | 29 |
| Total assets for own use | 1,197 | (513) | 684 | 1,089 | (506) | 583 |
| Assets under operating lease | | | | | | |
| Meters | 2,268 | (904) | 1,364 | 2,184 | (813) | 1,371 |
| Telecommunications | 1,439 | (630) | 809 | 733 | (602) | 131 |
| Other | 535 | (121) | 414 | 423 | (81) | 342 |
| Total assets under operating lease | 4,242 | (1,655) | 2,587 | 3,340 | (1,496) | 1,844 |
| Right-of-use assets | | | | | | |
| Office premises | 538 | (284) | 254 | 550 | (201) | 349 |
| Commodity storage | 38 | (31) | 7 | 34 | (21) | 13 |
| Other | 14 | (10) | 4 | 20 | (12) | 8 |
| Total assets under right-of-use | 590 | (325) | 265 | 604 | (234) | 370 |
| Total property, plant and equipment and right-of-use assets | 6,029 | (2,493) | 3,536 | 5,033 | (2,236) | 2,797 |

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

COMPANY

| | | | | | | |
|--|--------------|----------------|--------------|--------------|--------------|------------|
| Assets for own use | | | | | | |
| Land and buildings | 386 | - | 386 | 250 | - | 250 |
| Furniture, fittings and leasehold improvements | 13 | (11) | 2 | 22 | (10) | 12 |
| Equipment and other | 11 | (7) | 4 | 8 | (4) | 4 |
| Total assets for own use | 410 | (18) | 392 | 280 | (14) | 266 |
| Assets under operating lease | | | | | | |
| Meters | 2,015 | (687) | 1,328 | - | - | - |
| Telecommunications | 1,439 | (630) | 809 | 727 | (595) | 132 |
| Other | 391 | (119) | 272 | 385 | (111) | 274 |
| Total assets under operating lease | 3,845 | (1,436) | 2,409 | 1,112 | (706) | 406 |
| Total property, plant and equipment | 4,255 | (1,454) | 2,801 | 1,392 | (720) | 672 |

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 13

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

The movement in the carrying value of the Consolidated Entity's property, plant and equipment was as follows:

| | Land and buildings \$m | Furniture, fittings and leasehold improvements \$m | Equipment and other \$m | Total \$m |
|--|---------------------------|---|-------------------------------|---------------------|
| Assets for own use | | | | CONSOLIDATED |
| Balance as at 1 Apr 2020 | 136 | 13 | 8 | 157 |
| Acquisitions and additions | 116 | 99 | 35 | 250 |
| Disposals | - | (2) | - | (2) |
| Depreciation expense (Note 2) | (2) | (14) | (10) | (26) |
| Reclassification and other adjustments | 210 | 5 | (1) | 214 |
| Foreign exchange movements | - | (7) | (3) | (10) |
| Balance as at 31 Mar 2021 | 460 | 94 | 29 | 583 |
| Acquisitions and additions | 127 | 9 | 23 | 159 |
| Disposals | - | - | - | - |
| Depreciation expense (Note 2) | (5) | (33) | (18) | (56) |
| Reclassification and other adjustments | 8 | (8) | (2) | (2) |
| Foreign exchange movements | - | - | - | - |
| Balance as at 31 Mar 2022⁽¹⁾ | 590 | 62 | 32 | 684 |

| | Meters \$m | Telecommunication \$m | Other \$m | Total \$m |
|---|---------------|--------------------------|--------------|---------------------|
| Assets under operating lease | | | | CONSOLIDATED |
| Balance as at 1 Apr 2020 | 1,544 | 424 | 436 | 2,404 |
| Acquisitions and additions | 304 | - | 228 | 532 |
| Disposals | - | (93) | (18) | (111) |
| Depreciation expense (Note 2) | (216) | (182) | (53) | (451) |
| Impairments | - | (14) | - | (14) |
| Reclassification and other adjustments | (98) | (3) | (220) | (321) |
| Foreign exchange movements | (163) | (1) | (31) | (195) |
| Balance as at 31 Mar 2021 | 1,371 | 131 | 342 | 1,844 |
| Acquisitions and additions | 270 | 684 | 183 | 1,137 |
| Disposals | - | (1) | (15) | (16) |
| Depreciation expense (Note 2) | (191) | (35) | (91) | (317) |
| Impairments | - | - | - | - |
| Reclassification and other adjustments ⁽²⁾ | (40) | 54 | (4) | 10 |
| Foreign exchange movements | (46) | (24) | (1) | (71) |
| Balance as at 31 Mar 2022 | 1,364 | 809 | 414 | 2,587 |

(1) Includes \$377 million (2021: \$250 million) capital work in progress related to building construction for Martin place Metro project.

(2) Includes \$54 million (2021: \$Nil) fair value hedge adjustment. Refer to Note 32 *Hedge accounting*.

Note 13

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

The movement in the carrying value of the Company's property, plant and equipment was as follows:

| | Land and buildings \$m | Furniture, fittings and leasehold improvements \$m | Equipment \$m | Total \$m |
|--|---------------------------|---|------------------|----------------|
| Assets for own use | | | | COMPANY |
| Balance as at 1 Apr 2020 | 133 | 7 | 5 | 145 |
| Acquisitions and additions | 117 | 7 | 4 | 128 |
| Disposals | - | - | (1) | (1) |
| Depreciation expense (Note 2) | - | (2) | (4) | (6) |
| Balance as at 31 Mar 2021 | 250 | 12 | 4 | 266 |
| Acquisitions and additions | 127 | 1 | 3 | 131 |
| Disposals | - | - | - | - |
| Reclassification and other adjustments | 9 | (9) | - | - |
| Depreciation expense (Note 2) | - | (2) | (3) | (5) |
| Balance as at 31 Mar 2022⁽¹⁾ | 386 | 2 | 4 | 392 |

| | Meters \$m | Telecommunication \$m | Other \$m | Total \$m |
|--|---------------|--------------------------|--------------|----------------|
| Assets under operating lease | | | | COMPANY |
| Balance as at 1 Apr 2020 | - | 413 | 261 | 674 |
| Acquisitions and additions | - | - | 29 | 29 |
| Disposals | - | (88) | (1) | (89) |
| Depreciation expense (Note 2) | - | (176) | (15) | (191) |
| Impairments | - | (14) | - | (14) |
| Reclassifications and other adjustments | - | (3) | - | (3) |
| Balance as at 31 Mar 2021 | - | 132 | 274 | 406 |
| Acquisitions and additions | 1,490 | 683 | 13 | 2,186 |
| Disposals | - | - | (2) | (2) |
| Reclassifications and other adjustments ⁽²⁾ | (16) | 54 | - | 38 |
| Foreign exchange movements | (85) | (25) | - | (110) |
| Depreciation expense (Note 2) | (61) | (35) | (13) | (109) |
| Balance as at 31 Mar 2022 | 1,328 | 809 | 272 | 2,409 |

(1) Includes \$377 million (2021: \$250 million) capital work in progress related to building construction for Martin place Metro project.

(2) Includes: \$54 million (2021: \$Nil) fair value hedge adjustment. Refer to Note 32 *Hedge accounting*.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 13

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

The movement in the carrying value of the Consolidated Entity's ROU was as follows:

| | Office premises \$m | Commodity storage \$m | Other \$m | Total \$m |
|--|---------------------------|-----------------------------|--------------|---------------------|
| Right-of-use assets | | | | CONSOLIDATED |
| Balance as at 1 Apr 2020 | 20 | 17 | - | 37 |
| Acquisitions and additions ⁽¹⁾ | 399 | 10 | 11 | 420 |
| Disposals | (20) | - | - | (20) |
| Depreciation expense ⁽²⁾ | (37) | (11) | (3) | (51) |
| Impairments | (7) | - | - | (7) |
| Foreign exchange movements and other adjustments | (6) | (3) | - | (9) |
| Balance as at 31 Mar 2021 | 349 | 13 | 8 | 370 |
| Acquisitions and additions | 17 | 4 | 3 | 24 |
| Disposals | (11) | - | - | (11) |
| Depreciation expense ⁽²⁾ | (94) | (10) | (7) | (111) |
| Impairments | (4) | - | - | (4) |
| Foreign exchange movements and other adjustments | (3) | - | - | (3) |
| Balance as at 31 Mar 2022 | 254 | 7 | 4 | 265 |

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

| | CONSOLIDATED | | COMPANY | |
|---|--------------|-------------|-------------|-------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Assets under operating lease | | | | |
| Within one year | 199 | 176 | 111 | 113 |
| Between one to two years | 179 | 153 | 105 | 109 |
| Between two to three years | 112 | 127 | 90 | 103 |
| Between three to four years | 24 | 75 | 23 | 89 |
| Between four to five years | 11 | 5 | 18 | 38 |
| Later than five years | 7 | - | 1 | - |
| Total future minimum lease payments receivable | 532 | 536 | 348 | 452 |

(1) Includes ROU assets acquired by the Consolidated Entity as part of the acquisition of service entities from MGL during the previous financial year. For details, refer to Note 39 *Acquisitions and disposals of subsidiaries and businesses*.

(2) Includes depreciation expense of \$94 million (2021: \$37 million) on property leases presented under other operating expenses and \$10 million (2021: \$11 million) on assets held for trading-related business presented under net trading income and \$7 million (2021: \$3 million) on technology leases presented under non-salary technology expenses in Note 2 *Operating profit before income tax*.

Note 14

Investment in subsidiaries

| | COMPANY | |
|--|--------------|--------------|
| | 2022 \$m | 2021 \$m |
| Investment at cost with no provisions for impairment | 6,172 | 5,802 |
| Investment at cost with provisions for impairment | 424 | 1,261 |
| Less: provisions for impairment ⁽¹⁾ | (309) | (445) |
| Investment with provisions for impairment ⁽¹⁾ | 115 | 816 |
| Total investment in subsidiaries | 6,287 | 6,618 |

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

The following are the Company's notable subsidiaries:

| | |
|--|---|
| Australia <ul style="list-style-type: none"> • Macquarie Group Services Australia Pty Limited • Macquarie International Finance Limited • Macquarie Offshore Services Pty Limited • Macquarie Equities Limited • Macquarie Investment Management Limited | Americas <ul style="list-style-type: none"> • Macquarie Energy LLC (United States) • Macquarie America Holdings Inc. (United States) • Macquarie Global Services (USA) LLC (United States) • Macquarie Futures USA LLC (United States) |
| Asia Pacific <ul style="list-style-type: none"> • Macquarie Global Services Private Limited (India) | Europe, Middle East and Africa <ul style="list-style-type: none"> • Macquarie Bank Europe Designated Activity Company (Ireland) • Macquarie Investments 1 Limited (United Kingdom) |

The subsidiaries included in the notable subsidiaries list above are identified on the basis of their ongoing contribution to the Consolidated Entity's external assets and operating profit. Additionally, these include the major employing entities, entities that are key providers of funding to other subsidiaries and other operating entities considered key for each Operating Group and region.

The list of notable subsidiaries has been categorised based on the geographic region of their incorporation. The country of incorporation has been stated in brackets. For entities in the Australia region, the country of incorporation is Australia. Overseas subsidiaries conduct business predominantly in their place of incorporation. Notable subsidiaries may conduct business in other geographic regions through branches, the branches have not been included in the list of notable subsidiaries.

All notable subsidiaries have a 31 March reporting date.

(1) In accordance with its accounting policies, where the Company's investments had indicators of impairment or reversal thereof, the investments' carrying value was compared to its recoverable value determined as the higher of value-in-use and fair value less cost to sell (valuations). The valuations, which are classified as Level 3 in the fair value hierarchy (as defined in Note 35 *Fair value of assets and liabilities*), have been calculated using the subsidiary's maintainable earnings, growth rates and relevant earnings' multiples.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 15

Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

| | CONSOLIDATED | | COMPANY | |
|--|--------------|-------------|-------------|-------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Other assets and liabilities | 789 | 747 | 416 | 368 |
| Tax losses | 50 | 39 | 13 | 3 |
| Property, plant and equipment | 70 | 67 | 7 | 10 |
| Intangible assets | 130 | 115 | 93 | 86 |
| Financial investments and interests in associates and joint ventures | 14 | 11 | 20 | 9 |
| Loan assets and derivatives | 24 | 43 | - | 71 |
| Operating and finance lease assets | 4 | 1 | - | - |
| Set-off of deferred tax liabilities | (184) | (197) | (147) | (54) |
| Net deferred tax assets | 897 | 826 | 402 | 493 |
| Operating and finance lease assets | (178) | (176) | (129) | (20) |
| Loan and derivative assets | (7) | (17) | (46) | (33) |
| Other assets and liabilities | (18) | (29) | - | - |
| Financial investments and interests in associates and joint ventures | (3) | (5) | (1) | (1) |
| Property, plant and equipment | (1) | (1) | - | - |
| Intangible assets | (5) | (5) | - | - |
| Set-off of deferred tax assets | 184 | 197 | 147 | 54 |
| Net deferred tax liabilities | (28) | (36) | (29) | - |

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

Potential tax assets of approximately \$96 million (2021: \$98 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe that the realisation of the tax assets is probable. Included in this amount are \$Nil gross losses (2021: \$Nil) that will expire within two years; \$1 million (2021: \$Nil) that will expire in 2-5 years; \$97 million (2021: \$4 million) that will expire in 5-10 years and \$61 million (2021: \$68 million) that will expire in 10-20 years. \$401 million (2021: \$393 million) of gross losses do not expire and can be carried forward indefinitely.

Note 16

Trading liabilities

| | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|
| Listed equity securities | 5,173 | 6,134 | 5,178 | 6,137 |
| Debt securities | 33 | - | 32 | - |
| Total trading liabilities | 5,206 | 6,134 | 5,210 | 6,137 |

Note 17

Margin money and settlement liabilities

| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Margin money | 16,244 | 12,336 | 11,651 | 10,620 |
| Commodity settlements | 4,370 | 1,986 | 3,063 | 1,163 |
| Security settlements | 963 | 1,929 | 879 | 1,849 |
| Total margin money and settlement liabilities | 21,577 | 16,251 | 15,593 | 13,632 |

Note 18

Derivative liabilities

| | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Held for trading | 83,584 | 16,801 | 70,988 | 15,333 |
| Designated in hedge relationships | 607 | 674 | 533 | 399 |
| Total derivative liabilities | 84,191 | 17,475 | 71,521 | 15,732 |

The Consolidated Entity's approach to financial risk management, as set out in Note 33 *Financial risk management*, remained unchanged during the year. This includes entering into margining and collateralisation arrangements and enforceable master netting arrangements (MNA) with counterparties, particularly in respect of derivatives and maintaining the risk within agreed risk limits as described in Note 33.3 *Market Risk*. 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 36 *Offsetting of financial assets and financial liabilities* for net exposure of derivative trades after offsetting positions and collateral margin money received from counterparties.

Note 19

Deposits

| | | | | |
|---|----------------|---------------|----------------|---------------|
| Interest bearing deposits: | | | | |
| Call | 76,171 | 63,951 | 76,130 | 63,924 |
| Term | 8,534 | 9,247 | 8,393 | 9,136 |
| Non-interest-bearing deposits – repayable on demand | 16,909 | 10,942 | 16,894 | 10,934 |
| Total deposits | 101,614 | 84,140 | 101,417 | 83,994 |

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 20 Other liabilities

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Other financial liabilities | | | | |
| Commodity-related payables | 1,208 | 604 | 801 | 492 |
| Creditors | 609 | 573 | 409 | 328 |
| Lease liabilities | 357 | 479 | 1 | 1 |
| Unitholder liabilities | 10 | 12 | - | - |
| Total other financial liabilities | 2,184 | 1,668 | 1,211 | 821 |
| Other non-financial liabilities | | | | |
| Accrued charges, employment-related liabilities, and provisions ⁽¹⁾ | 2,667 | 2,038 | 1,334 | 945 |
| Income tax payable | 460 | 396 | 131 | 102 |
| Indirect taxes and other payables | 433 | 248 | 346 | 186 |
| Total other non-financial liabilities | 3,560 | 2,682 | 1,811 | 1,233 |
| Total other liabilities | 5,744 | 4,350 | 3,022 | 2,054 |

Note 21 Issued debt securities

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Bonds, negotiable certificate of deposits and commercial paper ⁽²⁾ | 70,522 | 42,555 | 57,137 | 32,562 |
| Structured notes ⁽³⁾ | 1,585 | 2,113 | 1,585 | 2,202 |
| Total issued debt securities^{(4),(5)} | 72,107 | 44,668 | 58,722 | 34,764 |

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

Reconciliation of issued debt securities by major currency

(In Australian dollar equivalent)

| | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| United States dollar | 40,422 | 22,146 | 40,419 | 22,232 |
| Australian dollar | 22,144 | 17,168 | 8,762 | 7,175 |
| Euro | 4,689 | 3,195 | 4,689 | 3,197 |
| Pound sterling | 3,317 | 580 | 3,317 | 580 |
| Swiss franc | 1,060 | 1,031 | 1,060 | 1,031 |
| Norwegian krone | 148 | 157 | 148 | 157 |
| Japanese yen | 138 | 168 | 138 | 168 |
| Chinese renminbi | 69 | 68 | 69 | 68 |
| Hong Kong dollar | 48 | 48 | 48 | 49 |
| New Zealand dollars | 72 | - | 72 | - |
| Korean won | - | 107 | - | 107 |
| Total issued debt securities | 72,107 | 44,668 | 58,722 | 34,764 |

(1) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current year in each of these matters did not have, and is not currently expected to have, a material impact on the Consolidated Entity and the Company.

(2) Includes \$13,380 million (2021: \$9,994 million) payable to note holders and debt holders for which loan assets are held by consolidated Structured Entities (SEs) and are available as security. Refer Note 37 *Pledge assets and transfer of financial assets*.

(3) Includes debt instruments on which the interest is linked to commodities, equities, currencies, interest rates, other assets or credit risk of a counterparty.

(4) The amount that would be contractually required to be paid at maturity to the holders of issued debt securities which are measured at DFVTPL for the Consolidated Entity and the company is \$1,706 million (2021: \$2,136 million). This amount is based on the final notional amount rather than the fair value. Refer to Note 34 *Measurement categories of financial instruments* for the carrying value of issued debt securities measured at DFVTPL.

(5) Includes a cumulative fair value gain of \$4 million (2021: \$10 million loss) due to changes in own credit risk on DFVTPL debt securities recognised in OCI.

Note 22

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by Australian Prudential Regulation Authority (APRA), following the guidelines developed by the Basel Committee on Banking Supervision. APRA requires the Consolidated Entity to have an Internal Capital Adequacy Assessment Process that is Board approved and which meets a range of minimum requirements. The Consolidated Entity reports to APRA under Basel III capital requirements and is accredited under the Foundation Internal Ratings Based Approach for credit risk, the Advanced Measurement Approach for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book. Regulatory capital requirements are measured for the Company and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Bank Group (Level 2 reporting). Level 2 consists of the Company, its subsidiaries and its immediate parent less certain subsidiaries of the Company which are deconsolidated for APRA reporting purposes. These include home loans and leasing Structured Entities (SEs) and entities conducting insurance, funds management and non-financial operations.

Under Basel III rules, APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including 2.5% of capital conservation buffer plus an ADI specific countercyclical capital buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels.

The Consolidated Entity's Common Equity Tier 1 capital consists of share capital, retained earnings, and certain reserves, net of deductions. Additional Tier 1 capital consists of hybrid instruments. The hybrid instruments on issue during the current and previous years included Macquarie Additional Capital Securities (issued 8 March 2017), Macquarie Bank Capital Notes 2 (issued 2 June 2020), Macquarie Bank Capital Notes 3 (issued 27 August 2021) and Macquarie Income Securities (repaid on 15 April 2020). Information on details of capital instruments is available in the Regulatory Disclosures section of the Macquarie public website. Deductions from Common Equity Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, SEs and non-financial entities are fully deducted from Common Equity Tier 1 capital. The Consolidated Entity's Tier 2 capital includes term subordinated debt, certain reserves and applicable deductions.

The Consolidated Entity and the Company have complied with all internal and external capital management requirements throughout the financial year.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 23

Loan capital

Subordinated debt

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

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

The table below highlights key capital instruments with conditional payment obligations (including Tier 1 loan capital) issued by the Consolidated Entity and the Company:

| Contract feature | Macquarie Additional Capital Securities | Macquarie Bank Capital Notes 2 | Macquarie Bank Capital Notes 3 |
|---|---|--|--|
| Code | MACS | BCN2 | BCN3 |
| Issuer | Macquarie Bank Limited | Macquarie Bank Limited | Macquarie Bank Limited |
| Par value | n/a | \$100 | \$100 |
| Currency | USD | AUD | AUD |
| Carrying value at reporting date | \$USD 750 million/(\$A998 million) | \$641 million | \$655 million |
| Accounting measurement basis | Financial liability at amortised cost | Financial liability at amortised cost | Financial liability at amortised cost |
| Issue date | 8 March 2017 | 2 June 2020 | 27 August 2021 |
| Interest rate | 6.125% per annum | 90-day BBSW plus a fixed margin of 4.70% per annum, adjusted for franking credits | 90-day BBSW plus a fixed margin of 2.90% per annum, adjusted for franking credits |
| Interest payment frequency | Semi-annually in arrears | Quarterly in arrears | Quarterly in arrears |
| Interest payment | Discretionary, non-cumulative | Discretionary, non-cumulative | Discretionary, non-cumulative |
| Dividend stopper | MBL only | MBL only | MBL only |
| Outstanding notes at reporting date | — ⁽¹⁾ | 6.41 million | 6.55 million |
| Maturity | Perpetual, redeemable subject to APRA's written approval, and at the discretion of MBL in limited circumstances | Perpetual unless redeemed, resold, converted, exchanged or written-off in accordance with the terms of the instrument | Perpetual unless redeemed, resold, converted, exchanged or written-off in accordance with the terms of the instrument |
| Convertible into ordinary shares | Yes | Yes | Yes |
| Convertible into issuer shares | MGL | MGL | MGL |
| Mandatory conversion date | n/a | 21 December 2028 | 8 September 2031 |
| Maximum number of shares on conversion | 56,947,286 | 30,532,190 | 20,316,704 |
| Optional exchange dates | n/a | <ul style="list-style-type: none"> 21 December 2025 21 June 2026 21 December 2026 or, earlier in specified circumstances at the discretion of MBL subject to APRA approval | <ul style="list-style-type: none"> 7 September 2028 7 March 2029 7 September 2029 or, earlier in specified circumstances at the discretion of MBL subject to APRA approval |
| Other exchange events | <ul style="list-style-type: none"> acquisition date (where a party acquires control of MBL or MGL) where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) where MBL's common equity Tier 1 Capital ratio falls below 5.125% | <ul style="list-style-type: none"> acquisition date (where a party acquires control of MBL or MGL) where APRA determines MBL would be non-viable without an exchange or conversion or write-off, of other Relevant Tier-1 securities is necessary or a public sector injection of capital (or equivalent support) where MBL's common equity Tier 1 Capital ratio falls below 5.125% | <ul style="list-style-type: none"> acquisition date (where a party acquires control of MBL or MGL) where APRA determines MBL would be non-viable without an exchange or conversion or write-off, of other Relevant Tier-1 securities is necessary or a public sector injection of capital (or equivalent support) where MBL's common equity Tier 1 Capital ratio falls below 5.125% |
| Capital Treatment | Additional Tier 1 capital | Additional Tier 1 capital | Additional Tier 1 capital |

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

Note 23

Loan capital continued

In addition to the subordinated debts with conditional repayment obligations, the Consolidated Entity has also issued certain capital instruments with fixed repayment obligations, denominated in United States dollars and Australian dollars which are eligible Tier 2 capital under APRA's capital standards (including transitional Basel III rules).

The table below discloses the carrying value of Loan Capital at the balance sheet date. Where these instruments are designated in fair value hedge accounting relationships, the carrying value includes the fair value hedge adjustment, refer to Note 32 *Hedge accounting*. The contractual undiscounted cash flows are disclosed in Note 33.2 *Liquidity risk section of Financial risk management*.

| | CONSOLIDATED | | COMPANY | |
|---|--------------|--------------|--------------|--------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Subordinated debt with fixed repayment obligations (Tier 2 loan capital), by contractual maturity dates: | | | | |
| 7 April 2021 | - | 1,085 | - | 1,085 |
| 10 June 2025 | 993 | 1,048 | 993 | 1,048 |
| 28 May 2030 | 750 | 750 | 750 | 750 |
| 3 June 2030 | 874 | 903 | 874 | 903 |
| 17 June 2031 | 750 | - | 750 | - |
| 3 March 2036 | 1,231 | 1,280 | 1,231 | 1,280 |
| Instruments with conditional repayment obligations (Tier 1 loan capital): | | | | |
| MACS | 998 | 1,055 | 998 | 1,055 |
| BCN2 | 641 | 641 | 641 | 641 |
| BCN3 | 655 | - | 655 | - |
| Accrued Interest payable as per terms of instruments: | | | | |
| Less than 12 months | 39 | 71 | 39 | 71 |
| | 6,931 | 6,833 | 6,931 | 6,833 |
| Less: directly attributable issue costs | (35) | (29) | (35) | (29) |
| Total loan capital | 6,896 | 6,804 | 6,896 | 6,804 |

Reconciliation of loan capital by major currency:

(In Australian dollar equivalent):

| | | | | |
|---|--------------|--------------|--------------|--------------|
| United States dollar | 4,131 | 5,439 | 4,131 | 5,439 |
| Australian dollar | 2,800 | 1,394 | 2,800 | 1,394 |
| | 6,931 | 6,833 | 6,931 | 6,833 |
| Less: directly attributable issue costs | (35) | (29) | (35) | (29) |
| Total loan capital | 6,896 | 6,804 | 6,896 | 6,804 |

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 24

Contributed equity

| | CONSOLIDATED | | COMPANY | |
|---------------------------------|--------------|--------------|--------------|--------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Ordinary share capital | 9,279 | 8,279 | 9,279 | 8,279 |
| Other equity | 283 | 244 | 137 | 121 |
| Total contributed equity | 9,562 | 8,523 | 9,416 | 8,400 |

| | CONSOLIDATED AND COMPANY | | | |
|--|-----------------------------|-----------------------------|-------------|-------------|
| | 2022 Number of shares | 2021 Number of shares | 2022 \$m | 2021 \$m |

(i) Ordinary share capital⁽¹⁾

| | | | | |
|--|--------------------|--------------------|--------------|--------------|
| Opening balance of fully paid ordinary shares | 634,361,966 | 634,361,966 | 8,279 | 8,288 |
| Issue of shares to parent entity: | 40,455,205 | - | 1,000 | - |
| on 30 September 2021 at \$24.10 per share | | | | |
| on 30 December 2021 at \$25.37 per share | | | | |
| Other | - | - | - | (9) |
| Closing balance of fully paid ordinary shares | 674,817,171 | 634,361,966 | 9,279 | 8,279 |

(ii) Other equity

| | CONSOLIDATED | | COMPANY | |
|--|--------------|-------------|-------------|-------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Equity contribution from ultimate parent entity | | | | |
| Balance at the beginning of the financial year | 244 | 220 | 121 | 110 |
| Additional paid up capital | 39 | 24 | 16 | 11 |
| Balance at the end of the financial year | 283 | 244 | 137 | 121 |

MEREP awards are primarily settled in MGL ordinary shares. Where MEREP awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If the issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP, refer to Note 29 *Employee equity participation*.

(1) Ordinary shares have no par value.

Note 25

Reserves, retained earnings and non-controlling interests

| | CONSOLIDATED | | COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| (i) Reserves | | | | |
| Foreign currency translation reserve | | | | |
| Balance at the beginning of the financial year | 397 | 1,197 | (21) | (15) |
| Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax ⁽¹⁾ | 41 | (800) | (181) | (6) |
| Balance at the end of the financial year | 438 | 397 | (202) | (21) |
| FVOCI reserve | | | | |
| Balance at the beginning of the financial year | 35 | (33) | 59 | 12 |
| Revaluation movement during the financial year, net of tax | (28) | 71 | (16) | 46 |
| Changes in ECL allowance, net of tax | (3) | (3) | 1 | 1 |
| Balance at the end of the financial year | 4 | 35 | 44 | 59 |
| Cash flow hedge reserve | | | | |
| Balance at the beginning of the financial year | (113) | (157) | (40) | (45) |
| Net movement recognised in OCI during the financial year, net of tax | 77 | 7 | 77 | (20) |
| Transferred to income statement on realisation, net of tax | 44 | 37 | (27) | 25 |
| Balance at the end of the financial year | 8 | (113) | 10 | (40) |
| Other reserves | | | | |
| Balance at the beginning of the financial year | (13) | (16) | (8) | (10) |
| Movement during the year, net of tax | (5) | 3 | (8) | 2 |
| Balance at the end of the financial year | (18) | (13) | (16) | (8) |
| Total reserves at the end of the financial year | 432 | 306 | (164) | (10) |
| (ii) Retained earnings | | | | |
| Balance at the beginning of the financial year | 5,245 | 4,336 | 3,924 | 2,080 |
| Change attributable to group restructure ⁽²⁾ | - | (189) | (24) | - |
| Profit attributable to the ordinary equity holder of MBL | 2,717 | 1,676 | 5,103 | 2,423 |
| Dividends paid on ordinary share capital (Note 5) | - | (500) | - | (500) |
| Gain on change in non-controlling ownership interest | - | 1 | - | - |
| Fair value changes attributable to own credit risk on debt classified at DFVTPL, net of tax | 12 | (79) | 12 | (79) |
| Balance at the end of the financial year | 7,974 | 5,245 | 9,015 | 3,924 |

(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. The Company includes \$176 million foreign currency translation reserve on certain unhedged foreign operation exposures acquired by the Company as part of common control business combination transaction. For details, refer to Note 27 *Related party information*.

(2) Represents adjustment to retained earnings for the difference between purchase price and book value of the net assets acquired under common control business combination transactions during current and during the previous financial year. Refer to Note 27 *Related party information* and Note 39 *Acquisitions and disposals of subsidiaries and businesses* for current and previous financial year respectively.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 26

Notes to the statements of cash flows

(i) Reconciliation of cash and cash equivalents

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

| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Cash and bank balances ^{(1),(2)} | 45,604 | 13,590 | 41,424 | 12,387 |
| Cash collateralised lending and reverse repurchase agreements | 25,391 | 15,480 | 21,888 | 15,014 |
| Financial investments | 1,366 | 248 | 1,366 | 248 |
| Cash and cash equivalents at the end of the financial year | 72,361 | 29,318 | 64,678 | 27,649 |

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

| | | | | |
|--|---------------|--------------|---------------|--------------|
| Profit after income tax | 2,717 | 1,676 | 5,103 | 2,423 |
| Adjustments to profit after income tax: | | | | |
| Depreciation and amortisation | 507 | 551 | 134 | 226 |
| Expected credit losses and other impairment charges | 28 | 333 | 212 | 88 |
| Investment income and gain on sale of operating lease assets and other non-financial assets | (529) | (133) | (1,415) | (87) |
| Share of net (profits)/losses of associates and joint ventures | (39) | (41) | - | - |
| Changes in assets and liabilities: | | | | |
| Issued debt securities | 27,369 | 2,321 | 24,182 | 6,425 |
| Trading, trading-related and collateralised lending balances (net of liabilities) ⁽³⁾ | 9,810 | (6,999) | 2,516 | (6,172) |
| Deposits | 17,472 | 17,205 | 17,415 | 17,118 |
| Borrowings and other funding | 13,330 | 1,966 | 10,823 | (36) |
| Debtors, prepayments, accrued charges and creditors | 1,060 | 413 | 500 | 163 |
| Tax balances | 555 | 410 | 430 | 121 |
| Carrying value of associates due to dividends received | 10 | 2 | - | - |
| Interest, fees and commissions receivable and payable | (54) | (45) | (108) | (79) |
| Assets under operating lease | (1,115) | (407) | (2,059) | 71 |
| Other assets and liabilities | (1,866) | (576) | (1,200) | 282 |
| Loan assets and balances with related body corporate entities | (29,716) | (13,629) | (24,463) | (17,475) |
| Net cash flows generated from operating activities | 39,539 | 3,047 | 32,070 | 3,068 |

(iii) Reconciliation of loan capital:

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Balance at the beginning of the financial year | 6,804 | 4,997 | 6,804 | 4,997 |
| Cash flows: ^{(4),(5)} | | | | |
| Issuance | 1,405 | 3,694 | 1,405 | 3,694 |
| Redemption | (1,101) | (740) | (1,101) | (740) |
| Non-cash changes: | | | | |
| Foreign currency translation and other movements | (212) | (1,147) | (212) | (1,147) |
| Balance at the end of the financial year | 6,896 | 6,804 | 6,896 | 6,804 |

(1) Includes \$375 million (2021: \$946 million) (for the Company: \$144 million, 2021: 505 million) of balances held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is subject to certain restrictions.

(2) Amounts excluded from cash and cash equivalents but presented in the Statement of financial position as cash and bank balances primarily relates to \$3,248 million (2021: \$2,294 million) (for the Company: \$2,083 million, 2021: \$1,548 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of \$120 million (2021: \$82 million) for the Company: \$87 million, 2021: \$77 million) that are not readily available to meet the short-term cash commitments.

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

(4) During the year ended 31 March 2022, the Consolidated Entity and the Company issued BCN3 for \$655 million and during the year ended 31 March 2021, issued BCN2 for \$641 million. These are perpetual securities which are eligible for conversion into a variable number of Consolidated Entity's ordinary shares on the scheduled mandatory exchange date, provided the exchange conditions are satisfied, unless redeemed, resold or written off earlier. Refer to Note 23 *Loan capital* for details.

(5) During the year ended 31 March 2022, the Consolidated Entity and the Company raised \$750 million (2021: \$3,053 million) through the issue of tier 2 loan capital redeemed \$1,101 million (2021: \$740 million) of tier 2 loan capital under fixed repayment obligations.

Note 27

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

Ultimate and immediate parent entities

The Consolidated Entity's and Company's ultimate parent entity is MGL and the immediate parent entity is Macquarie B.H. Pty Limited (MBHPL). Both MGL and MBHPL are incorporated in Australia. MGL produces 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 41(vi) *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 MBHPL are included in Due from related body corporate entities or Due to related body corporate entities, as appropriate, separately in the Statements of financial position of the Consolidated entity and Company except when the parties have the legal right and intention to offset.

Transaction under common control

During the previous year, the Consolidated Entity acquired Macquarie's service entities from the ultimate parent entity and the Non-Bank Group. These entities provide services to other entities and recover their costs on either a time and effort allocation basis or a fee service basis. For details, refer to Note 39 *Acquisitions and disposals of subsidiaries and businesses*.

The following transactions occurred with the ultimate and immediate parent entities during the financial year:

| | CONSOLIDATED | | COMPANY | |
|---------------------------|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Interest income | 503 | 434 | 495 | 398 |
| Interest expense | (366) | (720) | (1) | (525) |
| Fee and commission income | 3,753 | 2,019 | 561 | 878 |
| Dividend paid | - | 500,000 | - | 500,000 |

The following balances and off balance sheet arrangements with the ultimate parent and immediate parent entities were outstanding as at the financial year end:

| | CONSOLIDATED | | COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| On Balance Sheet: | | | | |
| Due from related body corporate entities ⁽¹⁾ | 440,295 | 501,455 | 247,566 | 312,944 |
| Due to related body corporate entities ⁽²⁾ | (271,279) | (293,653) | (202,241) | (270,841) |
| Off Balance Sheet: | | | | |
| Letter of credit | (18,321) | (18,416) | (18,321) | (18,416) |
| Guarantees received ⁽³⁾ | 363,580 | 676,234 | - | - |

(1) Due from related body corporates primarily represents the amounts receivable by the Consolidated Entity and the Company, in respect of amounts paid in advance for MEREP awards offered to its employees' net of share-based payment expense (refer to Note 41(xxiii) *Performance based remuneration*), loans and receivables as per the terms of the funding arrangements under the MLA and trading-related balances including derivatives designated in hedge accounting relationships.

(2) Due to related body corporates primarily represents the amount payable by the Consolidated Entity and the Company as per the terms of funding arrangements under the MLA, trading-related balances including derivative designated in hedge accounting relationships and payables under other bespoke loans agreements.

(3) Represents Guarantees provided by MGL to counterparties with respect to their exposures to certain subsidiaries.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 27

Related party information continued

Subsidiaries

Balances may arise from lending and borrowing activities between the Company and its subsidiaries which are either repayable on demand or may be extended on a term basis and where appropriate may be either subordinated or collateralised. The Company also transacts with subsidiaries for trading activities including derivative transactions to manage and hedge market risks.

All transactions undertaken with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the Statements of financial position of the Company except when the parties have the legal right and intention to offset.

Transaction under common control

During the current financial year, the Bank Group undertook a reorganisation to meet the requirements of the revised prudential standard APS 222 Associations with Related entities. The reorganisation involved transfer of certain existing assets, legal entities and business activities within the Bank Group.

As a result of the reorganisation, the company acquired net assets of \$9,178 million from its subsidiaries primarily in the nature of loan and trading assets and also acquired certain subsidiaries at a fair value of \$2,916 million. Further the company also disposed of its equity interest in certain subsidiaries with a carrying value of \$1,798 million (net of impairment) for a total consideration of \$3,255 million resulting in a gain on disposal of \$1,404 million and reversal of impairment of \$53 million. The total consideration paid and received by the Company was settled in cash.

A list of notable subsidiaries is set out in Note 14 *Investment in subsidiaries*.

The following other transactions occurred with subsidiaries during the financial year:

| | COMPANY | |
|--|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Interest income | 257,358 | 364,157 |
| Interest expense | (317,330) | (266,532) |
| Fee and commission income | 171,699 | 714,819 |
| Rental income | 19,163 | 6,388 |
| Investment income | | |
| Dividend (Note 2) | 3,259,408 | 1,368,778 |
| Gain on disposal of businesses and subsidiaries | 1,404,384 | 3,468 |
| Other (charges)/income | (24,366) | 2,697 |
| Brokerage, commission and trading-related expenses | (79,000) | (273,000) |
| Other operating expenses ⁽¹⁾ | (1,449,362) | (545,243) |

The following balances and off balance sheet arrangements with subsidiaries were outstanding as at the financial year end:

| | | |
|--|--------------|--------------|
| On Balance Sheet: | | |
| Due from subsidiaries ^{(2),(3)} | 23,856,615 | 21,499,672 |
| Due to subsidiaries ⁽²⁾ | (38,772,557) | (16,532,680) |
| Off Balance Sheet: | | |
| Guarantees provided ^{(3),(4)} | (7,386,785) | (1,085,573) |
| Performance related contingencies | (520) | (101,154) |
| Letter of credit | (17,177) | (43,658) |
| Guarantees received from subsidiaries ⁽⁵⁾ | 2,664,914 | - |

(1) Includes costs recovered from the Company by service entities.

(2) Due from and due to subsidiaries primarily represents loans, receivables and payables presented net as per the terms of the funding arrangements under MLA, payables under bespoke funding agreements, reverse repurchase and repurchase agreements and trading-related balances including derivative designated in hedge accounting relationship.

(3) Include \$4,143,521 thousand (2021: Nil) of guarantees to a subsidiary, Macquarie Bank Europe Limited (MBEL), related to its exposures from certain external counterparties. These guarantees have a maximum value of \$17,015,209 thousand (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. In support of these guarantees, the Company has deposited a cash collateral of \$3,363,128 thousand included in the Due from subsidiaries balance above.

(4) Includes guarantees to counterparties with respect to their exposures from certain subsidiaries. These guarantees have a notional value of \$12,752,961 thousand (2021: \$11,825,913 thousand) 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. Guarantee exposures reported in table above are also included under Off balance sheet exposures in Note 12 *Expected credit losses* and Note 33.1 *Credit risk*.

(5) The Company's exposures with certain Non-ELE subsidiaries included in amounts due from subsidiaries are guaranteed by a subsidiary, MIFL, for which it has placed cash collateral of \$2,664,011 thousand with the Company as per the terms of the guarantee arrangement, which is included in the due to subsidiaries balance above.

Note 27

Related party information continued

Other related body corporate entities

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

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

The following transactions occurred with other related body corporate entities during the financial year:

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Interest income | 6,568 | 7,447 | 6,280 | 5,499 |
| Interest expense | (15,689) | (47,421) | (14,057) | (44,801) |
| Fee and commission income/(expense) ⁽¹⁾ | 919,682 | 318,852 | (126,313) | (131,468) |
| Rental income | - | 12,775 | - | 12,775 |
| Other (expense)/income | (383) | 21 | (1,966) | 887 |
| Brokerage and commission expense | (28,323) | (18) | (16,000) | (18) |
| Other operating (expense)/income ⁽²⁾ | (36,000) | (691,523) | (4,067) | (809,197) |

The following balances and off balance sheet arrangements with other related body corporate entities were outstanding at the reporting date:

On Balance Sheet:

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Due from other related body corporate entities ⁽³⁾ | 2,984,219 | 1,651,613 | 2,706,604 | 1,332,316 |
| Due to other related body corporate entities ⁽³⁾ | (11,365,118) | (15,606,943) | (10,001,599) | (15,412,352) |

Off Balance Sheet:

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Guarantees provided | (1,328) | (5,185) | (1,328) | (5,185) |
| Undrawn Credit facilities and securities underwriting | (20,000) | (21,000) | (20,000) | (21,000) |
| Letter of credit | (138,213) | (197,811) | (138,213) | (197,811) |
| Performance related contingencies ⁽⁴⁾ | (512,469) | (591,019) | (512,469) | (591,019) |
| Guarantees received ⁽⁵⁾ | 5,939,276 | 3,079,304 | 5,805,743 | 2,885,704 |

(1) Includes service fees earned by the service entities from the Non-Bank Group. The previous financial year includes the service fees earned after the date of acquisition of service entities from MGL.

(2) Previous financial year includes the recovery of costs by service entities acquired from MGL till the date of acquisition.

(3) Due from and due to related body corporates primarily represents loans, receivables and payables as per the terms of the funding arrangements under MLA, payables under bespoke funding agreements and trading-related balances including derivative designated in hedge accounting relationship.

(4) Represents performance related contingent liability in favour of MGL on behalf of MFHPL for which the Company has received securities as collateral from a related group entity, Macquarie GT Holdings Pty Limited (MGTH). In previous year, collateral was received from MFHPL.

(5) The Company's exposures with certain Non-ELE subsidiaries included in amounts due from subsidiaries are guaranteed by MFHPL, for which MFHPL has placed cash collateral of \$4,952,916 thousand (2021: \$3,474,537 thousand) with the Company as per the terms of the guarantee arrangement, which is included in the due to other related body corporate entities balance above. In addition to this, the Company's and Consolidated Entity's exposures with certain Non-ELE Non-Bank group entities included in amounts due from related body corporate entities and off balance sheet exposure are guaranteed by MGTH, for which it has placed non-cash collateral of \$852,257 thousand with the Company as per the terms of the guarantee arrangement.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 27

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans and the provision of management services.

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

During the financial year, the following amounts of income/(expense) arose from transactions with associates and joint ventures:

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Interest income | 12,028 | 706 | 12,028 | 706 |
| Fee and commission income/(expense) | 10,327 | 617 | 9,391 | (921) |
| Other income | 1,619 | 46,151 | 1,619 | 46,151 |
| Brokerage, commission and trading-related expenses | (1) | - | (1) | - |

Dividends and distributions of \$10,697 thousand (2021: \$3,255 thousand) were received from the Consolidated Entity's associates and joint ventures. Under the equity method of accounting, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment.

The following balances and of balance sheet arrangements with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates and joint ventures).

| | CONSOLIDATED | | COMPANY | |
|---------------------------|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| On Balance Sheet: | | | | |
| Amounts receivable | 379,861 | 29,039 | 375,200 | 27,886 |
| Amounts payable | (11,516) | (11,373) | (5,566) | (11,373) |
| Off Balance Sheet: | | | | |
| Guarantee provided | (37,392) | - | (37,392) | - |
| Undrawn commitments | (45,613) | - | (45,613) | - |

Note 28

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:

Executive Voting Directors

| | |
|--------------------|---|
| S.R. Wikramanayake | Macquarie Group CEO |
| S.D. Green | Macquarie Bank CEO (appointed to be a member of the Executive Committee effective from 1 July 2021) |

Non-Executive Directors

| | |
|--------------------------------|---------------------------------------|
| P.H. Warne ⁽¹⁾ | Chairman |
| J.R. Broadbent AC | |
| P.M. Coffey | |
| M.J. Coleman | |
| M.A. Hinchliffe | (appointed effective 1 March 2022) |
| R.J. McGrath | (appointed effective 20 January 2021) |
| M. Roche | (appointed effective 20 January 2021) |
| G.R. Stevens AC ⁽²⁾ | |
| N.M. Wakefield Evans | |

Former Non-Executive Director

| | |
|----------------|---------------------------------------|
| G.R. Banks AO | (retired effective 30 July 2020) |
| G.M. Cairns | (retired effective 7 May 2021) |
| D.J. Grady AO | (retired effective 24 February 2022) |
| M.J. Hawker AM | (retired effective 30 September 2020) |

In addition to the Executive Voting Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MBL during the financial years ended 31 March 2022 and 31 March 2021, unless otherwise indicated.

Current Executives⁽³⁾

| | |
|-------------|--|
| G. Bruce | Incoming 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) |
| A.H. Harvey | CFO, Head of FMG |
| N. O'Kane | Head of CGM |
| N. Sorbara | COO, Head of COG |
| G.C. Ward | Head of BFS |

Former Executives

| | |
|-------------|--|
| M.J. Reemst | Former Macquarie Bank CEO (ceased to be a member of the Executive Committee effective from 1 July 2021) |
| P.C. Upfold | Former CRO, Head of RMG (ceased to be a member of the Executive Committee effective from 31 December 2021) |

The remuneration arrangements for all of the persons listed above are described on pages 35 to 63 of the Remuneration Report, contained in the Directors' Report.

(1) Mr Warne will retire as a Director and Chairman of the MGL and MBL Boards on 9 May 2022.

(2) Mr Stevens will become Chairman of the MGL and MBL Boards effective 10 May 2022.

(3) Except where indicated otherwise, all of the Executives, as well as the CEO were members of the Executive Committee as at 6 May 2022.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 28

Key management personnel disclosure continued

Key management personnel remuneration

The following table details the aggregate remuneration for KMP:

| | SHORT-TERM EMPLOYEE BENEFITS | | | | LONG-TERM EMPLOYEE BENEFITS | SHARE-BASED PAYMENTS | | |
|-----------------------------------|--|---|-------------------------|---|---|---------------------------------------|---------------------------|-----------------------------|
| | Salary and fees (including superannuation) \$ | Performance related remuneration ⁽¹⁾ \$ | Other benefits \$ | Total short-term employee benefits \$ | Restricted profit share including earnings on restricted profit share ⁽²⁾ \$ | Equity awards ⁽³⁾ \$ | PSUs ⁽⁴⁾ \$ | Total remuneration \$ |
| Executive remuneration | | | | | | | | |
| 2022 | 3,944,849 | 24,118,688 | - | 28,063,537 | 6,502,880 | 33,188,284 | 9,969,681 | 77,724,382 |
| 2021 | 3,723,231 | 19,683,727 | - | 23,406,958 | 3,447,232 | 29,609,864 | 3,299,411 | 59,763,465 |
| Non-Executive remuneration | | | | | | | | |
| 2022 | 1,822,877 | - | 9,000 | 1,831,877 | - | - | - | 1,831,877 |
| 2021 | 909,032 | - | 2,000 | 911,032 | - | - | - | 911,032 |

Loans to KMP and their related parties

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

| Total for key management personnel and their related parties ⁽⁵⁾ | Opening balance at 1 April \$'000 | Additions during the year ⁽⁶⁾ \$'000 | Interest charged \$'000 | Repayments during the year ⁽⁷⁾ \$'000 | Write-downs \$'000 | Closing balance at 31 March ⁽⁸⁾ \$'000 |
|--|--|--|-------------------------------|---|-----------------------|--|
| 2022 | 11,729 | 11,196 | 140 | (5,855) | - | 17,210 |
| 2021 | 11,469 | 681 | 135 | (556) | - | 11,729 |

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

(2) The amount of the retained profit share held via the DPS plan including earnings on notional investments from retained profit share in prior financial years.

(3) The current year amortisation for retained profit share calculated as described in 41(xxiii) *Performance based remuneration*.

(4) The current year amortisation for PSUs calculated as described in Note 41(xxiii) *Performance based remuneration*. The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

(5) All loans provided by Macquarie to KMP are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

(6) Or loan held as at date of appointment as new KMP.

(7) Or loan held as at date ceased to be a KMP.

(8) Number of persons included in the aggregate as at 31 March 2022: 6 (31 March 2021: 5).

Note 29

Employee equity participation

MEREP

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

Award types under the MEREP

Restricted Share Units (RSUs)

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

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

| | NUMBER OF RSU AWARDS | |
|---|----------------------|-----------|
| | 2022 | 2021 |
| RSUs on issue at the beginning of the financial year | 6,241,630 | 3,521,083 |
| Granted during the financial year | 1,786,608 | 1,263,771 |
| Forfeited during the financial year | (79,965) | (67,286) |
| Vested RSUs withdrawn or sold from the MEREP during the financial year | (1,700,796) | (981,056) |
| Net transfers (to)/from related body corporate entities ⁽¹⁾ | (20,216) | 2,505,118 |
| RSUs on issue at the end of the financial year | 6,227,261 | 6,241,630 |
| RSUs vested and not withdrawn from the MEREP at the end of the financial year | 550 | - |

The weighted average fair value of the RSU awards granted during the financial year was \$152.21 (2021: \$124.40).

Deferred Share Units (DSUs)

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

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

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

| | NUMBER OF DSU AWARDS | |
|---|----------------------|-----------|
| | 2022 | 2021 |
| DSUs on issue at the beginning of the financial year | 1,122,300 | 812,489 |
| Granted during the financial year | 309,897 | 276,303 |
| Forfeited during the financial year | (8,576) | (4,288) |
| Exercised during the financial year | (241,711) | (121,363) |
| Net transfers from related body corporate entities ⁽¹⁾ | 29,808 | 159,159 |
| DSUs on issue at the end of the financial year | 1,211,718 | 1,122,300 |
| DSUs exercisable at the end of the financial year | 451,390 | 416,301 |

The weighted average fair value of the DSU awards granted during the financial year was \$144.10 (2021: \$117.16).

(1) Net transfers from related body corporate entities during the year includes transfers relating to the transfer of employees from Macquarie's service entities to the Consolidated Entity.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 29

Employee equity participation continued

Award types under the MEREP continued

Performance Share Units (PSUs)

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

| | NUMBER OF PSU AWARDS | |
|---|----------------------|----------|
| | 2022 | 2021 |
| PSUs on issue at the beginning of the financial year | 654,839 | 291,357 |
| Granted during the financial year | 91,253 | 39,217 |
| Forfeited during the financial year | - | - |
| Exercised during the financial year | (108,745) | (59,857) |
| Expired during the Year | (123,029) | (59,858) |
| Net transfers from related body corporate entities ⁽¹⁾ | - | 443,980 |
| PSUs on issue at the end of the financial year | 514,318 | 654,839 |
| PSUs exercisable at the end of the financial year | 14,278 | - |

The weighted average fair value of the PSU awards granted during the financial year was \$134.04 (2021: \$105.09).

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)
- Macquarie Bank staff with retained commission (Commission Awards)
- new Macquarie Bank staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value (New Hire Awards)
- members of the MBL Executive Committees who are eligible for PSUs (PSU awards)
- in limited circumstances, Macquarie Bank staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of Macquarie Bank 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).

(1) Net transfers from related body corporate entities during the year includes transfers relating to the transfer of employees from Macquarie's service entities to the Consolidated Entity.

Note 29

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 | 1/3 rd in the 2 nd , 3 rd and 4 th year following the year of grant ⁽¹⁾ |
| Retained DPS Awards | Executive Committee members and Designated Executive Directors | 1/5 th in the 3 rd , 4 th , 5 th , 6 th and 7 th year following the year of grant ⁽²⁾ |
| Retained DPS Awards | All other Executive Directors | 1/3 rd in the 3 rd , 4 th and 5 th year following the year of grant ⁽²⁾ |
| PSU Awards granted in relation to 2016 to 2019 | Executive Committee members | 50% in the 3 rd and 4 th years following the year of grant ⁽³⁾ |
| PSU Awards granted in relation to 2020 and following years | Executive Committee members | 100% in the 4 th year following the year of grant ⁽³⁾ |
| Commission Awards | Below Executive Director | 1/3 rd in the 2 nd , 3 rd and 4 th year following the year of grant ⁽¹⁾ |
| New Hire Awards | All Director-level staff | 1/3 rd on each first day of a staff trading window on or after the 2 nd , 3 rd and 4 th 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 (2020 retention: \$112.15).

Performance Share Units (PSUs)

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

The hurdles are outlined below.

Performance hurdle 1

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

Performance hurdle 2

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

(1) Vesting will occur during an eligible staff trading window.

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

(3) Subject to achieving certain performance hurdles.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 29

Employee equity participation continued

Award types under the MEREP continued

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

Assumptions used to determine fair value of MEREP awards

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

RSUs, DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of the 2021 performance. The accounting fair value of each of these grants is estimated using the MGL's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 0.5291% per annum
- expected vesting dates of PSUs: 1 July 2025
- dividend yield: 3.73% per annum.

While RSUs, DSUs, and PSUs (for Executive Committee members) for FY2022 will be granted during FY2023, the Company 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.

For PSUs, the estimate also incorporates an interest rate to maturity of 2.91% per annum, expected vesting date of PSUs of 1 July 2026, and a dividend yield of 3.63% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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 \$322,413 thousand (2021: \$204,594 thousand).

Employee Share Plan

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

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

The latest offer under the ESP was made during November 2021. A total of 1,746 (2021: 1,790) staff participated in this offer. On 2 December 2021, the participants were each allocated 4 (2021: 7) fully paid ordinary shares based on the offer amount of \$1,000 and the average market share price of \$202.00 (2021: \$139.70), resulting in a total of 6,984 (2021: 12,530) shares being allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2022, compensation expense relating to the ESP totalled \$1,411 thousand (2021: \$1,750 thousand).

Other plans

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

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

Note 30

Contingent liabilities and commitments

| | CONSOLIDATED | | COMPANY | |
|---|--------------|--------------|---------------|--------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Contingent liabilities: | | | | |
| Letters of credit | 1,464 | 1,197 | 1,481 | 1,206 |
| Performance-related contingencies | 971 | 888 | 972 | 989 |
| Indemnities | 383 | 164 | 383 | 164 |
| Guarantees | 62 | 195 | 7,449 | 1,280 |
| Total contingent liabilities⁽¹⁾ | 2,880 | 2,444 | 10,285 | 3,639 |
| Commitments: | | | | |
| Undrawn credit facilities and securities commitments ⁽²⁾ | 5,810 | 5,519 | 5,647 | 5,047 |
| Other asset developments and purchase commitments | 1,086 | 1,100 | 1,080 | 1,081 |
| Total commitments | 6,896 | 6,619 | 6,727 | 6,128 |
| Total contingent liabilities and commitments | 9,776 | 9,063 | 17,012 | 9,767 |

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

(1) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

(2) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities commitments represent firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 31 Structured entities

A Structured Entity (SE) is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. SEs are generally established with restrictions on their ongoing activities in order to achieve narrow and well-defined objectives. SEs are classified as subsidiaries and are consolidated when control exists.

The Consolidated Entity engages with SEs for securitisation, asset backed financing and structured financing in order to diversify its sources of funding for asset origination and capital efficiency purposes. The Consolidated Entity's involvement with SEs is primarily of the following nature:

| Type | Details |
|---|--|
| Securitisation | <p>Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets, including mortgages, finance leases, and credit card receivables of the Consolidated Entity or of its clients.</p> <p>The Consolidated entity also establishes SEs on behalf of customers to securitise their loans or receivables and may manage these securitisation vehicles or provide liquidity or other support.</p> <p>The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual income units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.</p> |
| Asset-backed financing | <p>Asset-backed vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders. The Consolidated Entity engages in raising finance for assets such as vessels, electronic and IT equipment.</p> |
| Funds administration activities | <p>The Consolidated Entity conducts fund administration and other fiduciary activities as responsible entity, trustee, custodian, of funds, trusts including superannuation and approved deposit fund, wholesale and retail trusts.</p> <p>The Consolidated entity's interests in these funds primarily represents fees receivables for the services.</p> |
| Structured Financing and others arrangements | <p>Includes structured entities established to raise financing and fulfil obligations for prepaid commodity delivery contracts. The Consolidated Entity has contractually guaranteed the performance obligation under these arrangements.</p> |

Note 31

Structured entities continued

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs:

| | CONSOLIDATED 2022 | | | | CONSOLIDATED 2021 | | | |
|---|------------------------|----------------------------------|--|--------------|------------------------|----------------------------------|--|--------------|
| | Securitisations \$m | Asset-backed financing \$m | Structured Financing and others arrangements \$m | Total \$m | Securitisations \$m | Asset-backed financing \$m | Structured Financing and others arrangements \$m | Total \$m |
| Carrying value of assets | | | | | | | | |
| Loan assets | 1,832 | 1,788 | 3,617 | 7,237 | 689 | 2,034 | 1,136 | 3,859 |
| Financial investments | 1,496 | 4 | - | 1,500 | 2,088 | 18 | - | 2,106 |
| Margin money and settlement assets | 593 | - | - | 593 | 9 | - | - | 9 |
| Derivative assets | 299 | - | - | 299 | 414 | - | - | 414 |
| Trading assets | 64 | - | - | 64 | 113 | - | - | 113 |
| Total carrying value of assets ⁽¹⁾ | 4,284 | 1,792 | 3,617 | 9,693 | 3,313 | 2,052 | 1,136 | 6,501 |
| Maximum exposure to loss⁽²⁾ | | | | | | | | |
| Carrying value of assets | 4,284 | 1,792 | 3,617 | 9,693 | 3,313 | 2,052 | 1,136 | 6,501 |
| Undrawn commitments | 30 | 50 | 154 | 234 | 180 | - | 144 | 324 |
| Total maximum exposure to loss | 4,314 | 1,842 | 3,771 | 9,927 | 3,493 | 2,052 | 1,280 | 6,825 |

Additionally, as part of its funds administration activities the Consolidated Entity has interests in certain funds primarily fee receivables representing the Consolidated Entity's maximum exposure to loss which is disclosed in Note 10 *Held for sale and other assets*.

The Assets under Management (AUM) of \$1.7 billion (2021: \$1.5 billion) represents the indicative size of these funds.

In respect of the Consolidated Entity's loan assets' exposure in securitisation, asset backed financing entities and structured financing, the total size of the unconsolidated SEs is \$54,951 million (2021: \$34,241 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the latest available information with the Consolidated Entity.

The Consolidated Entity's exposure to securitisation entities in the nature of trading assets, margin money, derivatives and financial investments are acquired for the purpose of trading and liquidity management. These exposures are typically managed under market risk limits described in Note 33.3 *Market risk*. For these reasons, information on the size and structure for these SEs is not considered meaningful for understanding the related risks, and have not been presented in the table above.

(1) Includes non-investment grade interests of \$721 million (2021: \$80 million) in securitisation activities, \$1,232 million (2021: \$1,195 million) in asset-backed financing activities and \$450 million (2021: \$50 million) in Structured Financing and other arrangements.

(2) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 32

Hedge accounting

Hedging strategy

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

Hedging instruments

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

Hedging ineffectiveness

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

IBOR reform

During the period, the Consolidated Entity completed the transition of all remaining hedging relationships subject to mandatory IBOR reform, and certain non-mandatory transition of hedge accounting relationships to alternate reference rates (ARRs) as described in Note 1 *Basis of preparation* and Note 33 *Financial risk management*. The Consolidated Entity has made use of the relief provided by AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* (Phase 2 relief) to amend the formal designation of these hedging relationships.

As all hedge relationships subject to mandatory IBOR reform have been transitioned, no uncertainty remains, and the Consolidated Entity is no longer utilising the relief provided under AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* (Phase 1 relief). Accordingly, the disclosure required under Phase 1 is no longer required.

Note 32

Hedge accounting continued

Cash flow hedges

The cash flow hedge reserve, representing the effective portion of the movements in the hedging instrument, is disclosed in Note 25(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's Statements of comprehensive income. The cumulative gains and losses remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur are \$1 million loss (2021: \$3 million loss) for the Consolidated Entity and \$1 million loss (2021: \$2 million loss) for the Company. These amounts will be reclassified to the income statement as and when the hedged item affects the income statement.

Hedging instruments

| | | MATURITY ANALYSIS PER NOTIONAL | | | | |
|------------------------|------------------|--------------------------------|--------------------------|------------------------|------------------------|--------------|
| Instrument type | Risk category | Less than 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | Over 5 years \$m | Total \$m |
| Derivative assets | | CONSOLIDATED 2022 | | | | |
| Cross currency swaps | Foreign exchange | (14) | 308 | 1,043 | 574 | 1,911 |
| Interest rate swaps | Interest rate | 296 | 345 | 898 | 218 | 1,757 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Foreign exchange | - | - | 152 | 444 | 596 |
| Interest rate swaps | Interest rate | 609 | (30) | 515 | 445 | 1,539 |
| Derivative assets | | CONSOLIDATED 2021 | | | | |
| Cross currency swaps | Foreign exchange | (20) | (48) | 477 | 1,079 | 1,488 |
| Interest rate swaps | Interest rate | - | - | 1,043 | - | 1,043 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Foreign exchange | - | 1,038 | 884 | - | 1,922 |
| Interest rate swaps | Interest rate | (44) | 522 | 1,222 | 756 | 2,456 |
| | | CONSOLIDATED CARRYING AMOUNT | | | | |
| | | 2022 | | 2021 | | |
| Instrument type | Risk category | Asset \$m | Liability \$m | Asset \$m | Liability \$m | |
| Cross currency swaps | Foreign exchange | 190 | 28 | 105 | 82 | |
| Interest rate swaps | Interest rate | 21 | 30 | 1 | 101 | |

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 32

Hedge accounting continued

| | | MATURITY ANALYSIS PER NOTIONAL | | | | |
|-------------------------------|------------------|--------------------------------|--------------------------|------------------------|------------------------|--------------|
| Instrument type | Risk category | Less than 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | Over 5 years \$m | Total \$m |
| Derivative assets | | COMPANY 2022 | | | | |
| Cross currency swaps | Foreign exchange | (14) | 308 | 1,043 | 574 | 1,911 |
| Interest rate swaps | Interest rate | 296 | 345 | 898 | 218 | 1,757 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Foreign exchange | - | - | 152 | 444 | 596 |
| Interest rate swaps | Interest rate | 609 | (30) | 463 | 445 | 1,487 |
| Derivative assets | | COMPANY 2021 | | | | |
| Cross currency swaps | Foreign exchange | (20) | (48) | 477 | 1,079 | 1,488 |
| Interest rate swaps | Interest rate | (22) | (54) | 1,216 | 557 | 1,697 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Foreign exchange | - | 1,038 | 884 | - | 1,922 |
| Interest rate swaps | Interest rate | (44) | 397 | 1,166 | 756 | 2,275 |

| | | COMPANY CARRYING AMOUNT | | | |
|----------------------|------------------|-------------------------|------------------|--------------|------------------|
| | | 2022 | | 2021 | |
| Instrument type | Risk category | Asset \$m | Liability \$m | Asset \$m | Liability \$m |
| Cross currency swaps | Foreign exchange | 190 | 28 | 105 | 82 |
| Interest rate swaps | Interest rate | 21 | 27 | 84 | 89 |

Note 32

Hedge accounting continued

Hedge ineffectiveness

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

| | | CONSOLIDATED | | | | | |
|----------------------|------------------|--------------------------------------|-------------|-------------------------------|-------------|--------------------------------------|-------------|
| Hedging instruments | Risk category | GAIN/(LOSS) ON HEDGING INSTRUMENT | | (LOSS)/GAIN ON HEDGED ITEM | | HEDGE INEFFECTIVENESS GAIN/(LOSS) | |
| | | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Cross currency swaps | Foreign exchange | 16 | (27) | (16) | 28 | - | 1 |
| Interest rate swaps | Interest rate | 116 | 72 | (114) | (72) | 2 | - |
| Total | | 132 | 45 | (130) | (44) | 2 | 1 |

| | | COMPANY | | | | | |
|----------------------|------------------|--------------------------------------|-------------|-------------------------------|-------------|--------------------------------------|-------------|
| Hedging instruments | Risk category | GAIN/(LOSS) ON HEDGING INSTRUMENT | | (LOSS)/GAIN ON HEDGED ITEM | | HEDGE INEFFECTIVENESS (LOSS)/GAIN | |
| | | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Cross currency swaps | Foreign exchange | 16 | (29) | (16) | 28 | - | (1) |
| Interest rate swaps | Interest rate | 95 | 17 | (95) | (19) | - | (2) |
| Total | | 111 | (12) | (111) | 9 | - | (3) |

Hedge accounting executed rates

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

| | | CONSOLIDATED | | COMPANY | |
|----------------------|---------------|---------------|-------------|---------------|-------------|
| Hedging instruments | Currency pair | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Cross currency swaps | AUD/EUR | 0.68 | 0.62-0.68 | 0.68 | 0.62-0.68 |
| | USD/GBP | 0.66 | 0.66 | 0.66 | 0.66 |
| | AUD/CHF | 0.72 | 0.72 | 0.72 | 0.72 |
| | USD/CHF | 0.93 | 0.93 | 0.93 | 0.93 |
| | GBP/CHF | 1.46 | 1.46 | 1.46 | 1.46 |
| Interest rate swaps | AUD | 0.06% - 5.58% | 0.06-4.96% | 0.06% - 5.58% | 0.06-0.40% |
| | GBP | 0.97% - 2.13% | 1.54-2.13% | 0.97% - 2.13% | 1.54-2.17% |

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 32

Hedge accounting continued

Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives and foreign currency denominated borrowings. Refer to Note 33.3 *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.

| | | CONSOLIDATED CARRYING AMOUNT | | | |
|--|------------------|------------------------------|-------------|-------------|-------------|
| | | ASSET | | LIABILITY | |
| Hedging instrument | Risk category | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Foreign exchange contracts | Foreign exchange | 80 | 29 | 38 | 148 |
| Foreign currency denominated borrowings ⁽¹⁾ | Foreign exchange | - | - | 8,616 | 6,528 |

| | | CONSOLIDATED NOTIONAL AMOUNT | | | |
|---|------------------|------------------------------|-------------|-------------|-------------|
| | | ASSET | | LIABILITY | |
| Hedging instrument | Risk category | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Foreign exchange contracts ⁽²⁾ | Foreign exchange | 1,779 | 1,102 | 1,333 | 2,879 |
| Foreign currency denominated borrowings | Foreign exchange | - | - | 9,188 | 7,054 |

| | | COMPANY CARRYING AMOUNT | | | |
|--|------------------|-------------------------|-------------|-------------|-------------|
| | | ASSET | | LIABILITY | |
| Hedging instrument | Risk category | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Foreign exchange contracts | Foreign exchange | 54 | 19 | 13 | 95 |
| Foreign currency denominated borrowings ⁽¹⁾ | Foreign exchange | - | - | 2,642 | 3,242 |

| | | COMPANY NOTIONAL AMOUNT | | | |
|---|------------------|-------------------------|-------------|-------------|-------------|
| | | ASSET | | LIABILITY | |
| Hedging instrument | Risk category | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Foreign exchange contracts ⁽²⁾ | Foreign exchange | 1,058 | 726 | 769 | 2,057 |
| Foreign currency denominated borrowings | Foreign exchange | - | - | 3,291 | 3,907 |

In order to hedge the currency exposure of certain net investment in foreign operations, the Consolidated Entity jointly designates both forward exchange derivative contracts (from the currency of the underlying foreign operation to USD) and foreign denominated debt issued (from USD to AUD). As a result, the notional value of hedging instruments presented by the Consolidated Entity of \$12,300 million (2021: \$11,035 million) and Company of \$5,118 million (2021: \$6,690 million) represents the notional of both the derivative hedging instrument and the debt issued and hence exceeds the \$9,205 million (2021: \$7,264 million) and \$3,284 million (2021: \$3,980 million) notional of the underlying hedged component of the Consolidated Entity's and Company's respective 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 or the Company in the current year (2021: \$Nil).

(1) The carrying amount of Foreign currency denominated borrowings includes amounts of \$369 million and \$Nil (2021: \$310 million and \$169 million) for the Consolidated Entity and the Company which are disclosed in the respective Statements of financial position as 'Due to other related body corporate entities'.

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

Note 32

Hedge accounting continued

Fair value hedges

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

Hedging instruments

| | | MATURITY ANALYSIS PER NOTIONAL AMOUNT | | | | |
|-------------------------------------|------------------|---------------------------------------|--------------------------|------------------------|------------------------|--------------|
| | | Less than 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | Over 5 years \$m | Total \$m |
| Instrument type | Risk category | | | | | |
| Derivative assets | | CONSOLIDATED 2022 | | | | |
| Cross currency swaps | Interest rate | - | 326 | - | - | 326 |
| Interest rate swaps | Interest rate | 226 | 2,953 | 5,055 | 153 | 8,387 |
| Foreign exchange forwards and swaps | Foreign exchange | - | - | 856 | - | 856 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Interest rate | - | - | 586 | 74 | 660 |
| Interest rate swaps | Interest rate | 1,389 | 3,237 | 7,092 | 2,757 | 14,475 |
| Commodity forwards and futures | Commodity price | - | - | 856 | - | 856 |
| Derivative assets | | CONSOLIDATED 2021 | | | | |
| Cross currency swaps | Interest rate | - | - | 884 | 435 | 1,319 |
| Interest rate swaps | Interest rate | 1,085 | 783 | 8,385 | 987 | 11,240 |
| Commodity forwards and futures | Commodity price | 1 | 2 | - | - | 3 |
| Derivative liabilities | | | | | | |
| Interest rate swaps | Interest rate | 938 | 3,622 | 5,395 | 2,512 | 12,467 |
| | | CONSOLIDATED CARRYING AMOUNT | | | | |
| | | 2022 | | 2021 | | |
| | | Asset \$m | Liability \$m | Asset \$m | Liability \$m | |
| Instrument type | Risk category | | | | | |
| Cross currency swaps | Interest rate | 4 | 7 | 56 | - | |
| Interest rate swaps | Interest rate | 146 | 421 | 388 | 343 | |
| Commodity forwards and futures | Commodity price | - | 83 | - | - | |
| Foreign exchange forwards and swaps | Foreign exchange | 4 | - | - | - | |

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 32

Hedge accounting continued

| | | MATURITY ANALYSIS PER NOTIONAL | | | | |
|-------------------------------------|------------------|--------------------------------|-----------------------|---------------------|---------------------|--------------|
| Instrument type | Risk category | Less than 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | Over 5 years \$m | Total \$m |
| Derivative assets | | COMPANY 2022 | | | | |
| Cross currency swaps | Interest rate | - | 326 | - | - | 326 |
| Interest rate swaps | Interest rate | 147 | 2,908 | 4,234 | 153 | 7,442 |
| Foreign exchange forwards and swaps | Foreign exchange | - | - | 856 | - | 856 |
| Derivative liabilities | | | | | | |
| Cross currency swaps | Interest rate | - | - | 586 | 74 | 660 |
| Interest rate swaps | Interest rate | - | 1,335 | 6,762 | 2,757 | 10,854 |
| Commodity forwards and futures | Commodity price | - | - | 856 | - | 856 |
| Derivative assets | | COMPANY 2021 | | | | |
| Cross currency swaps | Interest rate | - | - | 884 | 435 | 1,319 |
| Interest rate swaps | Interest rate | 1,085 | 783 | 7,464 | 1,017 | 10,349 |
| Derivative liabilities | | | | | | |
| Interest rate swaps | Interest rate | 125 | 230 | 974 | 2,512 | 3,841 |

The Company designates certain equity investments in foreign currency denominated subsidiaries as hedged items in fair value hedges of foreign exchange risk. The notional of these hedges amounts to \$2,207 million (2021: \$1,002 million). These balances change periodically, which result in periodic rebalancing of the hedge designations.

| Instrument type | Risk category | COMPANY CARRYING AMOUNT | | | |
|---|------------------|-------------------------|------------------|--------------|------------------|
| | | 2022 | | 2021 | |
| | | Asset \$m | Liability \$m | Asset \$m | Liability \$m |
| Cross currency swaps | Interest rate | 4 | 7 | 56 | - |
| Interest rate swaps ⁽¹⁾ | Interest rate | 143 | 375 | 392 | 144 |
| Commodity forwards and futures | Commodity price | - | 83 | - | - |
| Foreign exchange forwards and swaps | Foreign exchange | 4 | - | - | - |
| Foreign currency denominated borrowings | Foreign exchange | - | 2,207 | - | 610 |

Hedged item

As the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of the fair value hedge adjustments remaining in the Statements of financial positions for hedged items that have ceased to be adjusted for hedging gains and losses is \$7 million gain (2021: \$8 million gain) for the Consolidated Entity and \$55 million gain for the Company (2021: \$16 million gain) and have been included in the fair value hedge adjustment in the table that follows. These amounts will be amortised to the income statement on an effective interest rate basis.

(1) The carrying amounts of hedging instrument derivative assets and liabilities include amounts of \$Nil and \$Nil (2021: \$83 million and \$11 million) which are disclosed in the Company's Statement of financial position as 'Due from other related body corporate entities' and 'Due to other related body corporate entities' respectively.

Note 32

Hedge accounting continued

| | CONSOLIDATED 2022 | | CONSOLIDATED 2021 | |
|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Carrying amount ⁽¹⁾ \$m | Fair value hedge adjustment \$m | Carrying amount ⁽¹⁾ \$m | Fair value hedge adjustment \$m |
| Assets | | | | |
| Financial investments ⁽²⁾ | 310 | - | 313 | - |
| Loan assets ⁽²⁾ | 8,962 | (103) | 10,166 | 90 |
| Property, plant and equipment | 712 | 54 | - | - |
| Liabilities | | | | |
| Issued debt securities | 9,799 | 142 | 8,748 | (246) |
| Loan capital | 4,097 | 243 | 5,372 | (10) |

| | COMPANY 2022 | | COMPANY 2021 | |
|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Carrying amount ⁽¹⁾ \$m | Fair value hedge adjustment \$m | Carrying amount ⁽¹⁾ \$m | Fair value hedge adjustment \$m |
| Assets | | | | |
| Financial investments ⁽²⁾ | 310 | - | 313 | - |
| Loan assets | 4,470 | (90) | 1,229 | - |
| Property, plant and equipment | 712 | 54 | - | - |
| Investments in subsidiaries | 2,207 | (118) | 961 | (34) |
| Liabilities | | | | |
| Issued debt securities | 9,899 | 146 | 8,855 | (246) |
| Loan capital | 4,097 | 243 | 5,372 | (10) |

Hedge ineffectiveness

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

| | | CONSOLIDATED | | | | | |
|-------------------------------------|------------------|--------------------------------------|--------------|-------------------------------|-------------|--------------------------------------|-------------|
| Hedging instrument | Risk category | (LOSS)/GAIN ON HEDGING INSTRUMENT | | GAIN/(LOSS) ON HEDGED ITEM | | HEDGE INEFFECTIVENESS GAIN/(LOSS) | |
| | | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Cross currency swaps | Interest rate | (20) | (49) | 20 | 48 | - | (1) |
| Interest rate swaps and options | Interest rate | (337) | (323) | 396 | 381 | 59 | 58 |
| Commodity forwards and futures | Commodity price | (48) | (7) | 48 | (2) | - | (9) |
| Foreign exchange forwards and swaps | Foreign exchange | (5) | - | 5 | - | - | - |
| Total | | (410) | (379) | 469 | 427 | 59 | 48 |

| | | COMPANY | | | | | |
|---|------------------|--------------------------------------|--------------|-------------------------------|-------------|--------------------------------------|-------------|
| Hedging instrument | Risk category | (LOSS)/GAIN ON HEDGING INSTRUMENT | | GAIN/(LOSS) ON HEDGED ITEM | | HEDGE INEFFECTIVENESS GAIN/(LOSS) | |
| | | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Cross currency swaps | Interest rate | (20) | (46) | 20 | 46 | - | - |
| Interest rate swaps | Interest rate | (469) | (458) | 472 | 467 | 3 | 9 |
| Commodity forwards and futures | Commodity price | (48) | - | 48 | - | - | - |
| Foreign exchange forwards and swaps | Foreign exchange | (5) | - | 5 | - | - | - |
| Foreign currency denominated borrowings | Foreign exchange | 85 | 66 | (85) | (66) | - | - |
| Total | | (457) | (438) | 460 | 447 | 3 | 9 |

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

(2) The carrying amount includes debt instruments classified at FVOCI. Where this applies the fair value hedge adjustment for interest rate risk is recognised in the income statement together with changes in the fair value of the hedging instrument.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

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 33.1 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. For limit monitoring, 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 12 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

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

Wholesale rating

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

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

Retail rating

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

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

Due from subsidiaries/due from related body corporate entities

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

Portfolio and country risk

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

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

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit quality of financial assets

The table below discloses⁽¹⁾, by credit rating grade and ECL impairment stage, the gross carrying amount⁽²⁾ of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9 *Financial Instruments*. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

| | Stage I ⁽³⁾ \$m | Stage II ⁽³⁾ \$m | Stage III ⁽³⁾ \$m | Total \$m |
|---|-------------------------------|--------------------------------|---------------------------------|----------------|
| Investment grade | CONSOLIDATED 2022 | | | |
| Cash and bank balances | 48,912 | - | - | 48,912 |
| Cash collateralised lending and reverse repurchase agreements | 34,845 | - | - | 34,845 |
| Margin money and settlement assets | 16,543 | - | - | 16,543 |
| Financial investments | 6,076 | - | - | 6,076 |
| Held for sale and other assets | 1,244 | - | - | 1,244 |
| Loan assets | 61,941 | 1,855 | - | 63,796 |
| Due from related body corporate entities | 1,399 | - | - | 1,399 |
| Off balance sheet exposures | 2,682 | 1 | - | 2,683 |
| Total investment grade | 173,642 | 1,856 | - | 175,498 |
| Non-investment grade | | | | |
| Cash and bank balances | 60 | - | - | 60 |
| Cash collateralised lending and reverse repurchase agreements | 3,533 | - | - | 3,533 |
| Margin money and settlement assets | 2,381 | 5 | - | 2,386 |
| Financial investments | 190 | - | - | 190 |
| Held for sale and other assets | 911 | 9 | - | 920 |
| Loan assets | 47,374 | 11,260 | - | 58,634 |
| Off balance sheet exposures | 3,920 | 20 | - | 3,940 |
| Total non-investment grade | 58,369 | 11,294 | - | 69,663 |
| Default | | | | |
| Margin money and settlement assets | - | - | 38 | 38 |
| Held for sale and other assets | - | - | 152 | 152 |
| Loan assets | - | - | 1,005 | 1,005 |
| Off balance sheet exposures | - | - | 7 | 7 |
| Total default | - | - | 1,202 | 1,202 |
| Total gross credit risk | 232,011 | 13,150 | 1,202 | 246,363 |
| Total gross credit risk by ECL stage | | | | |
| Cash and bank balances | 48,972 | - | - | 48,972 |
| Cash collateralised lending and reverse repurchase agreements | 38,378 | - | - | 38,378 |
| Margin money and settlement assets | 18,924 | 5 | 38 | 18,967 |
| Financial investments | 6,266 | - | - | 6,266 |
| Held for sale and other assets | 2,155 | 9 | 152 | 2,316 |
| Loan assets | 109,315 | 13,115 | 1,005 | 123,435 |
| Due from related body corporate entities | 1,399 | - | - | 1,399 |
| Off balance sheet exposures | 6,602 | 21 | 7 | 6,630 |
| Total gross credit risk by ECL stage | 232,011 | 13,150 | 1,202 | 246,363 |

(1) For prior period comparatives of credit quality of financial assets, refer pages 136 to 138.

(2) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure values will not equal the amount presented in the Statements of financial position.

(3) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

The table below discloses, by credit rating grade and ECL impairment stage, the gross carrying amount⁽¹⁾ of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Company subject to the impairment requirements of AASB 9 *Financial Instruments*. The credit quality is based on the counterparty's credit rating using the Company'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 | | | | COMPANY 2022 |
| Cash and bank balances | 43,594 | - | - | 43,594 |
| Cash collateralised lending and reverse repurchase agreements | 31,597 | - | - | 31,597 |
| Margin money and settlement assets | 14,153 | - | - | 14,153 |
| Financial investments | 6,076 | - | - | 6,076 |
| Held for sale and other assets | 954 | - | - | 954 |
| Loan assets | 61,396 | 1,853 | - | 63,249 |
| Due from related body corporate entities | 1,122 | - | - | 1,122 |
| Due from subsidiaries | 11,627 | - | - | 11,627 |
| Off balance sheet exposures ⁽³⁾ | 10,071 | 1 | - | 10,072 |
| Total investment grade | 180,590 | 1,854 | - | 182,444 |
| Non-investment grade | | | | |
| Cash collateralised lending and reverse repurchase agreements | 2,438 | - | - | 2,438 |
| Margin money and settlement assets | 1,983 | 2 | - | 1,985 |
| Financial investments | 190 | - | - | 190 |
| Held for sale and other assets | 748 | 7 | - | 755 |
| Loan assets | 46,381 | 11,012 | - | 57,393 |
| Due from subsidiaries | 34 | - | - | 34 |
| Off balance sheet exposures ⁽³⁾ | 3,783 | 20 | - | 3,803 |
| Total non-investment grade | 55,557 | 11,041 | - | 66,598 |
| Default | | | | |
| Margin money and settlement assets | - | - | 35 | 35 |
| Held for sale and other assets | - | - | 116 | 116 |
| Loan assets | - | - | 930 | 930 |
| Off balance sheet exposures ⁽³⁾ | - | - | 7 | 7 |
| Total default | - | - | 1,088 | 1,088 |
| Total gross credit risk | 236,147 | 12,895 | 1,088 | 250,130 |
| Cash and bank balances | 43,594 | - | - | 43,594 |
| Cash collateralised lending and reverse repurchase agreements | 34,035 | - | - | 34,035 |
| Margin money and settlement assets | 16,136 | 2 | 35 | 16,173 |
| Financial investments | 6,266 | - | - | 6,266 |
| Held for sale and other assets | 1,702 | 7 | 116 | 1,825 |
| Loan assets | 107,777 | 12,865 | 930 | 121,572 |
| Due from related body corporate entities | 1,122 | - | - | 1,122 |
| Due from subsidiaries | 11,661 | - | - | 11,661 |
| Off balance sheet exposures ⁽³⁾ | 13,854 | 21 | 7 | 13,882 |
| Total gross credit risk by ECL stage | 236,147 | 12,895 | 1,088 | 250,130 |

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal to amount presented in the Statements of financial position.

(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality.

(3) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of \$12,753 million (2021: \$11,826 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

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

| | Investment grade \$m | Non-investment grade \$m | Total other than default \$m | OF WHICH PAST DUE | | | Default \$m | Total \$m |
|--|----------------------------|--------------------------------|------------------------------------|-------------------------|--------------------------|---|----------------|----------------|
| | | | | Up to 30 days \$m | 31 to <90 days \$m | Total past due but not default \$m | | |
| CONSOLIDATED 2022 | | | | | | | | |
| Home loans ⁽¹⁾ | 53,007 | 41,373 | 94,380 | 462 | 80 | 542 | 534 | 94,914 |
| Asset financing | 2,780 | 7,116 | 9,896 | 236 | 3 | 239 | 291 | 10,187 |
| Corporate, commercial and other lending | 8,009 | 10,145 | 18,154 | 29 | 2 | 31 | 180 | 18,334 |
| Total⁽²⁾ | 63,796 | 58,634 | 122,430 | 727 | 85 | 812 | 1,005 | 123,435 |
| COMPANY 2022 | | | | | | | | |
| Home loans ⁽¹⁾ | 52,986 | 41,347 | 94,333 | 448 | 77 | 525 | 530 | 94,863 |
| Asset financing | 2,276 | 6,201 | 8,477 | 193 | 2 | 195 | 227 | 8,704 |
| Corporate, commercial and other lending | 7,987 | 9,845 | 17,832 | 29 | 1 | 30 | 173 | 18,005 |
| Total⁽²⁾ | 63,249 | 57,393 | 120,642 | 670 | 80 | 750 | 930 | 121,572 |

(1) Includes \$9,350 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another \$32,016 million home loans where the Consolidated Entity has bought risk protection from a panel of investment grade companies via an excess of loss structure. Refer to Note 33.1 *Credit risk* section Collateral and credit enhancements for further details.

(2) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit quality of financial assets

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

| | Stage I ⁽²⁾ \$m | Stage II ⁽²⁾ \$m | Stage III ⁽²⁾ \$m | Total \$m |
|---|-------------------------------|--------------------------------|---------------------------------|----------------|
| Investment grade | CONSOLIDATED 2021 | | | |
| Cash and bank balances | 15,872 | - | - | 15,872 |
| Cash collateralised lending and reverse repurchase agreements | 21,362 | - | - | 21,362 |
| Margin money and settlement assets | 6,713 | - | - | 6,713 |
| Financial investments | 7,571 | - | - | 7,571 |
| Held for sale and other assets | 594 | - | - | 594 |
| Loan assets | 46,689 | 1,257 | - | 47,946 |
| Due from related body corporate entities | 1,508 | - | - | 1,508 |
| Off balance sheet exposures | 3,014 | - | - | 3,014 |
| Total investment grade | 103,323 | 1,257 | - | 104,580 |
| Non-investment grade | | | | |
| Cash and bank balances | 94 | - | - | 94 |
| Cash collateralised lending and reverse repurchase agreements | 5,284 | - | - | 5,284 |
| Margin money and settlement assets | 1,010 | 5 | - | 1,015 |
| Financial investments | 71 | - | - | 71 |
| Held for sale and other assets | 444 | 14 | - | 458 |
| Loan assets | 40,408 | 9,888 | - | 50,296 |
| Off balance sheet exposures | 3,078 | 76 | - | 3,154 |
| Total non-investment grade | 50,389 | 9,983 | - | 60,372 |
| Default | | | | |
| Margin money and settlement assets | - | - | 296 | 296 |
| Held for sale and other assets | - | - | 108 | 108 |
| Loan assets | - | - | 1,333 | 1,333 |
| Off balance sheet exposures | - | - | 170 | 170 |
| Total default | - | - | 1,907 | 1,907 |
| Total gross credit risk | 153,712 | 11,240 | 1,907 | 166,859 |
| Total gross credit risk by ECL stage | | | | |
| Cash and bank balances | 15,966 | - | - | 15,966 |
| Cash collateralised lending and reverse repurchase agreements | 26,646 | - | - | 26,646 |
| Margin money and settlement assets | 7,723 | 5 | 296 | 8,024 |
| Financial investments | 7,642 | - | - | 7,642 |
| Held for sale and other assets | 1,038 | 14 | 108 | 1,160 |
| Loan assets | 87,097 | 11,145 | 1,333 | 99,575 |
| Due from related body corporate entities | 1,508 | - | - | 1,508 |
| Off balance sheet exposures | 6,092 | 76 | 170 | 6,338 |
| Total gross credit risk by ECL stage | 153,712 | 11,240 | 1,907 | 166,859 |

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

(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality.

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount⁽¹⁾ of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company. The credit quality is based on the rating grades assigned internally to these counterparties for the pricing of internal funding arrangements on an arm's length basis.

| | Stage I ⁽²⁾ \$m | Stage II ⁽²⁾ \$m | Stage III ⁽²⁾ \$m | Total \$m |
|---|-------------------------------|--------------------------------|---------------------------------|----------------|
| Investment grade | | | | COMPANY 2021 |
| Cash and bank balances | 14,000 | - | - | 14,000 |
| Cash collateralised lending and reverse repurchase agreements | 19,378 | - | - | 19,378 |
| Margin money and settlement assets | 5,569 | - | - | 5,569 |
| Financial investments | 7,570 | - | - | 7,570 |
| Other assets | 313 | - | - | 313 |
| Loan assets | 40,739 | 1,186 | - | 41,925 |
| Due from related body corporate entities | 1,181 | - | - | 1,181 |
| Due from subsidiaries | 17,965 | - | - | 17,965 |
| Off balance sheet exposures ⁽³⁾ | 2,559 | - | - | 2,559 |
| Total investment grade | 109,274 | 1,186 | - | 110,460 |
| Non-investment grade | | | | |
| Cash and bank balances | 12 | - | - | 12 |
| Cash collateralised lending and reverse repurchase agreements | 4,106 | - | - | 4,106 |
| Margin money and settlement assets | 574 | 1 | - | 575 |
| Financial investments | 53 | - | - | 53 |
| Other assets | 200 | 5 | - | 205 |
| Loan assets | 32,406 | 8,594 | - | 41,000 |
| Due from subsidiaries | 10 | - | - | 10 |
| Off balance sheet exposures ⁽³⁾ | 3,049 | 68 | - | 3,117 |
| Total non-investment grade | 40,410 | 8,668 | - | 49,078 |
| Default | | | | |
| Margin money and settlement assets | - | - | 294 | 294 |
| Other assets | - | - | 94 | 94 |
| Loan assets | - | - | 962 | 962 |
| Off balance sheet exposures ⁽³⁾ | - | - | 155 | 155 |
| Total default | - | - | 1,505 | 1,505 |
| Total gross credit risk | 149,684 | 9,854 | 1,505 | 161,043 |
| Total gross credit risk by ECL stage | | | | |
| Cash and bank balances | 14,012 | - | - | 14,012 |
| Cash collateralised lending and reverse repurchase agreements | 23,484 | - | - | 23,484 |
| Margin money and settlement assets | 6,143 | 1 | 294 | 6,438 |
| Financial investments | 7,623 | - | - | 7,623 |
| Other assets | 513 | 5 | 94 | 612 |
| Loan assets | 73,145 | 9,780 | 962 | 83,887 |
| Due from related body corporate entities | 1,181 | - | - | 1,181 |
| Due from subsidiaries | 17,975 | - | - | 17,975 |
| Off balance sheet exposures ⁽³⁾ | 5,608 | 68 | 155 | 5,831 |
| Total gross credit risk by ECL stage | 149,684 | 9,854 | 1,505 | 161,043 |

(1) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal to amount presented in the Statements of financial position.

(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality.

(3) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of \$12,753 million (31 March 2021: \$11,826 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

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

| | Investment grade – strong \$m | Non-investment grade \$m | Total other than default \$m | OF WHICH PAST DUE | | | Default \$m | Total \$m |
|--|-------------------------------------|--------------------------------|------------------------------------|-------------------------|--------------------------|---|----------------|---------------|
| | | | | Up to 30 days \$m | 31 to <90 days \$m | Total past due but not default \$m | | |
| CONSOLIDATED 2021 | | | | | | | | |
| Home loans ⁽¹⁾ | 38,188 | 32,827 | 71,015 | 420 | 134 | 554 | 572 | 71,587 |
| Asset financing | 3,669 | 9,521 | 13,190 | 301 | 60 | 361 | 394 | 13,584 |
| Corporate, commercial and other lending | 6,087 | 7,948 | 14,035 | 55 | 109 | 164 | 367 | 14,402 |
| Total⁽²⁾ | 47,944 | 50,296 | 98,240 | 776 | 303 | 1,079 | 1,333 | 99,573 |
| COMPANY 2021 | | | | | | | | |
| Home loans ⁽¹⁾ | 37,023 | 31,549 | 68,572 | 399 | 125 | 524 | 552 | 69,124 |
| Asset financing | 1,164 | 3,117 | 4,281 | 68 | 11 | 79 | 89 | 4,370 |
| Corporate, commercial and other lending | 3,738 | 6,334 | 10,072 | 55 | 109 | 164 | 321 | 10,393 |
| Total⁽²⁾ | 41,925 | 41,000 | 82,925 | 522 | 245 | 767 | 962 | 83,887 |

(1) Includes \$12,190 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another \$39,909 million home loans where the Consolidated Entity has bought risk protection from a global panel of investment grade reinsurers via an excess of loss and quota share structure. Refer to Note 33.1 *Credit risk*: Collateral and credit enhancements held for further details.

(2) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

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Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

The table below details the concentration of credit risk⁽¹⁾ by significant geographical location and counterparty type of the Consolidated Entity's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9 *Financial Instruments*. The geographical location is determined by the country of risk. Counterparty type is based on APRA classification.

| | Governments \$m | Financial Institutions \$m | Other \$m | Total \$m |
|---|--------------------|----------------------------------|----------------|----------------|
| CONSOLIDATED 2022 | | | | |
| Australia | | | | |
| Cash and bank balances | - | 40,370 | - | 40,370 |
| Cash collateralised lending and reverse repurchase agreements | - | 4,378 | - | 4,378 |
| Held for sale and other assets | 7 | 87 | 972 | 1,066 |
| Margin money and settlement assets | 20 | 1,062 | 906 | 1,988 |
| Financial investments | - | 4,704 | 241 | 4,945 |
| Loan assets ⁽²⁾ | 35 | 3,339 | 111,904 | 115,278 |
| Due from related body corporate entities ⁽³⁾ | - | 697 | 2 | 699 |
| Off balance sheet exposures | 28 | 467 | 3,761 | 4,256 |
| Total Australia | 90 | 55,104 | 117,786 | 172,980 |
| Asia Pacific | | | | |
| Cash and bank balances | - | 527 | - | 527 |
| Cash collateralised lending and reverse repurchase agreements | - | 2,896 | - | 2,896 |
| Held for sale and other assets | - | 5 | 144 | 149 |
| Margin money and settlement assets | - | 259 | 508 | 767 |
| Financial investments | - | 229 | - | 229 |
| Loan assets | - | 90 | 281 | 371 |
| Due from related body corporate entities ⁽³⁾ | - | 229 | 11 | 240 |
| Off balance sheet exposures | - | 1 | 2 | 3 |
| Total Asia Pacific | - | 4,236 | 946 | 5,182 |
| Europe, Middle East and Africa | | | | |
| Cash and bank balances | - | 4,591 | - | 4,591 |
| Cash collateralised lending and reverse repurchase agreements | - | 22,271 | - | 22,271 |
| Held for sale and other assets | 10 | 14 | 884 | 908 |
| Margin money and settlement assets | 18 | 1,876 | 10,497 | 12,391 |
| Financial investments | - | 871 | - | 871 |
| Loan assets | - | 921 | 1,537 | 2,458 |
| Due from related body corporate entities ⁽³⁾ | - | 171 | 10 | 181 |
| Off balance sheet exposures | - | 12 | 352 | 364 |
| Total Europe, Middle East and Africa | 28 | 30,727 | 13,280 | 44,035 |
| Americas | | | | |
| Cash and bank balances | - | 3,484 | - | 3,484 |
| Cash collateralised lending and reverse repurchase agreements | - | 8,833 | - | 8,833 |
| Held for sale and other assets | - | 15 | 178 | 193 |
| Margin money and settlement assets | 44 | 928 | 2,849 | 3,821 |
| Financial investments | - | 221 | - | 221 |
| Loan assets | 11 | 3,650 | 1,667 | 5,328 |
| Due from related body corporate entities ⁽³⁾ | - | 277 | 2 | 279 |
| Off balance sheet exposures | 17 | 340 | 1,650 | 2,007 |
| Total Americas | 72 | 17,748 | 6,346 | 24,166 |
| Total gross credit risk⁽⁴⁾ | 190 | 107,815 | 138,358 | 246,363 |

(1) For prior period comparatives of credit risk concentration, refer pages 144 to 147.

(2) Loan assets in the Australia region includes home loans of \$94,300 million, Asset financing of \$9,337 million and Corporate, commercial and other lending of \$11,641 million.

(3) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

(4) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statement of financial position.

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

The table below details the concentration of credit risk by significant geographical location and counterparty type of the Company's assets measured at amortised cost or FVOCI 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. Counterparty type is based on APRA classification.

| | Governments \$m | Financial Institutions \$m | Other \$m | Total \$m |
|---|--------------------|----------------------------------|----------------|----------------|
| COMPANY 2022 | | | | |
| Australia | | | | |
| Cash and bank balances | - | 40,194 | - | 40,194 |
| Cash collateralised lending and reverse repurchase agreements | - | 4,026 | - | 4,026 |
| Other assets | - | 57 | 954 | 1,011 |
| Margin money and settlement assets | 20 | 1,039 | 842 | 1,901 |
| Financial investments | - | 4,704 | 241 | 4,945 |
| Loan assets ⁽¹⁾ | - | 3,291 | 110,784 | 114,075 |
| Due from related body corporate entities ⁽²⁾ | - | 576 | - | 576 |
| Due from subsidiaries ⁽²⁾ | - | 4,273 | - | 4,273 |
| Off balance sheet exposures | 28 | 468 | 3,436 | 3,932 |
| Total Australia | 48 | 58,628 | 116,257 | 174,933 |
| Asia Pacific | | | | |
| Cash and bank balances | - | 237 | - | 237 |
| Cash collateralised lending and reverse repurchase agreements | - | 2,896 | - | 2,896 |
| Other assets | - | 5 | 141 | 146 |
| Margin money and settlement assets | - | 244 | 489 | 733 |
| Financial investments | - | 229 | - | 229 |
| Loan assets | - | 90 | 187 | 277 |
| Due from related body corporate entities ⁽²⁾ | - | 135 | 4 | 139 |
| Due from subsidiaries ⁽²⁾ | - | 97 | 36 | 133 |
| Total Asia Pacific | - | 3,933 | 857 | 4,790 |
| Europe, Middle East and Africa | | | | |
| Cash and bank balances | - | 1,104 | - | 1,104 |
| Cash collateralised lending and reverse repurchase agreements | - | 19,557 | - | 19,557 |
| Other assets | 10 | 2 | 549 | 561 |
| Margin money and settlement assets | 18 | 1,810 | 9,037 | 10,865 |
| Financial investments | - | 871 | - | 871 |
| Loan assets | - | 919 | 1,270 | 2,189 |
| Due from related body corporate entities ⁽²⁾ | - | 160 | 2 | 162 |
| Due from subsidiaries ⁽²⁾ | - | 4,484 | 425 | 4,909 |
| Off balance sheet exposures | - | 4,466 | 1,197 | 5,663 |
| Total Europe, Middle East and Africa | 28 | 33,373 | 12,480 | 45,881 |
| Americas | | | | |
| Cash and bank balances | - | 2,059 | - | 2,059 |
| Cash collateralised lending and reverse repurchase agreements | - | 7,556 | - | 7,556 |
| Other assets | - | 15 | 92 | 107 |
| Margin money and settlement assets | - | 829 | 1,845 | 2,674 |
| Financial investments | - | 221 | - | 221 |
| Loan assets | 6 | 3,650 | 1,375 | 5,031 |
| Due from related body corporate entities ⁽²⁾ | - | 245 | - | 245 |
| Due from subsidiaries ⁽²⁾ | - | 2,312 | 34 | 2,346 |
| Off balance sheet exposures | 21 | 2,704 | 1,562 | 4,287 |
| Total Americas | 27 | 19,591 | 4,908 | 24,526 |
| Total gross credit risk⁽³⁾ | 103 | 115,525 | 134,502 | 250,130 |

(1) Loan assets in the Australia region includes home loans of \$94,232 million, Asset financing of \$8,321 million and Corporate, commercial and other lending of \$11,522 million.

(2) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

(3) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statements of financial position.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 *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 |
|---|--------------------|----------------------------------|---------------|----------------|
| CONSOLIDATED 2022 | | | | |
| Australia | | | | |
| Trading assets | 2 | 390 | 871 | 1,263 |
| Derivative assets | 5 | 1,834 | 1,856 | 3,695 |
| Margin money and settlement assets | - | - | 1 | 1 |
| Held for sale and other assets | - | - | 56 | 56 |
| Loan assets | - | 91 | 61 | 152 |
| Due from related body corporate entities ⁽¹⁾ | - | 1,721 | - | 1,721 |
| Total Australia | 7 | 4,036 | 2,845 | 6,888 |
| Asia Pacific | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 1 | - | 1 |
| Trading assets | 124 | 299 | 3,923 | 4,346 |
| Derivative assets | 86 | 5,209 | 2,988 | 8,283 |
| Financial investments | - | 9 | 5 | 14 |
| Margin money and settlement assets | - | - | 5 | 5 |
| Held for sale and other assets | - | - | 300 | 300 |
| Due from related body corporate entities ⁽¹⁾ | - | 2 | - | 2 |
| Total Asia Pacific | 210 | 5,520 | 7,221 | 12,951 |
| Europe, Middle East and Africa | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 2,805 | - | 2,805 |
| Trading assets | 11 | 102 | 2,210 | 2,323 |
| Derivative assets | - | 12,138 | 41,959 | 54,097 |
| Held for sale and other assets | - | - | 382 | 382 |
| Loan assets | - | 32 | 22 | 54 |
| Due from related body corporate entities ⁽¹⁾ | - | - | 7 | 7 |
| Total Europe, Middle East and Africa | 11 | 15,077 | 44,580 | 59,668 |
| Americas | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 1,364 | - | 1,364 |
| Trading assets | 299 | - | 370 | 669 |
| Derivative assets | 24 | 12,499 | 6,018 | 18,541 |
| Margin money and settlement assets | - | 121 | 397 | 518 |
| Held for sale and other assets | - | - | 938 | 938 |
| Loan assets | - | - | 56 | 56 |
| Due from related body corporate entities ⁽¹⁾ | - | 11 | - | 11 |
| Total Americas | 323 | 13,995 | 7,779 | 22,097 |
| Total gross credit risk | 551 | 38,628 | 62,425 | 101,604 |

(1) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company'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 |
|---|--------------------|----------------------------------|---------------|----------------|
| COMPANY 2022 | | | | |
| Australia | | | | |
| Trading assets | 2 | 369 | 871 | 1,242 |
| Derivative assets | 5 | 1,786 | 1,856 | 3,647 |
| Margin money and settlement assets | - | - | 1 | 1 |
| Other assets | - | - | 16 | 16 |
| Loan assets | - | 96 | 11 | 107 |
| Due from subsidiaries ⁽¹⁾ | - | 377 | 2 | 379 |
| Due from related body corporate entities ⁽¹⁾ | - | 1,721 | - | 1,721 |
| Total Australia | 7 | 4,349 | 2,757 | 7,113 |
| Asia Pacific | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 1 | - | 1 |
| Trading assets | 124 | 288 | 3,879 | 4,291 |
| Derivative assets | 86 | 5,199 | 2,976 | 8,261 |
| Financial investments | - | 9 | 5 | 14 |
| Margin money and settlement assets | - | - | 4 | 4 |
| Other assets | - | - | 300 | 300 |
| Due from subsidiaries ⁽¹⁾ | - | 84 | - | 84 |
| Due from related body corporate entities ⁽¹⁾ | - | 2 | - | 2 |
| Total Asia Pacific | 210 | 5,583 | 7,164 | 12,957 |
| Europe, Middle East and Africa | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 2,805 | - | 2,805 |
| Trading assets | 11 | 101 | 2,211 | 2,323 |
| Derivative assets | - | 12,015 | 34,187 | 46,202 |
| Other assets | - | - | 366 | 366 |
| Loan assets | - | 32 | 22 | 54 |
| Due from subsidiaries ⁽¹⁾ | - | 7,966 | 232 | 8,198 |
| Due from related body corporate entities ⁽¹⁾ | - | - | 7 | 7 |
| Total Europe, Middle East and Africa | 11 | 22,919 | 37,025 | 59,955 |
| Americas | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 1,364 | - | 1,364 |
| Trading assets | 299 | - | 100 | 399 |
| Derivative assets | 4 | 12,301 | 4,029 | 16,334 |
| Other assets | - | - | 168 | 168 |
| Loan assets | - | - | 52 | 52 |
| Due from subsidiaries ⁽¹⁾ | - | 3,544 | - | 3,544 |
| Due from related body corporate entities ⁽¹⁾ | - | 5 | - | 5 |
| Total Americas | 303 | 17,214 | 4,349 | 21,866 |
| Total gross credit risk | 531 | 50,065 | 51,295 | 101,891 |

(1) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

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

| | Governments \$m | Financial Institutions \$m | Other \$m | Total \$m |
|---|--------------------|----------------------------------|----------------|----------------|
| CONSOLIDATED 2021 | | | | |
| Australia | | | | |
| Cash and bank balances | - | 11,538 | - | 11,538 |
| Cash collateralised lending and reverse repurchase agreements | - | 2,372 | - | 2,372 |
| Held for sale and other assets | 5 | 93 | 218 | 316 |
| Margin money and settlement assets | 12 | 608 | 788 | 1,408 |
| Financial investments | 16 | 5,114 | 583 | 5,713 |
| Loan assets ⁽¹⁾ | 42 | 2,708 | 90,450 | 93,200 |
| Due from related body corporate entities ⁽²⁾ | - | 859 | 7 | 866 |
| Off balance sheet exposures | 11 | 549 | 4,328 | 4,888 |
| Total Australia | 86 | 23,841 | 96,374 | 120,301 |
| Asia Pacific | | | | |
| Cash and bank balances | - | 889 | - | 889 |
| Cash collateralised lending and reverse repurchase agreements | - | 1,771 | - | 1,771 |
| Held for sale and other assets | - | - | 148 | 148 |
| Margin money and settlement assets | 12 | 372 | 158 | 542 |
| Financial investments | - | 571 | - | 571 |
| Loan assets ⁽¹⁾ | - | - | 295 | 295 |
| Due from related body corporate entities ⁽²⁾ | - | 159 | 4 | 163 |
| Off balance sheet exposures | - | 5 | 5 | 10 |
| Total Asia Pacific | 12 | 3,767 | 610 | 4,389 |
| Europe, Middle East and Africa | | | | |
| Cash and bank balances | - | 879 | - | 879 |
| Cash collateralised lending and reverse repurchase agreements | - | 13,733 | - | 13,733 |
| Held for sale and other assets | 88 | 11 | 239 | 338 |
| Margin money and settlement assets | 12 | 957 | 2,483 | 3,452 |
| Financial investments | - | 892 | - | 892 |
| Loan assets ⁽¹⁾ | 4 | 578 | 1,779 | 2,361 |
| Due from related body corporate entities ⁽²⁾ | - | 143 | 17 | 160 |
| Off balance sheet exposures | 1 | 84 | 159 | 244 |
| Total Europe, Middle East and Africa | 105 | 17,277 | 4,677 | 22,059 |
| Americas | | | | |
| Cash and bank balances | - | 2,660 | - | 2,660 |
| Cash collateralised lending and reverse repurchase agreements | - | 8,770 | - | 8,770 |
| Held for sale and other assets | 5 | 10 | 343 | 358 |
| Margin money and settlement assets | 21 | 1,127 | 1,474 | 2,622 |
| Financial investments | - | 448 | 18 | 466 |
| Loan assets ⁽¹⁾ | 10 | 2,437 | 1,272 | 3,719 |
| Due from related body corporate entities ⁽²⁾ | - | 319 | - | 319 |
| Off balance sheet exposures | 3 | 175 | 1,018 | 1,196 |
| Total Americas | 39 | 15,946 | 4,125 | 20,110 |
| Total gross credit risk⁽³⁾ | 242 | 60,831 | 105,786 | 166,859 |

(1) Loan assets in the Australia region includes home loans of \$71,590 million, Asset financing of \$12,472 million and Corporate, commercial and other lending of \$9,138 million.

(2) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

(3) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statements of financial position.

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

The table below details the concentration of credit risk by significant geographical location and counterparty type of the Company's assets measured at amortised cost or FVOCI 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. Counterparty type is based on APRA classification.

| | Governments \$m | Financial Institutions \$m | Other \$m | Total \$m |
|--|--------------------|----------------------------------|---------------|----------------|
| COMPANY 2021 | | | | |
| Australia | | | | |
| Cash and bank balances | - | 11,118 | - | 11,118 |
| Cash collateralised lending and reverse repurchase agreement | - | 1,895 | - | 1,895 |
| Other assets | - | 78 | 198 | 276 |
| Margin money and settlement assets | 12 | 586 | 689 | 1,287 |
| Financial investments | 16 | 5,115 | 583 | 5,714 |
| Loan assets ⁽¹⁾ | - | 2,593 | 78,570 | 81,163 |
| Due from related body corporate entities ⁽²⁾ | - | 701 | 4 | 705 |
| Due from subsidiaries ⁽²⁾ | - | 12,829 | 27 | 12,856 |
| Off balance sheet exposures | 11 | 546 | 4,057 | 4,614 |
| Total Australia | 39 | 35,461 | 84,128 | 119,628 |
| Asia Pacific | | | | |
| Cash and bank balances | - | 587 | - | 587 |
| Cash collateralised lending and reverse repurchase agreement | - | 1,771 | - | 1,771 |
| Other assets | - | - | 146 | 146 |
| Margin money and settlement assets | 12 | 306 | 147 | 465 |
| Financial investments | - | 571 | - | 571 |
| Loan assets ⁽¹⁾ | - | - | 136 | 136 |
| Due from related body corporate entities ⁽²⁾ | - | 80 | 3 | 83 |
| Due from subsidiaries ⁽²⁾ | - | 299 | 117 | 416 |
| Off balance sheet exposures | - | - | 5 | 5 |
| Total Asia Pacific | 12 | 3,614 | 554 | 4,180 |
| Europe, Middle East and Africa | | | | |
| Cash and bank balances | - | 703 | - | 703 |
| Cash collateralised lending and reverse repurchase agreement | - | 12,923 | - | 12,923 |
| Other assets | - | 10 | 53 | 63 |
| Margin money and settlement assets | 12 | 943 | 2,256 | 3,211 |
| Financial investments | - | 892 | - | 892 |
| Loan assets ⁽¹⁾ | - | 460 | 995 | 1,455 |
| Due from related body corporate entities ⁽²⁾ | - | 130 | 1 | 131 |
| Due from subsidiaries ⁽²⁾ | - | 950 | 3,007 | 3,957 |
| Off balance sheet exposures | 1 | 83 | 149 | 233 |
| Total Europe, Middle East and Africa | 13 | 17,094 | 6,461 | 23,568 |
| Americas | | | | |
| Cash and bank balances | - | 1,604 | - | 1,604 |
| Cash collateralised lending and reverse repurchase agreement | - | 6,895 | - | 6,895 |
| Other assets | 5 | 10 | 112 | 127 |
| Margin money and settlement assets | - | 984 | 491 | 1,475 |
| Financial investments | - | 446 | - | 446 |
| Loan assets ⁽¹⁾ | 9 | 198 | 926 | 1,133 |
| Due from related body corporate entities ⁽²⁾ | - | 262 | - | 262 |
| Due from subsidiaries ⁽²⁾ | - | 739 | 7 | 746 |
| Off balance sheet exposures | 3 | 91 | 885 | 979 |
| Total Americas | 17 | 11,229 | 2,421 | 13,667 |
| Total gross credit risk⁽³⁾ | 81 | 67,398 | 93,564 | 161,043 |

(1) Loan assets in the Australia region includes home loans of \$69,125 million, Asset financing of \$4,327 million and Corporate, commercial and other lending of \$7,711 million.

(2) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

(3) The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statements of financial position.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

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

| | Governments \$m | Financial Institutions \$m | Other \$m | Total \$m |
|---|--------------------|----------------------------------|---------------|---------------|
| CONSOLIDATED 2021 | | | | |
| Australia | | | | |
| Trading assets | 3,842 | 1,239 | 5 | 5,086 |
| Derivative assets | 10 | 1,553 | 1,470 | 3,033 |
| Held for sale and other assets | - | - | 9 | 9 |
| Loan assets | - | 60 | 67 | 127 |
| Due from related body corporate entities ⁽¹⁾ | - | 336 | - | 336 |
| Total Australia | 3,852 | 3,188 | 1,551 | 8,591 |
| Asia Pacific | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 264 | - | 264 |
| Trading assets | 125 | 18 | 936 | 1,079 |
| Derivative assets | 41 | 582 | 692 | 1,315 |
| Financial investment | - | 105 | - | 105 |
| Money margin and settlement assets | - | - | 6 | 6 |
| Held for sale and other assets | - | - | 335 | 335 |
| Due from related body corporate entities ⁽¹⁾ | - | 4 | - | 4 |
| Total Asia Pacific | 166 | 973 | 1,969 | 3,108 |
| Europe, Middle East and Africa | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 2,203 | - | 2,203 |
| Trading assets | - | 15 | 957 | 972 |
| Derivative assets | 18 | 4,505 | 5,355 | 9,878 |
| Financial investment | - | - | 5 | 5 |
| Held for sale and other assets | - | - | 390 | 390 |
| Loan assets | 38 | - | 28 | 66 |
| Due from related body corporate entities ⁽¹⁾ | - | 6 | 36 | 42 |
| Total Europe, Middle East and Africa | 56 | 6,729 | 6,771 | 13,556 |
| Americas | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 5,438 | 4 | 5,442 |
| Trading assets | 402 | 1 | 324 | 727 |
| Derivative assets | 16 | 4,058 | 2,252 | 6,326 |
| Money margin and settlement assets | - | - | 326 | 326 |
| Held for sale and other assets | - | - | 532 | 532 |
| Due from related body corporate entities ⁽¹⁾ | - | 2 | - | 2 |
| Total Americas | 418 | 9,499 | 3,438 | 13,355 |
| Total gross credit risk | 4,492 | 20,389 | 13,729 | 38,610 |

(1) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are not subject to the impairment requirements of AASB 9 *Financial Instruments*. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the below table.

| | Governments \$m | Financial Institutions \$m | Other \$m | Total \$m |
|---|--------------------|----------------------------------|---------------|---------------|
| COMPANY 2021 | | | | |
| Australia | | | | |
| Trading assets | 3,841 | 1,239 | 5 | 5,085 |
| Derivative assets | 10 | 1,529 | 1,470 | 3,009 |
| Other assets | - | - | 9 | 9 |
| Loan assets | - | 6 | 69 | 75 |
| Due from subsidiaries ⁽¹⁾ | - | 1,219 | 6 | 1,225 |
| Due from related body corporate entities ⁽¹⁾ | - | 332 | - | 332 |
| Total Australia | 3,851 | 4,325 | 1,559 | 9,735 |
| Asia Pacific | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 264 | - | 264 |
| Trading assets | 125 | 18 | 936 | 1,079 |
| Derivative assets | 41 | 563 | 690 | 1,294 |
| Financial investments | - | 104 | - | 104 |
| Margin money and settlement assets | - | - | 4 | 4 |
| Other assets | - | - | 335 | 335 |
| Due from subsidiaries ⁽¹⁾ | - | 154 | - | 154 |
| Due from related body corporate entities ⁽¹⁾ | - | 4 | - | 4 |
| Total Asia Pacific | 166 | 1,107 | 1,965 | 3,238 |
| Europe, Middle East and Africa | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 2,203 | - | 2,203 |
| Trading assets | - | 15 | 957 | 972 |
| Derivative assets | 18 | 4,468 | 4,672 | 9,158 |
| Other assets | - | - | 388 | 388 |
| Loan assets | 38 | - | 25 | 63 |
| Due from subsidiaries ⁽¹⁾ | - | 808 | 165 | 973 |
| Due from related body corporate entities ⁽¹⁾ | - | 6 | 37 | 43 |
| Total Europe, Middle East and Africa | 56 | 7,500 | 6,244 | 13,800 |
| Americas | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 5,079 | 4 | 5,083 |
| Trading assets | 402 | 1 | 16 | 419 |
| Derivative assets | - | 4,031 | 1,836 | 5,867 |
| Other assets | - | - | 132 | 132 |
| Loan assets | - | 32 | - | 32 |
| Due from subsidiaries ⁽¹⁾ | - | 1,150 | - | 1,150 |
| Due from related body corporate entities ⁽¹⁾ | - | 2 | - | 2 |
| Total Americas | 402 | 10,295 | 1,988 | 12,685 |
| Total gross credit risk | 4,475 | 23,227 | 11,756 | 39,458 |

(1) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 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 34 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount except for certain usage-based guarantees in which case the maximum exposure is determined with respect to the fair value of the underlying exposure and is disclosed in Note 12 *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 includes:

- securities and commodities borrowed in return for cash, for which the fair value of the securities and commodities borrowed is equal to or less than the cash deposited with the counterparty
- reverse repurchase agreements (collateralised financing arrangements) for which the fair value of the securities and commodities received as collateral generally in excess of the principal amount
- securities received as collateral in return for the transfer of other securities
- securities borrowed on an unsecured basis in return for a fee.

The non-cash collateral received is not recognised by the Consolidated Entity in the Statements of financial position, as the risks and rewards of ownership remain with the counterparty. The Consolidated Entity is permitted to sell or repledge the securities and commodities received. In the absence of default by the counterparty, the Consolidated Entity has an obligation to return the non-cash collateral received to the counterparty.

For securities and commodities borrowed in return for cash and reverse repurchase arrangements, the fair value of non-cash collateral received by the Consolidated Entity is \$43,233 million (2021: \$35,045 million) and the Company is \$41,380 million (2021: \$31,131 million) of which the fair value of non cash collateral re-pledged is \$7,673 million (2021: \$8,796 million), and the Company is \$10,014 million (2021: 8,707 million).

For securities borrowed in return for other securities, the fair value of the securities received by the Consolidated Entity is \$8,877 million (2021: \$10,255 million) and by the Company is \$8,868 million (2021: \$10,255 million).

For securities borrowed on an unsecured basis, the fair value of the securities received by the Consolidated Entity is \$6,199 million (2021: \$3,904 million) and the Company is \$3,855 million (2021: \$3,904 million) of which the fair value of securities repledged by the Consolidated Entity is \$6,051 million (2021: \$3,444 million) and by the Company is \$3,710 million (2021: \$3,444 million).

The fair value attributed to non-cash collateral held is judgemental and measured with reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair value are estimated using pricing models or other recognised valuation techniques that maximise the use of quoted prices and observable market inputs.

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

Loan assets

Home loans

Macquarie purchases risk protection for its Home Loans portfolio. Prior to 2017 this was in the form of Lenders Mortgage Insurance from a well rated Australian LMI provider. Since then Macquarie has diversified its risk protection coverage to a global panel of reinsurers with diverse lines of business coverage and ratings ranging from AA to A- from external rating agencies. The length of risk protection cover is up to 10 years from the year of origination with the type of cover including excess of loss and quota share.

The following table provides information on the loan to collateral value ratio as determined using loan carrying values and the most recent valuation of the home loan collateral.

| | AUSTRALIA | | AUSTRALIA | |
|-------------------------|---------------|---------------|---------------|---------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| | CONSOLIDATED | | COMPANY | |
| <= 25% | 2,966 | 2,162 | 2,961 | 2,018 |
| >25% to 50% | 19,009 | 13,288 | 18,990 | 12,708 |
| >50% to 70% | 39,889 | 29,528 | 39,857 | 28,660 |
| >70% to 80% | 29,232 | 22,187 | 29,221 | 21,478 |
| >80% to 90% | 3,171 | 3,653 | 3,170 | 3,492 |
| >90% to 100% | 547 | 674 | 547 | 674 |
| Partly collateralised | 32 | 29 | 32 | 29 |
| Total home loans | 94,846 | 71,521 | 94,778 | 69,059 |

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.1 Credit risk continued

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 \$9,858 million (2021: \$13,241 million), the credit exposure after considering the depreciated value of collateral is \$4,217 million (2021: \$5,810 million). For the Company, of the asset finance portfolio of \$8,451 million (2021: \$4,337 million), the credit exposure after considering the depreciated value of collateral is \$3,552 million (2021: \$1,712 million).

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 \$18,300 million (2021: \$14,230 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$2,116 million (2021: \$1,945 million). For the Company, of the term lending of \$17,950 million (2021: \$10,280 million), the credit exposure after the estimated value of collateral and credit enhancements is \$1,952 million (2021: \$1,649 million).

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 and Company's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

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 36 *Offsetting of financial assets and financial liabilities* for impact of master netting arrangements and margins and 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, 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, guarantees and other forms of credit enhancements or collateral in order to minimise the exposure to this credit risk.

Settlement assets

Security and commodity settlements of \$1,467 million (2021: \$1,828 million) and \$4,294 million (2021: \$1,922 million) in the Consolidated Entity and \$1,267 million (2021: \$1,457 million) and \$2,926 million (2021: \$933 million) in the Company, presented

under Margin money and settlement assets represent amounts owed by the 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 and the Company 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.

Due from subsidiaries and guarantees provided

The Company's balances with its subsidiaries and guarantees provided are based on standard terms and are fully or partially collateralised. The Company's exposures with certain Non-ELE subsidiaries included in amounts due from subsidiaries are secured through cash collateralised guarantees of \$4,953 million (2021: \$3,474 million) provided by MFHPL and \$2,664 million (2021: \$Nil) provided by MIFL. Refer Note 27 *Related party information* and Note 36 *Offsetting of financial assets and financial liabilities* for details.

Due from related body corporate entities and guarantees provided

The Consolidated Entity's and Company's exposures with its related body corporate entities and guarantees provided are based on standard terms and are fully or partially collateralised. Refer Note 27 *Related party information* and Note 36 *Offsetting of financial assets and financial liabilities* for details.

Credit commitments

Undrawn facilities and lending commitments of \$4,098 million (2021: \$3,183 million) in the Consolidated Entity and \$4,052 million (2021: \$3,110 million) in the Company are secured through collateral and credit enhancement out of the total undrawn facilities and lending commitments of \$5,810 million (2021: \$5,519 million) in the Consolidated Entity and \$5,647 million (2021: \$5,047 million) in the Company.

Additional collateral

Apart from the collateral detail disclosed above, the Consolidated Entity and the Company 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 Statements of financial position.

Note 33

Financial risk management continued

Note 33.2 Liquidity risk

Governance and oversight

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 reference to a separate document providing the specific information required for those branches or subsidiaries.

Funding strategy

Macquarie Bank prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year.

The *Funding Strategy* aims to maintain Macquarie Bank'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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.2 Liquidity risk continued

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, 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 – so called 'Alternative Liquid Assets'. 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 separate funding tasks and liquidity requirements 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.

Contractual undiscounted cash flows

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

Note 33

Financial risk management continued

Note 33.2 Liquidity risk continued

| | Statements of financial position carrying value \$m | On demand \$m | 0 to 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | More than 5 years \$m | Total \$m |
|--|--|---------------------|-------------------------|--------------------------|------------------------|-----------------------------|----------------|
| CONSOLIDATED 2022 | | | | | | | |
| Cash collateralised borrowing and repurchase agreements ⁽¹⁾ | 16,947 | 55 | 5,479 | 142 | 11,297 | - | 16,973 |
| Trading liabilities ⁽²⁾ | 5,206 | - | 5,206 | - | - | - | 5,206 |
| Margin money and settlement liabilities | 21,577 | 16,172 | 4,873 | 532 | - | - | 21,577 |
| Derivative liabilities (trading) ⁽²⁾ | 83,584 | - | 83,584 | - | - | - | 83,584 |
| Derivative liabilities (hedge accounting relationships) ⁽³⁾ | 607 | - | - | - | - | - | - |
| Contractual amount payable | - | - | 482 | 194 | 1,459 | 683 | 2,818 |
| Contractual amount receivable | - | - | (460) | (167) | (970) | (541) | (2,138) |
| Deposits | 101,614 | 93,077 | 5,210 | 3,089 | 305 | 15 | 101,696 |
| Other liabilities ⁽⁴⁾ | 2,184 | 113 | 1,396 | 377 | 295 | 23 | 2,204 |
| Borrowings | 5,713 | 446 | 1,624 | 72 | 3,686 | 24 | 5,852 |
| Issued debt securities ⁽⁵⁾ | 72,107 | - | 18,771 | 25,066 | 16,352 | 16,048 | 76,237 |
| Due to other related body corporate entities | 11,548 | 3,608 | 2,766 | 207 | 4,976 | - | 11,557 |
| Loan capital ⁽⁶⁾ | 6,896 | - | 64 | 218 | 2,031 | 6,395 | 8,708 |
| Total | 327,983 | 113,471 | 128,995 | 29,730 | 39,431 | 22,647 | 334,274 |
| Contingent liabilities | - | - | 2,880 | - | - | - | 2,880 |
| Commitments | - | 376 | 1,322 | 693 | 2,939 | 1,566 | 6,896 |
| Total undiscounted contingent liabilities and commitments⁽⁷⁾ | - | 376 | 4,202 | 693 | 2,939 | 1,566 | 9,776 |

(1) Includes the Term Funding Facility (TFF) provided by the RBA.

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

(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(4) Excludes non-contractual accruals and provisions.

(5) Includes \$13,380 million payables to SE note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in the loan assets.

(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using coupon dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 23 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.2 Liquidity risk continued

| | Statements of financial position carrying value \$m | On demand \$m | 0 to 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | More than 5 years \$m | Total \$m |
|--|---|---------------------|-------------------------|--------------------------|------------------------|-----------------------------|----------------|
| CONSOLIDATED 2021 | | | | | | | |
| Cash collateralised borrowing and repurchase agreements ⁽¹⁾ | 4,542 | 487 | 2,183 | 147 | 1,747 | - | 4,564 |
| Trading liabilities ⁽²⁾ | 6,134 | - | 6,134 | - | - | - | 6,134 |
| Margin money and settlement liabilities | 16,251 | 12,998 | 2,657 | 596 | - | - | 16,251 |
| Derivative liabilities (trading) ⁽²⁾ | 16,801 | - | 16,801 | - | - | - | 16,801 |
| Derivative liabilities (hedge accounting relationships) ⁽³⁾ | 674 | - | - | - | - | - | - |
| Contractual amount payable | - | - | 760 | 2,301 | 1,699 | 192 | 4,952 |
| Contractual amount receivable | - | - | (711) | (2,060) | (1,456) | (29) | (4,256) |
| Deposits | 84,140 | 74,901 | 6,064 | 2,995 | 188 | 7 | 84,155 |
| Other liabilities ⁽⁴⁾ | 1,668 | 139 | 779 | 409 | 359 | 46 | 1,732 |
| Borrowings | 2,473 | 410 | 883 | 383 | 819 | - | 2,495 |
| Issued debt securities ⁽⁵⁾ | 44,668 | 121 | 9,265 | 9,606 | 17,569 | 11,104 | 47,665 |
| Due to other related body corporate entities | 15,878 | 3,608 | 8,665 | 667 | 2,938 | 1 | 15,879 |
| Loan capital ⁽⁶⁾ | 6,804 | - | 1,176 | 179 | 3,260 | 3,711 | 8,326 |
| Total | 200,033 | 92,664 | 54,656 | 15,223 | 27,123 | 15,032 | 204,698 |
| Contingent liabilities | - | - | 2,444 | - | - | - | 2,444 |
| Commitments | - | - | 2,172 | 577 | 2,747 | 1,123 | 6,619 |
| Total undiscounted contingent liabilities and commitments⁽⁷⁾ | - | - | 4,616 | 577 | 2,747 | 1,123 | 9,063 |

(1) Includes the TFF provided by the RBA.

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

(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(4) Excludes non-contractual accruals and provisions.

(5) Includes \$9,994 million payables to SE holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in the loan assets.

(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using coupon dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 23 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.

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

Note 33

Financial risk management continued

Note 33.2 Liquidity risk continued

| | Statements of financial position carrying value \$m | On demand \$m | 0 to 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | More than 5 years \$m | Total \$m |
|--|--|---------------------|-------------------------|--------------------------|------------------------|-----------------------------|----------------|
| COMPANY 2022 | | | | | | | |
| Cash collateralised borrowing and repurchase agreements ⁽¹⁾ | 16,947 | 55 | 5,479 | 142 | 11,297 | - | 16,973 |
| Trading liabilities ⁽²⁾ | 5,210 | - | 5,210 | - | - | - | 5,210 |
| Margin money and settlement liabilities | 15,593 | 11,575 | 3,637 | 381 | - | - | 15,593 |
| Derivative liabilities (trading) ⁽²⁾ | 70,988 | - | 70,988 | - | - | - | 70,988 |
| Derivative liabilities (hedge accounting relationships) ⁽³⁾ | 533 | - | - | - | - | - | - |
| Contractual amount payable | - | - | 372 | 163 | 1,292 | 676 | 2,503 |
| Contractual amount receivable | - | - | (363) | (146) | (852) | (535) | (1,896) |
| Deposits | 101,417 | 93,034 | 5,109 | 3,086 | 255 | - | 101,484 |
| Other liabilities ⁽⁴⁾ | 1,211 | 91 | 982 | 87 | 52 | - | 1,212 |
| Borrowings | 2,787 | 446 | 1,605 | 8 | 743 | - | 2,802 |
| Issued debt securities | 58,722 | - | 18,622 | 24,656 | 15,490 | 1,212 | 59,980 |
| Due to subsidiaries | 38,766 | 9,939 | 16,655 | 8 | 48 | 12,118 | 38,768 |
| Due to other related body corporate entities | 10,203 | 3,610 | 1,621 | 6 | 4,976 | - | 10,213 |
| Loan capital ⁽⁵⁾ | 6,896 | - | 64 | 218 | 2,031 | 6,395 | 8,708 |
| Total | 329,273 | 118,750 | 129,981 | 28,609 | 35,332 | 19,866 | 332,538 |
| Contingent liabilities | - | - | 10,285 | - | - | - | 10,285 |
| Commitments | - | 350 | 1,296 | 605 | 2,925 | 1,551 | 6,727 |
| Total undiscounted contingent liabilities and commitments⁽⁶⁾ | - | 350 | 11,581 | 605 | 2,925 | 1,551 | 17,012 |

(1) Includes the TFF provided by the RBA.

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

(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for disclosure requirements.

(4) Excludes non-contractual accruals and provisions.

(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using coupon dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 23 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.2 Liquidity risk continued

| | Statements of financial position carrying value \$m | On demand \$m | 0 to 3 months \$m | 3 to 12 months \$m | 1 to 5 years \$m | More than 5 years \$m | Total \$m |
|--|---|---------------------|-------------------------|--------------------------|------------------------|-----------------------------|----------------|
| COMPANY 2021 | | | | | | | |
| Cash collateralised borrowing and reverse repurchase agreements ⁽¹⁾ | 4,542 | 487 | 2,183 | 147 | 1,747 | - | 4,564 |
| Trading liabilities ⁽²⁾ | 6,137 | - | 6,137 | - | - | - | 6,137 |
| Margin money and settlement liabilities | 13,632 | 10,626 | 2,534 | 472 | - | - | 13,632 |
| Derivative liabilities (trading) ⁽²⁾ | 15,333 | - | 15,333 | - | - | - | 15,333 |
| Derivative liabilities (hedge accounting relationships) ⁽³⁾ | 399 | - | - | - | - | - | - |
| Contractual amount payable | - | - | 650 | 1,839 | 1,341 | 190 | 4,020 |
| Contractual amount receivable | - | - | (630) | (1,733) | (1,208) | (27) | (3,598) |
| Deposits | 83,994 | 74,874 | 5,953 | 2,995 | 176 | 7 | 84,005 |
| Other liabilities ⁽⁴⁾ | 821 | 60 | 565 | 195 | 40 | - | 860 |
| Borrowings | 1,967 | 410 | 815 | 308 | 447 | - | 1,980 |
| Issued debt securities | 34,764 | 121 | 9,061 | 8,970 | 16,093 | 1,206 | 35,451 |
| Due to subsidiaries | 16,524 | 2,978 | 7,264 | - | 314 | 5,970 | 16,526 |
| Due to other related body corporate entities | 15,678 | 3,657 | 8,417 | 667 | 2,938 | - | 15,679 |
| Loan capital ⁽⁵⁾ | 6,804 | - | 1,176 | 179 | 3,260 | 3,711 | 8,326 |
| Total | 200,595 | 93,213 | 59,458 | 14,039 | 25,148 | 11,057 | 202,915 |
| Contingent liabilities | - | - | 3,639 | - | - | - | 3,639 |
| Commitments | - | - | 1,951 | 503 | 2,551 | 1,123 | 6,128 |
| Total undiscounted contingent liabilities and commitments⁽⁶⁾ | - | - | 5,590 | 503 | 2,551 | 1,123 | 9,767 |

(1) Includes the TFF provided by the RBA.

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

(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for disclosure requirements.

(4) Excludes non-contractual accruals and provisions.

(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using coupon dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 23 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.

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

Note 33

Financial risk management continued

Note 33.3 Market risk

Traded market risk

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

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

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

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

RMG sets three complementary limit structures:

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.3 Market risk continued

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

The table below shows the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity and Company 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.

| | 2022 | | | 2021 | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Average \$m | Maximum \$m | Minimum \$m | Average \$m | Maximum \$m | Minimum \$m |
| CONSOLIDATED | | | | | | |
| Equities | 3.28 | 5.44 | 1.52 | 3.93 | 5.93 | 2.34 |
| Interest rates | 2.93 | 5.96 | 1.71 | 3.58 | 5.44 | 2.46 |
| Foreign exchange and bullion | 1.73 | 3.39 | 0.83 | 2.21 | 3.88 | 1.26 |
| Commodities ⁽¹⁾ | 29.90 | 52.27 | 14.97 | 16.09 | 40.96 | 11.33 |
| Aggregate | 30.19 | 53.23 | 14.61 | 17.62 | 42.05 | 12.77 |

| | 2022 | | | 2021 | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Average \$m | Maximum \$m | Minimum \$m | Average \$m | Maximum \$m | Minimum \$m |
| COMPANY | | | | | | |
| Equities | 3.28 | 5.42 | 1.55 | 3.78 | 5.75 | 2.05 |
| Interest rates | 2.69 | 5.35 | 1.61 | 3.55 | 5.39 | 2.45 |
| Foreign exchange and bullion | 3.65 | 8.48 | 1.09 | 4.93 | 11.67 | 1.87 |
| Commodities ⁽¹⁾ | 20.85 | 37.08 | 10.41 | 12.12 | 18.37 | 8.25 |
| Aggregate | 21.92 | 37.12 | 10.85 | 14.54 | 22.46 | 10.45 |

(1) Includes commodity contracts.

Note 33

Financial risk management continued

Note 33.3 Market risk continued

Value-at-Risk

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

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

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

Non-traded market risk

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

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

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

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

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

Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to difference in accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 41(x) *Derivative instruments and hedging activities* and Note 32 *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 ARR. 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 and interim financial statements for previous periods, the project achieved several important milestones for the period ended 31 March 2022 including that the Consolidated Entity:

- has successfully transitioned all contracts referencing LIBORs 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 exposures 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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 33

Financial risk management continued

Note 33.3 Market risk continued

Macquarie has identified the following four inherent risks arising from transition of legacy USD LIBOR contracts:

- **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.

Exposure yet to be transitioned to ARRs: Notional value information relating to the Consolidated Entity's and the Company's financial instruments which are yet to transition to ARRs as at the reporting date includes:

- **derivatives** exposure in USD LIBOR (Consolidated Entity: \$80,006 million; Company: \$80,006 million) and other currencies (Consolidated Entity: \$279 million; Company: \$279 million). The exposure at 31 March 2021 was in USD LIBOR (Consolidated Entity: \$73,472 million; Company: \$73,874 million), GBP LIBOR (Consolidated Entity: \$27,142 million; Company: \$28,343 million), JPY LIBOR (Consolidated Entity: \$1,042 million; Company: \$1,042 million) and other currencies (Consolidated Entity: \$188 million; Company: \$188 million)
- **non-derivative financial assets** exposure in USD LIBOR (Consolidated Entity: \$2,913 million; Company: \$2,913 million) and other currencies (Consolidated Entity: \$21 million; Company: \$21 million). The exposure at 31 March 2021 was in USD LIBOR (Consolidated Entity: \$2,421 million; Company: \$251 million) and other currencies (Consolidated Entity: \$26 million; Company: \$26 million)
- **non-derivative financial liabilities** exposure in USD LIBOR (Consolidated Entity: \$553 million; Company: \$486 million). The exposure at 31 March 2021 was in USD LIBOR (Consolidated Entity: \$573 million; Company: \$573 million).

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

- the benchmark will be replaced, and the replacement date is known. Only exposures with contractual maturities extending beyond the replacement date have been included
- the gross notional values of both on-balance sheet and off-balance sheet exposures have been included
- for contracts that reference more than one benchmark, such as a cross currency swap, the exposure includes both benchmarks to reflect the absolute exposure to different reference rates
- exposures to benchmarks which are not subject to mandatory replacement such as BBSW (Australia), EURIBOR (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 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
- derivative contracts of \$8,479 million designated in hedge accounting relationships have synthetically transitioned from USD LIBOR to SOFR and have been excluded.

Note 33

Financial risk management continued

Note 33.3 Market risk continued

Foreign currency risk

The Consolidated Entity and the Company are active in various currencies globally. The net investment in foreign operations generates capital requirements in foreign currencies and results in sensitivity of the capital ratio to movements in the Australian dollar rate against various foreign currencies. The Consolidated Entity and the Company hedge 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 41(x) *Derivative instruments and hedging activities* and Note 32 *Hedge accounting* for details regarding the application of hedge accounting to the Consolidated Entity and the Company's net investment in foreign operations.

The sensitivity of the Consolidated Entity's net investment in foreign operation to the most material currencies after considering related hedges is presented in the table below. The sensitivity of the Company's net investment in foreign operations is not material after considering related hedges.

| | 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 |
| CONSOLIDATED | | | | |
| United States dollar | +10 | (405) | +10 | (276) |
| Pound sterling | +10 | (46) | +10 | (48) |
| Canadian dollar | +10 | (10) | +10 | (13) |
| Total | | (461) | | (337) |
| United States dollar | -10 | 495 | -10 | 338 |
| Pound sterling | -10 | 56 | -10 | 58 |
| Canadian dollar | -10 | 13 | -10 | 16 |
| Total | | 564 | | 412 |
| COMPANY | | | | |
| United States dollar | +10 | (405) | +10 | - |
| Total | | (405) | | - |
| United States dollar | -10 | 495 | -10 | - |
| Total | | 495 | | - |

Equity price risk

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 34

Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of assets and liabilities of the Consolidated Entity. The descriptions of measurement categories are included in Note 41(vii) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 35 *Fair value of assets and liabilities*.

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | Non-financial instruments \$m | Statements of financial position total \$m | FAIR VALUE OF ITEMS CARRIED AT | |
|---|----------------------------------|---------------|--------------|---------------|-----------------------|----------------------------------|---|--------------------------------|-----------------------|
| | FAIR VALUE | | | | Amortised cost \$m | | | Fair value \$m | Amortised cost \$m |
| | HFT \$m | DFVTPL \$m | FVTPL \$m | FVOCI \$m | | | | | |
| Assets | CONSOLIDATED 2022 | | | | | | | | |
| Cash and bank balances | - | - | - | - | 48,972 | - | 48,972 | - | 48,972 |
| Cash collateralised lending and reverse repurchase agreements | - | - | 4,170 | 27,223 | 11,155 | - | 42,548 | 31,393 | 11,155 |
| Trading assets ⁽¹⁾ | 8,601 | - | - | - | - | 3,118 | 11,719 | 11,719 | - |
| Margin money and settlement assets | - | - | 524 | - | 18,886 | - | 19,410 | 524 | 18,886 |
| Derivative assets ⁽²⁾ | 84,171 | - | 445 | - | - | - | 84,616 | 84,616 | - |
| Financial investments: | | | | | | | | | |
| Equity | - | - | 255 | - | - | - | 255 | 255 | - |
| Debt | - | - | 14 | 6,238 | 4 | - | 6,256 | 6,252 | 4 |
| Held for sale and other assets ⁽¹⁾ | - | 1,655 | 21 | - | 2,158 | 1,155 | 4,989 | 1,676 | 2,158 |
| Loan assets ⁽³⁾ | - | 78 | 184 | - | 122,742 | - | 123,004 | 262 | 122,980 |
| Due from related body corporate entities ⁽⁴⁾ | 1,741 | - | - | - | 1,399 | 285 | 3,425 | 1,741 | 1,399 |
| Property, plant and equipment and right-of-use ⁽³⁾ | - | - | - | - | - | 3,536 | 3,536 | - | - |
| Deferred tax assets | - | - | - | - | - | 897 | 897 | - | - |
| Total assets | 94,513 | 1,733 | 5,613 | 33,461 | 205,316 | 8,991 | 349,627 | 138,438 | 205,554 |
| Liabilities | | | | | | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 241 | - | - | 16,706 | - | 16,947 | 241 | 16,706 |
| Trading liabilities | 5,206 | - | - | - | - | - | 5,206 | 5,206 | - |
| Margin money and settlement liabilities | - | - | - | - | 21,577 | - | 21,577 | - | 21,577 |
| Derivative liabilities ⁽²⁾ | 83,584 | - | 607 | - | - | - | 84,191 | 84,191 | - |
| Deposits | - | - | - | - | 101,614 | - | 101,614 | - | 101,629 |
| Other liabilities ⁽⁵⁾ | - | 1,128 | - | - | 1,056 | 3,559 | 5,743 | 1,128 | 699 |
| Borrowings | - | - | - | - | 5,713 | - | 5,713 | - | 5,724 |
| Due to related body corporate entities ⁽⁴⁾ | 513 | - | - | - | 11,035 | 89 | 11,637 | 513 | 11,035 |
| Issued debt securities ⁽³⁾ | - | 1,585 | - | - | 70,522 | - | 72,107 | 1,585 | 70,494 |
| Deferred tax liabilities | - | - | - | - | - | 28 | 28 | - | - |
| Loan capital ⁽³⁾ | - | - | - | - | 6,896 | - | 6,896 | - | 7,027 |
| Total liabilities | 89,303 | 2,954 | 607 | - | 235,119 | 3,676 | 331,659 | 92,864 | 234,891 |

(1) Non-financial assets under 'Trading assets' represent commodities carried at fair value less costs to sell. Non-financial assets under 'Held for sale and other assets' primarily represents prepayments and tax receivables.

(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(3) Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(4) 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 liabilities.

(5) Non-financial liabilities primarily represent accrued charges, employee-related provisions and tax payables. The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Note 34

Measurement categories of financial instruments continued

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | Non-financial instruments \$m | Statements of financial position total \$m | FAIR VALUE OF ITEMS CARRIED AT | |
|---|----------------------------------|---------------|--------------|---------------|-----------------------|----------------------------------|---|--------------------------------|-----------------------|
| | FAIR VALUE | | | | Amortised cost \$m | | | Fair value \$m | Amortised cost \$m |
| | HFT \$m | DFVTPL \$m | FVTPL \$m | FVOCI \$m | | | | | |
| Assets | CONSOLIDATED 2021 | | | | | | | | |
| Cash and bank balances | - | - | - | - | 15,966 | - | 15,966 | - | 15,966 |
| Cash collateralised lending and reverse repurchase agreements | - | - | 7,909 | 17,362 | 9,284 | - | 34,555 | 25,271 | 9,284 |
| Trading assets ⁽¹⁾ | 14,521 | - | - | - | - | 6,691 | 21,212 | 21,212 | - |
| Margin money and settlement assets | - | - | 332 | - | 7,970 | - | 8,302 | 332 | 7,970 |
| Derivative assets ⁽²⁾ | 19,973 | - | 579 | - | - | - | 20,552 | 20,552 | - |
| Financial investments: | | | | | | | | | |
| Equity | - | - | 206 | - | - | - | 206 | 206 | - |
| Debt | - | - | 110 | 7,665 | 18 | - | 7,793 | 7,775 | 18 |
| Held for sale other assets ⁽¹⁾ | - | 1,266 | 12 | - | 1,049 | 1,166 | 3,493 | 1,278 | 1,049 |
| Loan assets ⁽³⁾ | - | 64 | 129 | - | 98,799 | - | 98,992 | 193 | 99,177 |
| Due from other related body corporate entities ⁽⁴⁾ | 384 | - | - | - | 1,507 | 263 | 2,154 | 384 | 1,507 |
| Property, plant and equipment and right-of-use assets | - | - | - | - | - | 2,797 | 2,797 | - | - |
| Deferred tax assets | - | - | - | - | - | 826 | 826 | - | - |
| Total assets | 34,878 | 1,330 | 9,277 | 25,027 | 134,593 | 11,743 | 216,848 | 77,203 | 134,971 |
| Liabilities | | | | | | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 345 | - | - | 4,197 | - | 4,542 | 345 | 4,197 |
| Trading liabilities | 6,134 | - | - | - | - | - | 6,134 | 6,134 | - |
| Margin money and settlement liabilities | - | - | - | - | 16,251 | - | 16,251 | - | 16,251 |
| Derivative liabilities ⁽²⁾ | 16,801 | - | 674 | - | - | - | 17,475 | 17,475 | - |
| Deposits | - | - | - | - | 84,140 | - | 84,140 | - | 84,157 |
| Other liabilities ⁽⁵⁾ | - | 605 | - | - | 1,063 | 2,682 | 4,350 | 605 | 584 |
| Due to related body corporate entities ⁽⁵⁾ | 902 | - | - | - | 14,976 | 23 | 15,901 | 902 | 14,976 |
| Borrowings | - | - | - | - | 2,473 | - | 2,473 | - | 2,484 |
| Issued debt securities ⁽³⁾ | - | 2,113 | - | - | 42,555 | - | 44,668 | 2,113 | 42,893 |
| Deferred tax liabilities | - | - | - | - | - | 36 | 36 | - | - |
| Loan capital ⁽³⁾ | - | - | - | - | 6,804 | - | 6,804 | - | 7,072 |
| Total liabilities | 23,837 | 3,063 | 674 | - | 172,459 | 2,741 | 202,774 | 27,574 | 172,614 |

(1) Non-financial assets under 'Trading assets' represent commodities carried at fair value less costs to sell. Non-financial assets under 'Held for sale and other assets' primarily represents prepayments and tax receivables.

(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(3) Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(4) 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 liabilities.

(5) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables. The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 34

Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories of assets and liabilities of the Company. The descriptions of measurement categories are included in Note 41(vii) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 35 *Fair value of assets and liabilities*.

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | Non-financial instruments \$m | Statements of financial position total \$m | FAIR VALUE OF ITEMS CARRIED AT | |
|--|----------------------------------|--------------|--------------|---------------|--------------------|-------------------------------|--|--------------------------------|--------------------|
| | FAIR VALUE | | | | Amortised cost \$m | | | Fair value \$m | Amortised cost \$m |
| | HFT \$m | DFVTPL \$m | FVTPL \$m | FVOCI \$m | | | | | |
| Assets | COMPANY 2022 | | | | | | | | |
| Cash and bank balances | - | - | - | - | 43,594 | - | 43,594 | - | 43,594 |
| Cash collateralised lending and reverse repurchase agreements | - | - | 4,170 | 23,588 | 10,447 | - | 38,205 | 27,758 | 10,447 |
| Trading assets ⁽¹⁾ | 8,255 | - | - | - | - | 1,876 | 10,131 | 10,131 | - |
| Margin money and settlement assets | - | - | 5 | - | 16,110 | - | 16,115 | 5 | 16,110 |
| Derivative assets ⁽²⁾ | 74,028 | - | 416 | - | - | - | 74,444 | 74,444 | - |
| Financial investments: | | | | | | | | | |
| Equity | - | - | 221 | - | - | - | 221 | 221 | - |
| Debt | - | - | 14 | 6,238 | 4 | - | 6,256 | 6,252 | 4 |
| Held for sale and other assets ⁽¹⁾ | - | 850 | - | - | 1,709 | 379 | 2,938 | 850 | 1,709 |
| Loan assets ^{(3),(4)} | - | 78 | 135 | 3,266 | 117,700 | - | 121,179 | 3,479 | 117,658 |
| Due from related body corporate entities ⁽⁵⁾ | 1,735 | - | - | - | 1,122 | 97 | 2,954 | 1,735 | 1,122 |
| Due from subsidiaries ⁽⁵⁾ | 11,973 | - | 232 | 140 | 11,506 | 5 | 23,856 | 12,345 | 11,506 |
| Property, plant and equipment and right-of-use assets ⁽³⁾ | - | - | - | - | - | 2,801 | 2,801 | - | - |
| Investments in subsidiaries | - | - | - | - | - | 6,287 | 6,287 | - | - |
| Deferred tax assets | - | - | - | - | - | 402 | 402 | - | - |
| Total assets | 95,991 | 928 | 5,193 | 33,232 | 202,192 | 11,847 | 349,383 | 137,220 | 202,150 |
| Liabilities | | | | | | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 241 | - | - | 16,706 | - | 16,947 | 241 | 16,706 |
| Trading liabilities | 5,210 | - | - | - | - | - | 5,210 | 5,210 | - |
| Margin money and settlement liabilities | - | - | - | - | 15,593 | - | 15,593 | - | 15,593 |
| Derivative liabilities ⁽²⁾ | 70,988 | - | 533 | - | - | - | 71,521 | 71,521 | - |
| Deposits | - | - | - | - | 101,417 | - | 101,417 | - | 101,433 |
| Other liabilities ⁽⁶⁾ | - | 711 | - | - | 500 | 1,811 | 3,022 | 711 | 500 |
| Borrowings | - | - | - | - | 2,787 | - | 2,787 | - | 2,792 |
| Due to related body corporate entities ⁽⁷⁾ | 512 | - | - | - | 9,691 | - | 10,203 | 512 | 9,691 |
| Due to subsidiaries ⁽⁷⁾ | 13,870 | - | 40 | - | 24,856 | 6 | 38,772 | 13,910 | 24,856 |
| Issued debt securities ⁽³⁾ | - | 1,585 | - | - | 57,137 | - | 58,722 | 1,585 | 57,160 |
| Deferred tax liabilities | - | - | - | - | - | 29 | 29 | - | - |
| Loan capital ⁽³⁾ | - | - | - | - | 6,896 | - | 6,896 | - | 7,027 |
| Total liabilities | 90,580 | 2,537 | 573 | - | 235,583 | 1,846 | 331,119 | 93,690 | 235,758 |

(1) Non-financial assets under 'Trading assets' primarily represent commodities carried at fair value less costs to sell. Non-financial assets under 'Held for sale and other assets' primarily represents prepayments and tax receivables.

(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(3) Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risk.

(4) Loan assets measured at FVOCI represents certain loan portfolio assessed to be managed under a held to collect and sell business model in the Company. In the Consolidated Entity, the portfolio is managed under a held to collect business model and hence measured at amortised cost.

(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.

(6) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.

(7) Due to related body corporate entities and subsidiaries includes derivatives and trading positions classified as HFT and continuing involvement in certain securitised SEs at FVTPL. All other payables to related body corporate entities are carried at amortised cost.

Note 34

Measurement categories of financial instruments continued

| | FINANCIAL INSTRUMENTS CARRIED AT | | | | | Non-financial instruments \$m | Statements of financial position total \$m | FAIR VALUE OF ITEMS CARRIED AT | |
|---|----------------------------------|---------------|--------------|--------------|-----------------------|----------------------------------|---|--------------------------------|-----------------------|
| | FAIR VALUE | | | | Amortised cost \$m | | | Fair value \$m | Amortised cost \$m |
| | HFT \$m | DFVTPL \$m | FVTPL \$m | FVOCI \$m | | | | | |
| Assets | COMPANY 2021 | | | | | | | | |
| Cash and bank balances | - | - | - | - | 14,012 | - | 14,012 | - | 14,012 |
| Cash collateralised lending and reverse repurchase agreements | - | - | 7,550 | 16,896 | 6,588 | - | 31,034 | 24,446 | 6,588 |
| Trading assets ⁽¹⁾ | 14,148 | - | - | - | - | 4,980 | 19,128 | 19,128 | - |
| Margin money and settlement assets | - | - | 4 | - | 6,413 | - | 6,417 | 4 | 6,413 |
| Derivative assets ⁽²⁾ | 18,755 | - | 573 | - | - | - | 19,328 | 19,328 | - |
| Financial investments: | | | | | | | | | |
| Equity | - | - | 147 | - | - | - | 147 | 147 | - |
| Debt | - | - | 104 | 7,665 | - | - | 7,769 | 7,769 | - |
| Held for sale and other assets ⁽¹⁾ | - | 864 | - | - | 535 | 318 | 1,717 | 864 | 535 |
| Loan assets ^{(3),(4)} | - | 64 | 106 | 2,698 | 80,808 | - | 83,676 | 2,868 | 80,926 |
| Due from other related body corporate entities ⁽⁵⁾ | 381 | - | - | - | 1,181 | 83 | 1,645 | 381 | 1,181 |
| Due from subsidiaries ⁽⁵⁾ | 2,478 | - | 1,024 | - | 17,960 | 38 | 21,500 | 3,502 | 17,960 |
| Property, plant and equipment and right-of-use assets | - | - | - | - | - | 672 | 672 | - | - |
| Investments in subsidiaries | - | - | - | - | - | 6,618 | 6,618 | - | - |
| Deferred tax assets | - | - | - | - | - | 493 | 493 | - | - |
| Total assets | 35,762 | 928 | 9,508 | 27,259 | 127,497 | 13,202 | 214,156 | 78,437 | 127,615 |
| Liabilities | | | | | | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 345 | - | - | 4,197 | - | 4,542 | 345 | 4,197 |
| Trading liabilities | 6,137 | - | - | - | - | - | 6,137 | 6,137 | - |
| Margin money and settlement liabilities | - | - | - | - | 13,632 | - | 13,632 | - | 13,632 |
| Derivative liabilities ⁽¹⁾ | 15,333 | - | 399 | - | - | - | 15,732 | 15,732 | - |
| Deposits | - | - | - | - | 83,994 | - | 83,994 | - | 84,011 |
| Other liabilities ⁽⁶⁾ | - | 482 | - | - | 339 | 1,233 | 2,054 | 482 | 339 |
| Borrowings | - | - | - | - | 1,967 | - | 1,967 | - | 1,978 |
| Due to other related body corporate entities ⁽⁷⁾ | 899 | - | - | - | 14,779 | 6 | 15,684 | 899 | 14,779 |
| Due to subsidiaries ⁽⁷⁾ | 2,830 | - | 204 | - | 13,490 | 8 | 16,532 | 3,034 | 13,490 |
| Issued debt securities ⁽³⁾ | - | 2,202 | - | - | 32,562 | - | 34,764 | 2,202 | 32,836 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - |
| Loan capital ⁽³⁾ | - | - | - | - | 6,804 | - | 6,804 | - | 7,072 |
| Total liabilities | 25,199 | 3,029 | 603 | - | 171,764 | 1,247 | 201,842 | 28,831 | 172,334 |

(1) Non-financial assets under 'Trading assets' primarily represent commodities carried at fair value less costs to sell. Non-financial assets under 'Held for sale and other assets' primarily represents prepayments and tax receivables.

(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(3) Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(4) Loan assets measured at FVOCI represents certain loan portfolio assessed to be managed under a held to collect and sell business model in the Company. In the Consolidated Entity, the portfolio is managed under a held to collect business model and hence measured at amortised cost.

(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.

(6) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.

(7) Due to related body corporate entities and subsidiaries includes derivatives and trading positions classified as HFT and continuing involvement in certain securitised SEs at FVTPL. All other payables to related body corporate entities are carried at amortised cost.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 35

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 the 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 Statements of financial position at amortised cost (as disclosed in Note 34 *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 for or a liability repurchased in a market-based transaction:

- the fair values of liquid assets and other instruments maturing within three months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates to their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on securities borrowed, cash collateral on securities lent, repurchase agreements approximates their carrying amounts

- the fair value of all loan assets, term deposits and debt liabilities carried at amortised cost, are determined with reference to changes in interest rates and credit spreads
- the fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of issued debt securities and loan capital, where carried at amortised cost, is based on quoted prices in active markets where available. Where quoted prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments
- the fair value of balances due from or to subsidiaries and other related body corporate entities approximates the carrying value as interest on the balances is generally payable/receivable at variable rates of interest.

The following methods and significant assumptions have been applied in determining the fair values of items including balances with subsidiaries and other related body corporate entities measured at fair value:

- trading assets including commodities and commodity contracts, trading 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 other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified as FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of other recognised valuation techniques that maximise the use of quoted price and observable market inputs
- fair values of variable rate loans classified as FVOCI is equal to its carrying value on the basis that the interest rates are reflective of market rates offered on similar loans
- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt securities classified as DFVTPL 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 measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures

Note 35

Fair value of assets and liabilities continued

- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, an adjustment is incorporated into the valuations
- the Consolidated Entity has incorporated the market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used. Models are calibrated periodically to test the outputs and reflect the prices from observable current market transactions in 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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 35

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 except where the carrying value is approximately equal to the fair value, including the level within the fair value hierarchy:

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|--------------------------|----------------|----------------|----------------|--------------|
| CONSOLIDATED 2022 | | | | |
| Assets | | | | |
| Loan assets | - | 5,492 | 117,488 | 122,980 |
| Total assets | - | 5,492 | 117,488 | 122,980 |
| Liabilities | | | | |
| Deposits | 81,198 | 20,432 | - | 101,630 |
| Borrowings | 446 | 5,175 | 103 | 5,724 |
| Issued debt securities | - | 57,931 | 12,563 | 70,494 |
| Loan capital | 1,351 | 5,676 | - | 7,027 |
| Total liabilities | 82,995 | 89,214 | 12,666 | 184,875 |
| CONSOLIDATED 2021 | | | | |
| Assets | | | | |
| Loan assets | - | 4,310 | 94,867 | 99,177 |
| Total assets | - | 4,310 | 94,867 | 99,177 |
| Liabilities | | | | |
| Deposits | 68,600 | 15,557 | - | 84,157 |
| Borrowings | 405 | 1,929 | 150 | 2,484 |
| Issued debt securities | - | 33,945 | 8,948 | 42,893 |
| Loan capital | 696 | 6,376 | - | 7,072 |
| Total liabilities | 69,701 | 57,807 | 9,098 | 136,606 |

Note 35

Fair value of assets and liabilities continued

Assets and Liabilities measured at amortised cost continued

The following table summarises the fair value of financial assets and financial liabilities measured at amortised cost except where the carrying value is approximately equal to the fair value, including the level within the fair value hierarchy:

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|--------------------------|----------------|----------------|----------------|--------------|
| COMPANY 2022 | | | | |
| Assets | | | | |
| Loan assets | - | 5,198 | 112,460 | 117,658 |
| Total assets | - | 5,198 | 112,460 | 117,658 |
| Liabilities | | | | |
| Deposits | 81,016 | 20,417 | - | 101,433 |
| Borrowings | 446 | 2,346 | - | 2,792 |
| Issued debt securities | - | 57,160 | - | 57,160 |
| Loan capital | 1,351 | 5,676 | - | 7,027 |
| Total liabilities | 82,813 | 85,599 | - | 168,412 |
| COMPANY 2021 | | | | |
| Assets | | | | |
| Loan assets | - | 3,163 | 77,763 | 80,926 |
| Total assets | - | 3,163 | 77,763 | 80,926 |
| Liabilities | | | | |
| Deposits | 68,462 | 15,549 | - | 84,011 |
| Borrowings | 406 | 1,572 | - | 1,978 |
| Issued debt securities | - | 32,836 | - | 32,836 |
| Loan capital | 696 | 6,376 | - | 7,072 |
| Total liabilities | 69,564 | 56,333 | - | 125,897 |

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 35

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 a recurring basis:

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|---|----------------|----------------|----------------|----------------|
| CONSOLIDATED 2022 | | | | |
| Assets | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 31,393 | - | 31,393 |
| Trading assets | 4,309 | 6,889 | 521 | 11,719 |
| Margin money and settlement assets | - | 524 | - | 524 |
| Derivative assets | 1 | 84,064 | 551 | 84,616 |
| Financial investments | 1,412 | 4,180 | 915 | 6,507 |
| Held for sale and other assets | - | 1,616 | 60 | 1,676 |
| Loan assets | - | 259 | 3 | 262 |
| Due from related body corporate entities ⁽¹⁾ | - | 1,741 | - | 1,741 |
| Total assets | 5,722 | 130,666 | 2,050 | 138,438 |
| Liabilities | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 241 | - | 241 |
| Trading liabilities | 5,034 | 172 | - | 5,206 |
| Derivative liabilities | 10 | 82,877 | 1,304 | 84,191 |
| Other liabilities | - | 1,128 | - | 1,128 |
| Due to related body corporate entities ⁽¹⁾ | - | 513 | - | 513 |
| Issued debt securities | - | 1,585 | - | 1,585 |
| Total liabilities | 5,044 | 86,516 | 1,304 | 92,864 |
| CONSOLIDATED 2021 | | | | |
| Assets | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 25,271 | - | 25,271 |
| Trading assets | 10,188 | 10,604 | 420 | 21,212 |
| Margin money and settlement assets | - | 332 | - | 332 |
| Derivative assets | 232 | 20,059 | 261 | 20,552 |
| Financial investments | 507 | 6,822 | 652 | 7,981 |
| Held for sale and other assets | - | 1,253 | 25 | 1,278 |
| Loan assets | - | 138 | 55 | 193 |
| Due from related body corporate entities ⁽¹⁾ | - | 384 | - | 384 |
| Total assets | 10,927 | 64,863 | 1,413 | 77,203 |
| Liabilities | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 345 | - | 345 |
| Trading liabilities | 6,024 | 110 | - | 6,134 |
| Derivative liabilities | 224 | 16,973 | 278 | 17,475 |
| Held for sale and other liabilities | - | 605 | - | 605 |
| Due to related body corporate entities ⁽¹⁾ | - | 902 | - | 902 |
| Issued debt securities | - | 2,113 | - | 2,113 |
| Total liabilities | 6,248 | 21,048 | 278 | 27,574 |

(1) Includes balances with related body corporates. For details, refer Note 34 *Measurement categories of financial instruments*.

Note 35

Fair value of assets and liabilities continued

Assets and liabilities measured at fair value on a recurring basis continued

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 a recurring basis:

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|---|----------------|----------------|----------------|----------------|
| COMPANY 2022 | | | | |
| Assets | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 27,758 | - | 27,758 |
| Trading assets | 4,303 | 5,672 | 156 | 10,131 |
| Margin money and settlement assets | - | 5 | - | 5 |
| Derivative assets | 1 | 74,189 | 254 | 74,444 |
| Financial investments | 1,409 | 4,179 | 885 | 6,473 |
| Held for sale and other assets | - | 848 | 2 | 850 |
| Loan assets | - | 210 | 3,269 | 3,479 |
| Due from related body corporate entities ⁽¹⁾ | - | 1,735 | - | 1,735 |
| Due from subsidiaries ⁽¹⁾ | - | 11,738 | 607 | 12,345 |
| Total assets | 5,713 | 126,334 | 5,173 | 137,220 |
| Liabilities | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 241 | - | 241 |
| Trading liabilities | 5,037 | 173 | - | 5,210 |
| Derivative liabilities | 11 | 71,080 | 430 | 71,521 |
| Other liabilities | - | 711 | - | 711 |
| Due to related body corporate entities ⁽¹⁾ | - | 512 | - | 512 |
| Due to subsidiaries ⁽¹⁾ | - | 13,453 | 457 | 13,910 |
| Issued debt securities | - | 1,585 | - | 1,585 |
| Total liabilities | 5,048 | 87,755 | 887 | 93,690 |
| COMPANY 2021 | | | | |
| Assets | | | | |
| Cash collateralised lending and reverse repurchase agreements | - | 24,446 | - | 24,446 |
| Trading assets | 10,161 | 8,794 | 173 | 19,128 |
| Margin money and settlement assets | - | 4 | - | 4 |
| Derivative assets | 232 | 18,944 | 152 | 19,328 |
| Financial investments | 503 | 6,820 | 593 | 7,916 |
| Held for sale and other assets | - | 846 | 18 | 864 |
| Loan assets | - | 113 | 2,755 | 2,868 |
| Due from related body corporate entities ⁽¹⁾ | - | 381 | - | 381 |
| Due from subsidiaries ⁽¹⁾ | - | 2,935 | 567 | 3,502 |
| Total assets | 10,896 | 63,283 | 4,258 | 78,437 |
| Liabilities | | | | |
| Cash collateralised borrowing and repurchase agreements | - | 345 | - | 345 |
| Trading liabilities | 6,027 | 110 | - | 6,137 |
| Derivative liabilities | 224 | 15,365 | 143 | 15,732 |
| Other liabilities | - | 482 | - | 482 |
| Due to related body corporate entities ⁽¹⁾ | - | 899 | - | 899 |
| Due to subsidiaries ⁽¹⁾ | - | 2,691 | 343 | 3,034 |
| Issued debt securities | - | 2,202 | - | 2,202 |
| Total liabilities | 6,251 | 22,094 | 486 | 28,831 |

(1) Includes balances with related body corporates. For details, refer Note 34 *Measurement categories of financial instruments*.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 35

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 financial instruments, including commodities, measured at fair value by the Consolidated Entity.

| | Trading assets \$m | Financial investments \$m | Held for sale and other assets \$m | Loan assets \$m | Derivative financial instruments (net fair value) ⁽¹⁾ \$m | Total \$m |
|---|--------------------------|---------------------------------|---|-----------------------|---|--------------|
| CONSOLIDATED 2021 | | | | | | |
| Balance as at 1 Apr 20 | 310 | 527 | - | 64 | 458 | 1,359 |
| Purchases, originations, issuances and other additions | 454 | 281 | 22 | 95 | 186 | 1,038 |
| Sales, settlements and repayments | (105) | (60) | - | - | (279) | (444) |
| Transfers into Level 3 ⁽²⁾ | 116 | - | - | - | 5 | 121 |
| Transfers out of Level 3 ⁽²⁾ | (164) | (127) | - | (28) | (24) | (343) |
| Fair value movements recognised in the income statement: | | | | | | |
| Net trading loss ⁽³⁾ | (191) | (52) | - | (5) | (363) | (611) |
| Other income/(loss) | - | 46 | 3 | (71) | - | (22) |
| Fair value movements recognised in OCI ⁽³⁾ | - | 37 | - | - | - | 37 |
| Balance as at 31 Mar 21 | 420 | 652 | 25 | 55 | (17) | 1,135 |
| Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽³⁾ | 29 | (1) | 2 | (60) | (271) | (301) |
| CONSOLIDATED 2022 | | | | | | |
| Balance as at 1 Apr 21 | 420 | 652 | 25 | 55 | (17) | 1,135 |
| Purchases, originations, issuances and other additions | 103 | 172 | 60 | 3 | 23 | 361 |
| Sales, settlements and repayments | (43) | (43) | (21) | (55) | 27 | (135) |
| Transfers into Level 3 ⁽²⁾ | 55 | 349 | - | - | (31) | 373 |
| Transfer out of Level 3 ⁽²⁾ | (223) | (218) | (3) | - | (14) | (458) |
| Fair value movements recognised in the income statement: | | | | | | |
| Net trading income/(loss) ⁽³⁾ | 209 | (8) | - | - | (741) | (540) |
| Other income/(loss) | - | 8 | (1) | - | - | 7 |
| Fair value movements recognised in OCI ⁽³⁾ | - | 3 | - | - | - | 3 |
| Balance as at 31 Mar 22 | 521 | 915 | 60 | 3 | (753) | 746 |
| Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽³⁾ | 225 | (5) | (1) | - | (698) | (479) |

(1) The derivative financial instruments in the table above are presented on a net basis. On a gross basis derivative assets are \$551 million (2021: \$261 million) and derivative liabilities are \$1,301 million (2021: \$278 million).

(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.

Note 35

Fair value of assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

| | Trading assets \$m | Financial investments \$m | Loan assets \$m | Due from/to Subsidiaries ⁽¹⁾ \$m | Held for sale and other assets \$m | Derivative financial instruments (net replacement values) ⁽²⁾ \$m | Total \$m |
|---|--------------------------|---------------------------------|-----------------------|--|--|---|----------------|
| COMPANY 2021 | | | | | | | |
| Balance as at 1 Apr 20 | 233 | 481 | 49,260 | 405 | - | 204 | 50,583 |
| Purchases and other additions | 454 | 269 | 3,195 | 224 | 18 | 186 | 4,346 |
| Sales and settlements | (105) | (51) | (404) | (585) | - | (258) | (1,403) |
| Transfers into Level 3 ⁽³⁾ | 23 | - | - | 209 | - | 5 | 237 |
| Transfer out of Level 3 ^{(3),(4)} | (164) | (127) | (49,234) | - | - | (17) | (49,542) |
| Fair value movements recognised in income statement: | | | | | | | |
| Net trading loss ⁽⁵⁾ | (268) | (40) | (6) | - | - | (111) | (425) |
| Other income/(loss) | - | 24 | (61) | (30) | 1 | - | (66) |
| Fair value movements recognised in OCI ⁽⁵⁾ | - | 37 | 5 | - | - | - | 42 |
| Balance as at 31 Mar 21 | 173 | 593 | 2,755 | 223 | 19 | 9 | 3,772 |
| Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽⁵⁾ | (268) | (3) | (54) | (30) | 1 | (110) | (464) |
| COMPANY 2022 | | | | | | | |
| Balance as at 1 Apr 21 | 173 | 593 | 2,755 | 223 | 19 | 9 | 3,772 |
| Purchases and other additions | 51 | 167 | 1,936 | 573 | 2 | (18) | 2,711 |
| Sales and settlements | (37) | (10) | (1,372) | (643) | (15) | 13 | (2,064) |
| Transfers into Level 3 ⁽³⁾ | 37 | 349 | - | (12) | - | (49) | 325 |
| Transfer out of Level 3 ⁽³⁾ | (78) | (218) | - | 4 | - | (12) | (304) |
| Fair value movements recognised in income statement: | | | | | | | |
| Net trading income/(loss) ⁽⁵⁾ | 10 | (8) | - | - | - | (119) | (117) |
| Other income/(loss) | - | 9 | - | 5 | (4) | - | 10 |
| Fair value movements recognised in OCI ⁽⁵⁾ | - | 3 | (50) | - | - | - | (47) |
| Balance as at 31 Mar 22 | 156 | 885 | 3,269 | 150 | 2 | (176) | 4,286 |
| Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year ⁽⁵⁾ | 28 | (7) | - | 5 | - | (121) | (95) |

(1) The balance due from/to subsidiaries in the table above is presented on a net basis. On a gross basis, due from subsidiaries are \$607 million (2021: \$567 million) and due to subsidiaries are \$457 million (2021: \$343 million).

(2) The derivative financial instruments in the table above are presented on a net basis. On a gross basis, derivative assets are \$254 million (2021: \$152 million) and derivative liabilities are \$430 million (2021: \$143 million).

(3) 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.

(4) Following a review of the Company's business model, loan assets have been classified as at the reporting date as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).

(5) The Company 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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 35

Fair value of assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Company did not have significant transfers between Level 1 and Level 2.

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

Unrecognised gains or losses

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 asset or liability is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in the income statement over the life of the transaction or when the inputs become observable.

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

| | CONSOLIDATED | | COMPANY | |
|---|--------------|-------------|-------------|-------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| Balance at the beginning of the financial year | 75 | 168 | 65 | 154 |
| Deferred gains on new transactions and other adjustments | 40 | 5 | 27 | (8) |
| Foreign exchange movements | 1 | (23) | 1 | (20) |
| Recognised in net trading income during the year ⁽¹⁾ | (63) | (75) | (51) | (61) |
| Balance at the end of the financial year | 53 | 75 | 42 | 65 |

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions, for Level 3 assets and liabilities whose fair values are determined in whole or in part using unobservable inputs. The impact of sensitivity of 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 | Equity \$m | Profit or loss \$m | Equity \$m |
| CONSOLIDATED 2022 | | | | |
| Product type | | | | |
| Commodities | 134 | - | (137) | - |
| Interest rate and other products | 12 | - | (12) | - |
| Equity and equity-linked products | 8 | - | (24) | - |
| Total | 154 | - | (173) | - |
| CONSOLIDATED 2021 | | | | |
| Product type | | | | |
| Commodities | 112 | - | (73) | - |
| Interest rate and other products | 11 | - | (11) | - |
| Equity and equity-linked products | 4 | - | (14) | - |
| Total | 127 | - | (98) | - |

The favourable and unfavourable changes from 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 reasonably possible estimates.

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

Note 35

Fair value of assets and liabilities continued

| | FAVOURABLE CHANGES | | UNFAVOURABLE CHANGES | |
|-----------------------------------|-----------------------|---------------|-----------------------|---------------|
| | Profit or loss \$m | Equity \$m | Profit or loss \$m | Equity \$m |
| COMPANY 2022 | | | | |
| Product type | | | | |
| Commodities | 55 | - | (50) | - |
| Equity and equity-linked products | 6 | - | (22) | - |
| Interest rate and other products | 7 | - | (8) | - |
| Total | 68 | - | (80) | - |
| COMPANY 2021 | | | | |
| Product type | | | | |
| Commodities | 22 | - | (23) | - |
| Equity and equity-linked products | 2 | - | (12) | - |
| Interest rate and other products | 6 | - | (6) | - |
| Total | 30 | - | (41) | - |

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 35

Fair value of assets and liabilities continued

Significant unobservable inputs

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

| | Assets \$m | Liabilities \$m | Valuation technique(s) | Significant unobservable inputs | RANGE OF INPUTS | |
|-----------------------------------|---------------|--------------------|-------------------------|------------------------------------|------------------|------------------|
| | | | | | Minimum value | Maximum value |
| CONSOLIDATED 2022 | | | | | | |
| Commodities | 1,073 | 1,304 | Pricing model | Commodity margin curves | (270.0) | 1,665.0 |
| | | | Pricing model | Correlation | (40.0%) | 100.1% |
| | | | Pricing model | Volatility and related variables | (12.6%) | 90.9% |
| Interest rate and other products | 876 | - | Discounted cash flows | Discount rates | 1.0% | 10.0% |
| | | | Pricing model | Bond yield | 2.7% | 3.5% |
| | | | Comparable transactions | Price in % | 0.0% | 100.0% |
| Equity and equity-linked products | 101 | - | Market comparability | Price in % ⁽¹⁾ | | |
| Total | 2,050 | 1,304 | | | | |
| CONSOLIDATED 2021 | | | | | | |
| Commodities | 596 | 278 | Pricing model | Commodity margin curves | (121.4) | 1,458 |
| | | | Pricing model | Correlation | (43.0%) | 100.0% |
| | | | Pricing model | Volatility and related variables | 8.3% | 290.5% |
| Interest rate and other products | 656 | - | Pricing model | Correlation | 0.0% | 100.0% |
| | | | Pricing model | Bond yield | (2.3%) | 2.9% |
| Equity and equity-linked products | 161 | - | Market comparability | Price in % ⁽¹⁾ | | |
| Total | 1,413 | 278 | | | | |

(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.

Note 35

Fair value of assets and liabilities continued

Correlation

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

Volatility

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

Correlations and volatilities are derived through the 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 securities 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 the earnings 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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 36

Offsetting of financial assets and financial liabilities

The Consolidated Entity and the Company present financial assets and financial liabilities on a net basis in the Statements of financial position when they meet the criteria described in Note 41(vii) *Financial instruments: Offsetting of financial instruments*. The following tables provide information on the impact of offsetting of financial instruments in the Statements of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore are presented gross in the Statements of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's and the Company's financial position in that circumstance is to settle these contracts as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity, refer to Note 33.1 *Credit risk* for information on credit risk management.

| | AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS | | | | | | | |
|--|---|-------------------------|--------------------------------|---|--|----------------------|---|---|
| | SUBJECT TO OFFSETTING IN THE STATEMENTS OF FINANCIAL POSITION | | | RELATED AMOUNT NOT OFFSET ⁽¹⁾ | | | Amount not subject to enforceable netting arrangements \$m | Statements of financial position total \$m |
| | 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 | | |
| | CONSOLIDATED 2022 | | | | | | | |
| Cash collateralised lending and reverse repurchase agreements ⁽⁴⁾ | 38,946 | (1,346) | 37,600 | (28) | (37,409) | 163 | 4,948 | 42,548 |
| Settlement assets ^{(4),(5)} | 11,159 | (7,231) | 3,928 | (43) | - | 3,885 | 1,833 | 5,761 |
| Derivative assets | 102,507 | (19,730) | 82,777 | (59,333) | (9,500) | 13,944 | 1,839 | 84,616 |
| Due from related body corporate entities ^{(6),(7)} | 2,373 | (486) | 1,887 | (490) | (1,306) | 91 | 1,045 | 2,932 |
| Total assets | 154,985 | (28,793) | 126,192 | (59,894) | (48,215) | 18,083 | 9,665 | 135,857 |
| Cash collateralised borrowing and repurchase agreements | (18,293) | 1,346 | (16,947) | 28 | 13,754 | (3,165) | - | (16,947) |
| Settlement liabilities ⁽⁵⁾ | (11,114) | 7,231 | (3,883) | 43 | - | (3,840) | (1,450) | (5,333) |
| Derivative liabilities | (99,644) | 19,730 | (79,914) | 59,333 | 8,973 | (11,608) | (4,277) | (84,191) |
| Due to related body corporate entities ^{(6),(7)} | (9,599) | 486 | (9,113) | 490 | 61 | (8,562) | (1,087) | (10,200) |
| Total liabilities | (138,650) | 28,793 | (109,857) | 59,894 | 22,788 | (27,175) | (6,814) | (116,671) |

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.

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

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

(4) The Consolidated Entity holds sufficient collateral for the amounts not subject to enforceable netting arrangements. Refer Note 33.1 *Credit risk* for collateral and credit enhancements held.

(5) Excludes margin money assets of \$13,649 million and liabilities of \$16,244 million presented under Note 7 *Margin money and settlement assets* and Note 17 *Margin money and settlement liabilities* respectively on the Statements of financial position.

(6) 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.

(7) Excludes margin money and non-financial assets of \$493 million and liabilities of \$1,437 million presented under due from related body corporate entities and due to related body corporate entities respectively on the Statements of financial position.

Note 36

Offsetting of financial assets and financial liabilities continued

| | AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS | | | | | | Amount not subject to enforceable netting arrangements \$m | Statements of financial position total \$m |
|--|--|-------------------|--------------------------|---|--|-----------------|--|--|
| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNT NOT OFFSET ⁽¹⁾ | | Net amount \$m | | |
| | Gross amount \$m | Amount offset \$m | Net amount presented \$m | Other recognised financial instruments ⁽²⁾ \$m | Cash and other financial collateral ⁽³⁾ \$m | | | |
| CONSOLIDATED 2021 | | | | | | | | |
| Cash collateralised lending and reverse repurchase agreements ⁽⁴⁾ | 31,714 | (583) | 31,131 | (26) | (30,804) | 301 | 3,424 | 34,555 |
| Settlement assets ^{(4),(5)} | 5,370 | (3,611) | 1,759 | (21) | - | 1,738 | 1,991 | 3,750 |
| Derivative assets | 26,393 | (6,421) | 19,972 | (11,038) | (4,407) | 4,527 | 580 | 20,552 |
| Due from related body corporate entities ^{(6),(7)} | 1,497 | (950) | 547 | (359) | (36) | 152 | 590 | 1,137 |
| Total assets | 64,974 | (11,565) | 53,409 | (11,444) | (35,247) | 6,718 | 6,585 | 59,994 |
| Cash collateralised borrowing and repurchase agreements | (4,669) | 583 | (4,086) | 26 | 3,533 | (527) | (456) | (4,542) |
| Settlement liabilities ⁽⁵⁾ | (5,358) | 3,611 | (1,747) | 21 | - | (1,726) | (2,168) | (3,915) |
| Derivative liabilities | (22,689) | 6,421 | (16,268) | 11,038 | 2,759 | (2,471) | (1,207) | (17,475) |
| Due to related body corporate entities ^{(6),(7)} | (15,965) | 950 | (15,015) | 359 | 1,227 | (13,429) | (743) | (15,758) |
| Total liabilities | (48,681) | 11,565 | (37,116) | 11,444 | 7,519 | (18,153) | (4,574) | (41,690) |

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.

(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement 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 33.1 *Credit risk* for collateral and credit enhancements held.

(5) Excludes margin money assets of \$4,552 million and liabilities of \$12,336 million presented under Note 7 *Margin money and settlement assets* and Note 17 *Margin money and settlement liabilities* respectively on the Statements of financial position.

(6) 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.

(7) Excludes margin money and non-financial assets of \$1,017 million and liabilities of \$143 million presented under due from related body corporate entities and due to related body corporate entities respectively on the Statements of financial position.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 36

Offsetting of 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 | Statements of financial position total \$m |
| | COMPANY 2022 | | | | | | | |
| Cash collateralised lending and reverse repurchase agreements ⁽⁴⁾ | 34,868 | (1,346) | 33,522 | (27) | (33,331) | 164 | 4,683 | 38,205 |
| Settlement assets ^{(4),(5)} | 9,083 | (6,173) | 2,910 | - | - | 2,910 | 1,283 | 4,193 |
| Derivative assets | 93,209 | (19,662) | 73,547 | (55,150) | (8,503) | 9,894 | 897 | 74,444 |
| Due from subsidiaries ^{(6),(7)} | 21,746 | (2,307) | 19,439 | (11,854) | (7,176) | 409 | 1,636 | 21,075 |
| Due from related body corporate entities ⁽⁸⁾ | 2,271 | (466) | 1,805 | (490) | (1,248) | 67 | 850 | 2,655 |
| Total assets | 161,177 | (29,954) | 131,223 | (67,521) | (50,258) | 13,444 | 9,349 | 140,572 |
| Cash collateralised borrowing and repurchase agreements | (18,292) | 1,346 | (16,946) | 27 | 13,754 | (3,165) | (1) | (16,947) |
| Settlement liabilities ⁽⁵⁾ | (9,055) | 6,173 | (2,882) | - | - | (2,882) | (1,060) | (3,942) |
| Derivative liabilities | (90,063) | 19,662 | (70,401) | 55,150 | 7,437 | (7,814) | (1,120) | (71,521) |
| Due to subsidiaries ^{(6),(7)} | (23,039) | 2,307 | (20,732) | 11,854 | 3,063 | (5,815) | (13,669) | (34,401) |
| Due to related body corporate entities ⁽⁸⁾ | (8,415) | 466 | (7,949) | 490 | 1,976 | (5,483) | (942) | (8,891) |
| Total liabilities | (148,864) | 29,954 | (118,910) | 67,521 | 26,230 | (25,159) | (16,792) | (135,702) |

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.

(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement 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 33.1 *Credit risk* for collateral and credit enhancements held.

(5) Excludes margin money assets of \$11,922 million and liabilities of \$11,651 million presented under Note 7 *Margin money and settlement assets* and Note 17 *Margin money and settlement liabilities* respectively on the Statements of financial position.

(6) Amount not subject to enforceable netting arrangements includes balances with subsidiaries and related body corporate entities which have not acceded to the MLA or other balances not governed by netting provisions of any Master Netting Arrangement.

(7) Excludes margin money and non-financial assets of \$2,781 million and liabilities of \$4,371 million presented under due from subsidiaries and due to subsidiaries respectively on the Statements of financial position.

(8) Excludes margin money and non-financial assets of \$299 million and liabilities of \$1,312 million presented under due from related body corporate entities and due to related body corporate entities respectively on the Statements of financial position.

Note 36

Offsetting of financial assets and financial liabilities continued

| | AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS | | | | | | Amount not subject to enforceable netting arrangements \$m | Statements of financial position total \$m |
|--|--|-------------------|--------------------------|---|--|-----------------|--|--|
| | SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNT NOT OFFSET ⁽¹⁾ | | Net amount \$m | | |
| | Gross amount \$m | Amount offset \$m | Net amount presented \$m | Other recognised financial instruments ⁽²⁾ \$m | Cash and other financial collateral ⁽³⁾ \$m | | | |
| COMPANY 2021 | | | | | | | | |
| Cash collateralised lending and reverse repurchase agreements ⁽⁴⁾ | 31,247 | (583) | 30,664 | (26) | (30,338) | 300 | 370 | 31,034 |
| Settlement assets ^{(4),(5)} | 3,931 | (3,003) | 928 | - | - | 928 | 1,462 | 2,390 |
| Derivative assets | 25,403 | (6,412) | 18,991 | (10,565) | (4,294) | 4,132 | 337 | 19,328 |
| Due from subsidiaries ^{(6),(7)} | 24,231 | (6,070) | 18,161 | (2,968) | (3,600) | 11,593 | 1,985 | 20,146 |
| Due from related body corporate entities ^{(6),(8)} | 1,378 | (948) | 430 | (356) | (36) | 38 | 385 | 815 |
| Total assets | 86,190 | (17,016) | 69,174 | (13,915) | (38,268) | 16,991 | 4,539 | 73,713 |
| Cash collateralised borrowing and repurchase agreements | (4,669) | 583 | (4,086) | 26 | 3,533 | (527) | (456) | (4,542) |
| Settlement liabilities ⁽⁵⁾ | (4,130) | 3,003 | (1,127) | - | - | (1,127) | (1,885) | (3,012) |
| Derivative liabilities | (21,343) | 6,412 | (14,931) | 10,565 | 2,565 | (1,801) | (801) | (15,732) |
| Due to subsidiaries ^{(6),(7)} | (13,517) | 6,070 | (7,447) | 2,968 | 2,163 | (2,316) | (7,472) | (14,919) |
| Due to related body corporate entities ^{(6),(8)} | (15,934) | 948 | (14,986) | 356 | 4,702 | (9,928) | (611) | (15,597) |
| Total liabilities | (59,593) | 17,016 | (42,577) | 13,915 | 12,963 | (15,699) | (11,225) | (53,802) |

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.

(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement 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 33.1 *Credit risk* for collateral and credit enhancements held.

(5) Excludes margin money assets of \$4,027 million and liabilities of \$10,620 million presented under Note 7 *Margin money and settlement assets* and Note 17 *Margin money and settlement liabilities* respectively on the Statements of financial position.

(6) Amount not subject to enforceable netting arrangements includes balances with subsidiaries and related body corporate entities which have not acceded to the MLA or other balances not governed by netting provisions of any Master Netting Arrangement.

(7) Excludes margin money and non-financial assets of \$1,354 million and liabilities of \$1,613 million presented under due from subsidiaries and due to subsidiaries respectively on the Statements of financial position.

(8) Excludes margin money and non-financial assets of \$830 million and liabilities of \$87 million presented under due from related body corporate entities and due to related body corporate entities respectively on the Statements of financial position.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 37

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 issued debt or repurchase transactions
- other types of financial and non-financial assets disclosed in the following table provided as collateral for borrowings and issued debt securities.

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

| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2022 \$m | 2021 \$m | 2022 \$m | 2021 \$m |
| On Balance Sheet items: | | | | |
| Trading assets ⁽¹⁾ | 2,899 | 5,336 | 2,890 | 5,118 |
| Financial investments | 231 | 202 | 231 | 202 |
| Loan assets ⁽²⁾ | 29,845 | 14,045 | 28,820 | 11,737 |
| Property, plant and equipment | 86 | 109 | - | - |
| Due from subsidiaries ⁽³⁾ | - | - | 3,363 | - |
| Other assets | 236 | 44 | - | 27 |
| Total On Balance Sheet assets pledged for liabilities | 33,297 | 19,736 | 35,304 | 17,084 |
| Off Balance Sheet items: | | | | |
| Securities and commodities ^{(4),(5)} | 13,805 | 12,898 | 14,067 | 14,543 |
| Total On and Off Balance Sheet assets pledged for liabilities | 47,102 | 32,634 | 49,371 | 31,627 |

(1) Includes assets transferred under repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statements of financial position. For trading assets pledged by the Consolidated Entity and Company, the transferee has the right to sell or re-pledge the entire value of securities received.

(2) Includes \$15,013 million (2021: \$11,344 million) held by Consolidated SEs, which are available as security to note holders and debt providers. Additionally, includes \$14,819 million (2021: \$2,605 million) held by consolidated SEs wherein internally held bonds have been pledged against repurchase agreement liabilities.

(3) Includes cash collateral for guarantees provided to counterparties with respect to their exposures from certain subsidiaries.

(4) Off balance sheet securities and commodities held by the Consolidated Entity include \$43,233 million (2021: \$35,045 million) of securities and commodities borrowed in return for cash and reverse repurchase arrangements and \$6,199 million (2021: \$3,904 million) of securities borrowed on an unsecured basis. Of these, the Consolidated Entity re-pledged \$13,805 million (2021: \$12,898 million) as collateral for repurchase agreement liabilities, as margin for trading purposes or as transfers in return for the loan of other securities. Refer Note 33.1 *Credit risk* for further details.

(5) Off balance sheet securities and commodities held by the Company include \$41,380 million (2021: \$31,131 million) of securities and commodities borrowed in return for cash and reverse repurchase arrangements from external clients and subsidiaries and \$3,855 million (2021: \$3,904 million) of securities borrowed on an unsecured basis. Of these, the Company re-pledged \$14,067 million (2021: \$14,543 million) as collateral for repurchase agreement liabilities, as margin for trading purposes or as transfers in return for the loan of other securities. Refer Note 33.1 *Credit risk* for further details.

Note 37

Pledged assets and transfers of financial assets continued

Transfers 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 Statements of financial position to other entities. Depending on the criteria discussed in Note 41(xii) *Financial instruments* may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of its continuing involvement.

Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets in the form of liquidity support, financial guarantees, certain derivatives or retention of part of the securitisation interest through interest rate or basis swaps. The Company has interests in certain SEs (into which the Company has previously transferred securitised mortgage assets) through debt notes amounting to \$12 million (2021: \$82 million) which is equal to the Company's maximum exposure to loss.

The Consolidated Entity has not retained any other material continuing involvement in transferred financial assets.

As at 31 March 2021, the Company had continuing involvement in certain securitised mortgage assets transferred to SEs through interest rate basis swaps that effectively transferred the mortgage interest income back to the Company. The continuing involvement assets amounted to \$229 million, with a corresponding liability of \$164 million. The maximum exposure to loss of the continuing involvement was \$65 million. In the current financial year, the Company has acquired residual income units of the SEs and has recognised the transferred assets on its balance sheet prospectively. Accordingly, the continuing involvement assets and liabilities as at 31 March 2021 have been derecognised during current financial year.

Transferred financial assets that are not derecognised

The Consolidated Entity did not derecognise any financial assets to the extent of continuing involvement in the years ended 31 March 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 Statements 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 securities received is not recognised on the balance sheet. The Consolidated entity is unable to use, sell or pledge the transferred assets for the duration of the transaction and remains exposed to interest rate risk and credit risk on these assets.

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

Financial investment – Total return swap

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

Interests in securitisations

Financial assets (principally home loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Company is entitled to any residual income of a securitisation vehicle, the Company continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

Other financial transfers

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 37

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 | Net fair value \$m |
| CONSOLIDATED 2022 | | | | | |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading assets ⁽¹⁾ | 1,198 | (245) | - | - | - |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Financial investments | 231 | (212) | - | - | - |
| Other financial assets not derecognised: | | | | | |
| Trading assets ⁽²⁾ | 270 | | - | - | - |
| Loan assets | 13 | (13) | 13 | (13) | - |
| Total financial assets not derecognised | 1,712 | (470) | 13 | (13) | - |
| CONSOLIDATED 2021 | | | | | |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading assets ⁽¹⁾ | 3,175 | (1,434) | - | - | - |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Financial investments | 202 | (182) | - | - | - |
| Other financial assets not derecognised: | | | | | |
| Trading assets ⁽²⁾ | 988 | - | - | - | - |
| Loan assets | 96 | (96) | 95 | (96) | (1) |
| Total financial assets not derecognised | 4,461 | (1,712) | 95 | (96) | (1) |

(1) Includes assets transferred under repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statements of financial position.

(2) Includes bonds placed as initial margin for trading activities. Previous comparative period also includes gold transferred as margin for future positions.

Note 37

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 | Net fair value \$m |
| COMPANY 2022 | | | | | |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading assets ⁽¹⁾ | 1,191 | (245) | - | - | - |
| Due from subsidiaries ⁽²⁾ | 14,819 | (12,121) | - | - | - |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Financial investments | 231 | (212) | - | - | - |
| Financial assets not derecognised due to securitisation: | | | | | |
| Loan assets ⁽³⁾ | 13,894 | (13,894) | 13,894 | (13,848) | 46 |
| Other financial assets not derecognised: | | | | | |
| Trading assets ⁽⁴⁾ | 270 | - | - | - | - |
| Total financial assets not derecognised | 30,405 | (26,472) | 13,894 | (13,848) | 46 |
| COMPANY 2021 | | | | | |
| Financial assets not derecognised due to repurchase and securities lending agreements: | | | | | |
| Trading assets ⁽¹⁾ | 3,175 | (1,434) | - | - | - |
| Due from subsidiaries ⁽²⁾ | 2,605 | (2,130) | - | - | - |
| Financial assets not derecognised due to total return/asset swaps: | | | | | |
| Financial investments | 202 | (182) | - | - | - |
| Financial assets not derecognised due to securitisation: | | | | | |
| Loan asset ⁽³⁾ | 6,630 | (6,630) | 6,639 | (6,678) | (40) |
| Other financial assets not derecognised: | | | | | |
| Trading assets ⁽⁴⁾ | 988 | - | - | - | - |
| Total financial assets not derecognised | 13,600 | (10,376) | 6,639 | (6,678) | (40) |

(1) Includes assets transferred under repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statements of financial position.

(2) Represents the fair value of the SEs securitised bonds pledged against repurchase agreement liabilities.

(3) Excludes \$45,151 million (March 2021: \$37,693 million) of securitised assets where the Company holds all of the instruments issued by the SEs.

(4) Includes bonds placed as initial margin for trading activities. Previous comparative period also includes gold transferred as margin for future positions.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 38

Audit and other services provided by PricewaterhouseCoopers

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

| | CONSOLIDATED | | COMPANY | |
|--|----------------|-------------------------------|----------------|-------------------------------|
| | 2022 \$'000 | 2021 ⁽¹⁾ \$'000 | 2022 \$'000 | 2021 ⁽¹⁾ \$'000 |
| PwC – Australia | | | | |
| Audit of the Group and controlled entities ⁽²⁾ | 11,358 | 11,535 | 9,810 | 9,159 |
| Total audit services | 11,358 | 11,535 | 9,810 | 9,159 |
| Other statutory assurance services ⁽³⁾ | 1,259 | 2,037 | 609 | 1,611 |
| Other assurance services ⁽⁴⁾ | 5,346 | 2,998 | 327 | 731 |
| Advisory services | - | 5 | - | 3 |
| Taxation | 307 | 243 | 164 | 4 |
| Total non-audit services | 6,912 | 5,283 | 1,100 | 2,349 |
| Total remuneration paid to PwC Australia | 18,270 | 16,818 | 10,910 | 11,508 |
| Network firms of PwC Australia | | | | |
| Audit of the controlled entities ⁽²⁾ | 6,910 | 8,822 | 5,099 | 5,108 |
| Total audit services | 6,910 | 8,822 | 5,099 | 5,108 |
| Other statutory assurance services ⁽³⁾ | 129 | 356 | 30 | 36 |
| Other assurance services ⁽⁴⁾ | 576 | 231 | 164 | 91 |
| Advisory services | 17 | - | - | - |
| Taxation | 784 | 1,025 | 226 | 109 |
| Total non-audit services | 1,506 | 1,612 | 420 | 236 |
| Total remuneration paid to network firms of PwC Australia | 8,416 | 10,434 | 5,519 | 5,344 |
| Total audit services remuneration paid to PwC | 18,268 | 20,357 | 14,909 | 14,267 |
| Total non-audit services remuneration paid to PwC | 8,418 | 6,895 | 1,520 | 2,585 |
| Total remuneration paid to PwC | 26,686 | 27,252 | 16,429 | 16,852 |

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

(1) Comparative information has been restated to conform to the presentation in the current year.

(2) Prior period includes:

- Consolidated Entity: additional fees of \$867 thousand (2020: \$2,105 thousand) for PwC Australia and \$1,242 thousand (2020: \$525 thousand) for network firms of PwC Australia that related to the year ended 31 March 2021 but were incurred during the 2022 financial year.

- Company: additional fees of \$740 thousand (2020: \$1,574 thousand) for PwC Australia and \$130 thousand (2020: \$361 thousand) for network firms of PwC Australia that related to the year ended 31 March 2021 but were incurred during the 2022 financial year.

(3) Other statutory assurance services include audit of Australian Financial Services license requirements and other due diligence activities including comfort letters on debt issuance programmes, generally performed by the auditor of the Consolidated Entity.

(4) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include engagements required under prudential standards, accounting advice, certifications, due diligence and reviews of controls and other agreed upon procedures.

Note 39

Acquisitions and disposals of subsidiaries and businesses

Acquisitions of subsidiaries and businesses

Other than those disclosed in Note 27 *Related party information*, the Consolidated Entity did not acquire any other subsidiaries or businesses during the current financial year.

During previous financial year, the MGL and MBL Boards approved the transfer of Macquarie's service entities from the Non-Bank Group to the Consolidated Entity. The transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity acquired a 100% interest in Macquarie Group Services Australia Pty Ltd. (MGSA), which was accounted for by the Company as an investment in a subsidiary at cost, and its subsidiaries from MGL and a 100% interest in Macquarie Global Services Private Limited from Macquarie Global Finance Services (Mauritius) Limited (an indirect subsidiary of MGL).

The acquisition of the service entities, together with the acquisition of Bond Street Custodians Limited from the Non-Bank Group, were accounted for by the Consolidated Entity as a business combination under common control by recognising the net assets acquired at the original carrying values at the MGL consolidated group level at the date of acquisition with the excess of the consideration paid being recognised as a restructure reserve within retained earnings. Aggregate details of net assets acquired or consolidated during the current and previous year due to the above mentioned acquisition are as follows:

| | 2021 \$m |
|---|-------------|
| Carrying value of net assets acquired | |
| Cash and bank balances | 318 |
| Loan assets and other assets ⁽¹⁾ | 534 |
| Property, plant and equipment and right-of-use assets | 590 |
| Deferred tax assets | 231 |
| Other liabilities ⁽²⁾ | (1,209) |
| Deferred tax liabilities | (38) |
| Total carrying value of net assets recognised | 426 |
| Consideration | |
| Cash consideration | 615 |
| Total consideration | 615 |
| Difference between consideration and net assets recognised within equity | 189 |
| Net cash flow | |
| Payments for the acquisition of subsidiaries and businesses | 615 |
| Less: Cash and cash equivalents acquired | (318) |
| Net cash outflow | 297 |

Disposal of subsidiaries and businesses

During the current financial year, the Consolidated Entity realised a gain of \$455 million on the sale of less than 5% of the UK Meters portfolio of assets comprising the industrial and commercial portfolio of \$79 million for a total consideration of \$534 million.

During the previous financial year, the Consolidated Entity realised a gain of \$15 million (net of direct costs relating to disposal) on disposal of Vestone Capital Limited, which was achieved by contributing the net assets of the business of \$436 million primarily in the nature of loan assets into a newly formed joint venture along with a third-party investor, in which the Consolidated Entity holds a 50% interest.

Note 40

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) Primarily includes employee stock option related prepayments.

(2) Primarily includes operating lease liabilities and employee related provisions.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies

(i) Principles of consolidation

Subsidiaries

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

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

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

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

Structured entities

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

Where the Consolidated Entity has power over the SE's relevant activities, has assessed that its exposure to variable returns (through the residual risk associated with its involvement in SEs) is sufficient, and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements. Refer to Note 31 *Structured entities* for further information related to both consolidated and unconsolidated structured entities.

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 Statements of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

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

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

Subsidiaries held by the Company are carried in its financial statements at cost less accumulated impairments, adjusted for changes in fair value attributable to the spot foreign exchange risk where such subsidiaries are designated in qualifying fair value hedge relationships.

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.

Note 41

Significant accounting policies continued

(i) Principles of consolidation continued

The equity method of accounting is applied in the consolidated Financial Report and requires the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or loss (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/reversals. 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.

Changes in ownership interests

When acquiring additional interests:

- of a financial asset (such that it becomes an associate, joint venture or subsidiary)
- 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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

(ii) Business combinations continued

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 Statements of financial position. Goodwill is subsequently measured at cost less accumulated impairment.

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

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

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

Combinations between entities or businesses under common control

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

Where the Consolidated Entity acquires, as part of a common control transaction, assets that meet the definition of a business, the assets and liabilities acquired are recorded using the book values included in the consolidated financial statements of the entity having the highest level within the common control group and, where applicable, are presented gross of any accumulated amortisation, depreciation and impairment. The Consolidated Entity accounts for the difference between the consideration paid 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 Macquarie Bank Limited, 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
- 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 32 *Hedge accounting* and Note 41(x) *Derivative instruments and hedging activities*).

Subsidiaries and other entities

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

- assets and liabilities for each Statements of financial position presented are translated at the closing exchange rate at the date of that Statements 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.

Note 41

Significant accounting policies continued

(iii) Foreign currency translation continued

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.

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 fee 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 fees for the 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 the group shared services agreements, are recognised as and when 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 41(i) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

(iv) Revenue and expense recognition continued

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 Company and/or Consolidated Entity and the dividend can be measured reliably.

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

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

Expenses

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

(v) Segment reporting

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

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

(vi) Taxation

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

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

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 the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses or credits.

Note 41

Significant accounting policies continued

(vi) Taxation continued

The TCG recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB UIG 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 TCG.

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 the 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 Statements 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 Statements of financial position.

(vii) Financial instruments

Recognition of financial instruments

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

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

The best evidence of a financial instruments' fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique for which variables include only inputs from observable markets. Where such alternative evidence exists, the Consolidated Entity recognises

profit or loss immediately when the instrument is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in net trading income over the life of the transaction or when the inputs become observable.

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

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

Derecognition of financial instruments

Financial assets

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

(vii) Financial instruments continued

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

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

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

Financial guarantee contracts issued

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

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

Modification of financial instruments

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

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

Classification and subsequent measurement

Financial assets

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

Business model assessment

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

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

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
- the financial asset has not been classified as DFVTPL.

Note 41

Significant accounting policies continued

(vii) Financial instruments continued

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

Fair value through profit or loss

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are subsequently measured at FVTPL. For the purposes of the Consolidated Entity's financial statements, the FVTPL classification consists of the following:

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

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

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

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

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

Reclassification of financial instruments

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

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

Financial liabilities

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

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

All derivative financial liabilities are classified as HFT, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL. Refer to Note 41(x) *Derivative instruments and hedging activities* for the detailed hedge accounting policy.

Changes in the fair value of financial liabilities that are not classified as HFT, 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 Statements of financial position, when there is a current legally enforceable right to offset the amounts and either there is an intention to settle on a net basis or realise the financial asset and settle the financial liability simultaneously.

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

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

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

These transactions include:

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

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

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

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

Also refer to Note 34 *Measurement categories of financial instruments*.

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

(ix) Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets and liabilities that are classified as HFT. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised gain or loss arising from revaluing that contract to fair value as part of net trading income, except for interest income on HFT debt financial assets which is recognised in interest income. Refer to Note 41(vii) *Financial instruments*.

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

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

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

(x) Derivative instruments and hedging activities

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

Derivatives are recognised in the Statements 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 Statements 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 41(vii) *Financial instruments*.

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

Hedge accounting

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

Note 41

Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

| | Fair value hedge | Cash flow hedge | Net investment hedge |
|--|--|--|--|
| Nature of hedge | The hedge of the fair value risk of a financial or non-financial asset or liability. | The hedge of the change in cash flows of a financial asset or liability. | The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates. |
| Nature of material hedged risks | <ul style="list-style-type: none"> Interest rate risk Commodity price risk Foreign exchange risk.⁽¹⁾ | <ul style="list-style-type: none"> Interest rate risk Foreign exchange risk. | <ul style="list-style-type: none"> Foreign exchange risk. |
| Material hedged items | <ul style="list-style-type: none"> Fixed interest rate financial assets and liabilities Amount due to/from related body corporates⁽¹⁾ Commodity transportation contracts Property, Plant and Equipment Equity investments in foreign currency denominated subsidiaries. | <ul style="list-style-type: none"> Floating interest rate financial liabilities Foreign currency denominated interest bearing financial liabilities Amount due to/from related body corporates.⁽¹⁾ | <ul style="list-style-type: none"> Net investment in foreign operations. |
| Material hedging instruments | <ul style="list-style-type: none"> Interest rate swaps Cross currency swaps Commodity forwards and futures Foreign exchange forwards and swaps Foreign currency denominated borrowings. | <ul style="list-style-type: none"> Interest rate swaps Cross currency swaps. | <ul style="list-style-type: none"> 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 | <p>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:</p> <ul style="list-style-type: none"> an economic relationship exists between the hedged item and the hedging instrument credit risk does not dominate the changes in value of either the hedged item or the hedging instrument the hedge ratio is reflective of the Consolidated Entity's risk management approach. <p>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.</p> | | |
| Accounting treatment for the hedging instrument | Fair value through the income statement, aligned to the presentation of the hedged item. | Fair value through the cash flow hedge reserve as part of OCI, and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk. | Foreign exchange gains and losses are recognised in the Net Investment Hedge Reserve (NIHR), a separate component of FCTR in OCI. |
| Accounting treatment for the hedged item | Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk. | Accounted for on an amortised cost basis. | Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI. |

(1) The Company (but not the Consolidated Entity) designates selected hedge accounting relationships that only meet the qualifying criteria for hedge accounting in the Company financial statements.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

| | Fair value hedge | Cash flow hedge | Net investment hedge |
|---|--|---|--|
| Accounting treatment for hedge ineffectiveness | Recognised as part of net trading income in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument. | Recognised as part of net trading income in the income statement to the extent to which changes in the fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item. | |
| Accounting treatment if the hedge relationship is discontinued | Where the hedged item still exists and is a financial instrument carried at amortised cost, adjustments to the hedged item are amortised to the income statement on an EIR basis. For non-financial items, the adjustment continues as part of the carrying value of the asset up until it is recovered through use or sale, or the item becomes impaired. | <p>The gain or loss remains in the cash flow hedge reserve to the extent that the hedged cash flows are still expected to take place and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.</p> <p>Where the hedged cash flows are no longer expected to take place, the gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.</p> | <p>The exchange gains or losses recognised in the NIHR within FCTR are reclassified to the income statement or reattributed within equity as follows:</p> <ul style="list-style-type: none"> • if the hedge is discontinued due to a disposal of the hedged foreign operation, then the accumulated NIHR is reclassified from OCI to investment income within other operating income and charges • if there is a partial disposal of a foreign operation that is an associate or joint arrangement, without loss of significant influence or joint control, then a proportionate share of the accumulated NIHR is reclassified to investment income • if there is a partial disposal of a foreign operation that is a subsidiary, without loss of control, then a proportionate share of the accumulated NIHR is reattributed within equity to non-controlling interests. |
| Other accounting policies | Certain components of the hedging instrument such as the forward element of a forward contract, the time value of an option and the foreign currency basis spread (being the liquidity charge for exchanging different currencies), may be excluded from the hedge designation. These elements are deferred in the cost of hedging reserve and released to the income statement either at the time at which the hedged exposure affects the income statement, or on a systematic basis over the life of the hedge. | | |

Note 41

Significant accounting policies continued

(xi) Margin money and settlement assets and liabilities

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

(xii) Financial investments

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

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

Financial investments are initially recognised on trade date at fair value (adjusted for directly attributable transaction costs for debt investments subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 41(vii) *Financial instruments*.

(xiii) Loan Assets

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

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 41(vii) *Financial instruments*.

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 41(vii) *Financial instruments*.

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

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

Right-of-use (ROU) assets are 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.

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.

(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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

(xv) Goodwill and other identifiable intangible assets

Goodwill

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

Other acquired identifiable intangible assets

At the time at which the Consolidated Entity determines that it has acquired a business, the Consolidated Entity identifies intangible assets that are required to be initially recognised at fair value. An intangible asset is considered to have an indefinite useful life where it is expected to contribute to the Consolidated Entity's net cash inflows indefinitely.

The following intangible assets are typically identified and recognised by the Consolidated Entity:

- licences and trading rights: generally carried at cost less accumulated impairment loss. Where no contractual or legal limitation exists, these assets are not amortised because they are considered to have an indefinite useful life
- customer and servicing contracts acquired with a finite useful life: carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated over the period for which the customer relationship is expected to exist
- customer and servicing contracts with an indefinite useful life: carried at cost less accumulated impairment loss.

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

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

Software

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

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

(xvi) Deposits

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

(xvii) Other assets and liabilities

Contract assets, contract liabilities and capitalised expenses

Where the Consolidated Entity provides services to clients and the consideration is unconditional, a receivable is recognised. Where the consideration is conditional on something other than the passage of time, a contract asset is recognised. Both receivables and contract assets are assessed for impairment in accordance with AASB 9.

The Consolidated Entity, as permitted by AASB 15, has applied the practical expedient that allows for costs incurred to obtain a contract to be expensed as incurred where the amortisation period for any asset recognised would be less than 12 months. The Consolidated Entity also applies the practical expedient not to adjust consideration for the effects of a significant financing component, where the period between transferring a good or service and when the customer pays for that good or service is expected to be one year or less.

Contract liabilities relate to prepayments received from customers where the Consolidated Entity is yet to satisfy its performance obligation.

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

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

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

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

Note 41

Significant accounting policies continued

(xvii) Other assets and liabilities continued

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

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

Provisions and contingent liabilities

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

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

Employee benefit provisions

Employee benefit provisions are recognised by the Consolidated Entity as and when the service has been rendered after deducting amounts already paid. Liabilities for unpaid salaries, salary-related costs and provisions for annual leave are recorded in the Statements 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 Statements 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.

(xviii) Borrowings

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

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

Transactions between the Consolidated Entity and other related body corporate entities under common control of MGL 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 administration services, facilities and accommodation and the provision of financial guarantees, and are accounted for in accordance with Note 41(iv) *Revenue and expense recognition* and Note 41(vii) *Financial instruments*.

Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 41(vii) *Financial instruments*), such that the net amount is reported in the Statements of financial position.

(xx) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at either amortised cost or are DFVTPL and measured at fair value in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 41(vii) *Financial instruments*.

(xxi) Loan Capital

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

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

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

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

(xxii) Impairment

Expected credit losses

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

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 12 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage I – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition, ECL is determined based on the 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 12 *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 Statements of financial position as follows:

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

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

Impairment of interests in associates and joint ventures

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

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

Note 41

Significant accounting policies continued

(xxii) Impairment continued

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

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

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

Impairment of investments in subsidiaries

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

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

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

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

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

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

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

(xxiii) 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 29 *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 27 *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.

Notes to the financial statements

For the financial year ended 31 March 2022 continued

Note 41

Significant accounting policies continued

(xxiv) Leases

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

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 41(xiv) *Property, plant and equipment and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

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

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

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

Presentation

The Consolidated Entity presents ROU assets in Property, plant and equipment and right-of-use assets (refer to Note 13) and lease liabilities in Other liabilities (refer to Note 20) in the Statements of financial position.

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 41(xiv) *Property, plant and equipment and right-of-use assets*. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment and right-of-use assets.

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

(xxv) Contributed equity

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

(xxvi) Fiduciary assets and client money

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

(xxvii) Cash and bank balances

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

Note 41

Significant accounting policies continued

(xxviii) Cash and cash equivalents

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

(xxix) Comparatives

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

(xxx) Rounding of amounts

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

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

(i) AASB 17 Insurance Contracts

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

Directors' declaration

Macquarie Bank Limited

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 64 to 205 are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Australian accounting standards, and
 - (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2022 and their performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

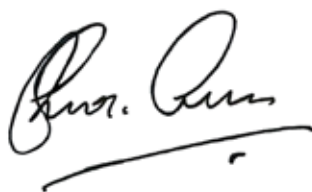
Note 1(i) includes a statement that the Financial Report complies with International Financial Reporting Standards.

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



Peter Warne

Independent Director and Chairman



Stuart Green

Managing Director and Chief Executive Officer

Sydney
6 May 2022

Independent auditor's report

To the member of Macquarie Bank Limited



Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2022 and of their financial performance for the year then ended
- (a) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

What we have audited

The Consolidated Entity and Company financial report comprises:

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

Basis for opinion

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

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

Independence

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

Our audit approach for the Consolidated Entity

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

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

The Consolidated Entity is structured into two operating groups and a corporate segment. It undertakes operational activities that are important to the financial reporting process in multiple locations overseas, including sites in Gurugram in India, Jacksonville in the United States and Manila in the Philippines.



Consolidated Entity materiality

- For the purpose of our audit we used overall Consolidated Entity materiality of \$183 million, which represents approximately 5% of the Consolidated Entity's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Consolidated Entity profit before tax because, in our view, it is the benchmark against which the performance of the Consolidated Entity is most commonly measured.
- We utilised a threshold of approximately 5% based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Independent auditor's report

To the member of Macquarie Bank Limited continued



Consolidated Entity audit scope

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

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

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

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



Key audit matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Provision for expected credit losses on loan assets (Refer to Note 12)</p> <p>Under the credit impairment model required by AASB 9: Financial Instruments (AASB 9), losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic scenarios.</p> <p>The global economic outlook remains uncertain given the current situation in Europe and the resulting market volatility, as well as the continued impact of COVID 19 on certain industries. As a result, significant judgement was required to be exercised by the Consolidated Entity in calculating the ECL. Specifically, this includes judgements around the determination and use of forward-looking information, including developing macroeconomic scenarios and their associated weightings and the use of post model adjustments in the calculation of the ECL. In order to meet the ECL requirements of AASB 9, the Consolidated Entity has developed models that involve judgement including determining assumptions such as defining a significant increase in credit risk (SICR). The ECL models of the Consolidated Entity rely on numerous data elements and certain post model adjustments are applied based on the Consolidated Entity's judgement.</p> <p>Given the extent of judgement involved, we consider this to be a key audit matter.</p> | <p>Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the ECL including controls relating to:</p> <ul style="list-style-type: none"> • review, challenge and approval of certain forward-looking macroeconomic assumptions and scenario weightings • monitoring the effectiveness of models used to support ECL estimates, and the validation and implementation of revised models • assessment of the credit quality of counterparties • accuracy of certain critical data elements used in key ECL models, and • review and challenge forums to assess the ECL output and post model adjustments. <p>In addition to controls testing, we performed substantive procedures including:</p> <ul style="list-style-type: none"> • together with PwC credit modelling experts, assessing the appropriateness of conclusions reached by the Consolidated Entity from model monitoring performed on key models. This included assessing key model components such as SICR and reperformance of certain tests performed as part of the model monitoring • together with PwC credit modelling experts, testing the appropriateness of a selection of changes to key models • together with PwC credit modelling experts, assessing whether the list of critical data elements identified by the Consolidated Entity was appropriate for key models • together with PwC economics experts, assessing the appropriateness of macroeconomic scenarios and certain forward-looking economic data developed by the Consolidated Entity • testing the completeness and accuracy of certain critical data elements used in key ECL models • assessing a selection of post model adjustments identified by the Consolidated Entity, including obtaining an understanding of the methodology used for overlay derivation and testing the underlying datasets used for the calculations • considering the impacts on the ECL of events occurring subsequent to balance date. <p>For credit impaired (stage III) loan provisions, we examined a sample of individual loan exposures to consider the appropriateness of provisions adopted.</p> <p>We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the requirements of Australian Accounting Standards.</p> |

Independent auditor's report

To the member of Macquarie Bank Limited continued



Key audit matter

How our audit addressed the key audit matter

Valuation of financial assets and liabilities held at fair value with significant unobservable inputs (Level 3 financial instruments) (Refer to Note 35)

The Consolidated Entity exercises judgement in valuing certain financial assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments.

For the Consolidated Entity, these Level 3 financial instruments predominantly consist of trading assets, financial investments, loan assets and derivative financial instruments. Judgement is required in determining the appropriate models and inputs to estimate the fair value of these financial instruments.

Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.

Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the valuation of Level 3 financial instruments, including controls over:

- approval and validation of the models adopted
- accuracy of inputs to models
- the price verification process performed by the Consolidated Entity using prices and model inputs sourced from third parties,
- calculation and approval of key valuation adjustments, and
- governance, review and challenge forums.

Together with PwC valuation experts, we assessed the valuation of a sample of derivative financial instruments and trading assets, including level 3 instruments. We considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations. We also evaluated the methodology and underlying assumptions used to determine valuation adjustments. We tested a sample of valuation adjustments as at the period-end.

For a sample of financial investments and loan assets, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of the inputs used.

We performed tests of the allocation of financial instruments to the appropriate level within the fair value hierarchy.

We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the requirements of Australian Accounting Standards.

IT systems and controls over financial reporting

The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include:

- the framework of governance over IT systems
- controls over program development and changes
- controls over access to programs, data and IT operations, and
- governance over generic and privileged user accounts.

We considered this a key audit matter given the:

- financial reporting processes of the Consolidated Entity are heavily reliant on IT systems,
- underlying IT controls over business processes are significant to the financial reporting process, and
- data migration activities which occurred during the year impacted the key IT processes, systems and controls relevant to the financial reporting process.

Our procedures included evaluating the design and testing the operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.

We also carried out tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.

We considered the key risks of the system implementation and data migration activities applicable to the financial reporting process and tested a sample of relevant controls, as well as testing the completeness and accuracy of the data migration.

Where we identified design and operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures. We also considered mitigating controls in order to respond to the impact on our overall audit approach.

Valuation of tax payable and tax receivable relating to tax uncertainties (Refer to Note 20 and Note 10)

The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to and received from tax authorities is considered initially by the Consolidated Entity in each local territory and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid and received.

Given the extent of judgement involved, we consider this to be a key audit matter.

Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to and received from tax authorities.

Assisted by PwC tax experts in the relevant jurisdictions, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess the completeness and quantum of the provision for tax and tax receivable. We considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.

We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the requirements of Australian Accounting Standards.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 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* (Cth) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 35 to 63 of the Directors' Report for the year ended 31 March 2022.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2022 complies with section 300A of the *Corporations Act 2001* (Cth).

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
6 May 2022

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Professional Standards Legislation.



04

Further Information

The voice of the client - Laura

"We found it to be a really seamless experience, and that was really important to us."

Our Home of Good Borrowers campaign uses real clients to tell their story and why they choose to bank with Macquarie. For Laura, being a good borrower is about building wealth in your home while having the freedom to enjoy the things that matter.



Additional investor information

Calendar

2022

| Date | Event |
|---------------------------|------------------------------------|
| 7 June | Payment date for BCN3 distribution |
| 21 June | Payment date for BCN2 distribution |
| 7 September | Payment date for BCN3 distribution |
| 21 September | Payment date for BCN2 distribution |
| 30 September | Financial half-year end |
| 28 October ⁽¹⁾ | Half-year result announcement |
| 7 December | Payment date for BCN3 distribution |
| 21 December | Payment date for BCN2 distribution |

2023

| Date | Event |
|----------|------------------------------------|
| 7 March | Payment date for BCN3 distribution |
| 21 March | Payment date for BCN2 distribution |
| 31 March | Financial year end |

Stock exchange listing

| Equity or hybrid security | Stock exchange listing | Trading code |
|--|------------------------|--------------|
| Macquarie Additional Capital Securities (MACS) | SGX | 6F6B |
| Macquarie Bank Capital Notes 2 (BCN2) | ASX | MBLPC |
| Macquarie Bank Capital Notes 3 (BCN3) | ASX | MBLPD |

Macquarie Bank also has debt securities quoted on exchanges that include the ASX, London Stock Exchange, Luxembourg Stock Exchange (LuxSE), SGX, SIX Swiss Exchange Ltd and the Taipei Exchange. Macquarie Bank also has warrants quoted on the LuxSE, SGX, Hong Kong Stock Exchange and certificates listed on the LuxSE.

Securities on issue

The following information is correct as at 31 March 2022.

Fully paid ordinary shares

Voting Rights

At meetings of members or classes of members, each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands, every person present who is a member or a proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

- one vote for each fully paid share held by the member, and
- that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

Macquarie Additional Capital Securities (MACS)

Voting rights

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

Single Shareholder

As at 31 March 2022, the \$US750 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

Macquarie Bank Capital Notes 2 (BCN2)

Voting rights

BCN2 are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible. BCN2 holders have no voting rights in respect of MBL or MGL.

(1) These dates are subject to change.

20 largest holders

| Registered Holder | Number of BCN2 held | % of BCN2 |
|---|---------------------|-----------|
| HSBC Custody Nominees (Australia) Limited | 466,495 | 7.28 |
| J P Morgan Nominees Australia Pty Limited | 376,540 | 5.87 |
| Citicorp Nominees Pty Limited | 262,759 | 4.10 |
| Netwealth Investments Limited <Wrap Services A/C> | 151,335 | 2.36 |
| BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C> | 115,812 | 1.81 |
| Mutual Trust Pty Ltd | 69,511 | 1.08 |
| BNP Paribas Noms Pty Ltd <DRP> | 58,265 | 0.91 |
| National Nominees Limited | 58,163 | 0.91 |
| HSBC Custody Nominees (Australia) Limited - A/C 2 | 52,620 | 0.82 |
| 33 Bank Street Nominees Pty Ltd | 37,100 | 0.58 |
| Herbert St Investments Pty Ltd | 31,080 | 0.48 |
| Dimbulu Pty Ltd | 25,000 | 0.39 |
| Australian Executor Trustees Limited <No 1 Account> | 24,673 | 0.38 |
| Diocese Development Fund - Catholic Diocese of Parramatta | 23,930 | 0.37 |
| Netwealth Investments Limited <Super Services A/C> | 22,308 | 0.35 |
| BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP> | 22,139 | 0.35 |
| Vesade Pty Ltd | 18,896 | 0.29 |
| Berne No 132 Nominees Pty Ltd <684168 A/C> | 16,089 | 0.25 |
| Mrs Anne-Marie Hood | 16,000 | 0.25 |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 15,977 | 0.25 |
| Total | 1,864,692 | 29.09 |

Spread of noteholdings

| Range | Number of BCN2 holders | Number of BCN2 | % of BCN2 |
|------------------------|------------------------|----------------|-----------|
| 1 – 1,000 | 9,884 | 2,727,430 | 42.55 |
| 1,001 – 5,000 | 694 | 1,390,849 | 21.70 |
| 5,001 – 10,000 | 49 | 327,533 | 5.11 |
| 10,001 – 100,000 | 23 | 591,517 | 9.23 |
| 100,001 notes and over | 5 | 1,372,941 | 21.42 |
| Total | 10,655 | 6,410,270 | 100.00 |

There were 12 noteholders (representing 14 notes) who held less than a marketable parcel.

Additional investor information

Continued

Macquarie Bank Capital Notes 3 (BCN3)

Voting Rights

BCN3 are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible. BCN3 holders have no voting rights in respect of MBL or MGL.

20 largest holders

| Registered Holder | Number of BCN3 held | % of BCN3 |
|---|---------------------|-----------|
| HSBC Custody Nominees (Australia) Limited | 478,133 | 7.30 |
| Citicorp Nominees Pty Limited | 246,276 | 3.76 |
| Netwealth Investments Limited <Wrap Services A/C> | 190,554 | 2.91 |
| BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C> | 182,937 | 2.79 |
| National Nominees Limited | 172,687 | 2.64 |
| J P Morgan Nominees Australia Pty Limited | 94,058 | 1.44 |
| Mutual Trust Pty Ltd | 47,863 | 0.73 |
| Fishbourne Pty Ltd | 44,798 | 0.68 |
| Australian Executor Trustees Limited <No 1 Account> | 37,902 | 0.58 |
| BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP> | 36,167 | 0.55 |
| BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 33,902 | 0.52 |
| BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP> | 31,834 | 0.49 |
| Dimbulu Pty Ltd | 28,000 | 0.43 |
| Netwealth Investments Limited <Super Services A/C> | 27,487 | 0.42 |
| Navigator Australia Ltd <JB Were List Fix Int Sma A/C> | 26,883 | 0.41 |
| Balmoral Financial Investments Pty Ltd <No 2 A/C> | 23,196 | 0.35 |
| HSBC Custody Nominees (Australia) Limited - A/C 2 | 20,300 | 0.31 |
| LEDA Holdings Pty Ltd | 20,000 | 0.31 |
| Sword Equity Investments Pty Ltd | 20,000 | 0.31 |
| Invia Custodian Pty Limited <Income Pool A/C> | 19,800 | 0.30 |
| Total | 1,782,777 | 27.22 |

Spread of noteholdings

| Range | Number of BCN3 holders | Number of BCN3 | % of BCN3 |
|------------------------|------------------------|----------------|-----------|
| 1 - 1,000 | 8,538 | 2,479,549 | 37.86 |
| 1,001 - 5,000 | 773 | 1,659,783 | 25.35 |
| 5,001 - 10,000 | 55 | 400,413 | 6.12 |
| 10,001 - 100,000 | 33 | 738,148 | 11.27 |
| 100,001 notes and over | 5 | 1,270,587 | 19.40 |
| Total | 9,404 | 6,548,480 | 100.00 |

There were 2 noteholders (representing 3 notes) who held less than a marketable parcel.

Enquiries

Investor relations:

Macquarie Group
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333

Email: macquarie.shareholders@macquarie.com

Website: macquarie.com/investors

Macquarie Bank's Company Secretary, Dennis Leong, can be contacted on the above number and email address.

Website



Annual Reports, presentations and other investor information is available at macquarie.com/investors

Glossary

| Defined term | Definition |
|--|---|
| A | |
| AASB | Australian Accounting Standards Board |
| the Act | <i>Corporations Act 2001</i> (Cth) |
| ADI | authorised deposit-taking institution |
| ALCO | Asset and Liability Committee |
| Annual Report | MBL's 2022 Annual Report |
| ANZ | Australia and New Zealand |
| APRA | Australian Prudential Regulation Authority |
| ARRs | alternative reference rates |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited |
| B | |
| BAC | the joint MGL and MBL Board Audit Committee |
| Bank Group | MBL and its subsidiaries |
| BBSW | Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc. |
| BCBS | Basel Committee on Banking Supervision |
| BCN2 | Macquarie Bank Capital Notes 2 |
| BCN3 | Macquarie Bank Capital Notes 3 |
| BEAR | Banking Executive Accountability Regime |
| BFS | Banking and Financial Services Group |
| BGCC | MGL's Board Governance and Compliance Committee |
| the Board, Macquarie Bank Board | the Board of Voting Directors of Macquarie Bank Limited |
| BONDS | bank-only non-executive directors |
| BRC | MGL's Board Remuneration Committee |
| BRiC | the joint MGL and MBL Board Risk Committee |
| Businesses | the areas within the Operating Groups carrying out various operations |
| C | |
| CAGR | compound annual growth rate |
| Central Service Groups | the Central Service Groups consist of RMG, LGG, FMG and COG |
| CEO | Managing Director and Chief Executive Officer |
| CFLI | Climate Finance Leadership Initiative |
| CGM | Commodities and Global Markets Group |
| CFO | Chief Financial Officer |
| COG | Corporate Operations Group |
| the Company, MBL | Macquarie Bank Limited ABN 46 008 583 542 |
| Comparable Key Management Personnel (Comparable KMP) | Executive KMP who were members of the Executive Committee for the full-year in both FY2020 and FY2019 |

| Defined term | Definition |
|--|---|
| the Consolidated Entity, Macquarie Bank | MBL and its subsidiaries |
| Corporate | head office and central Central Support Groups including Group Treasury |
| CRO | Chief Risk Officer |
| D | |
| Deed | Deed of Access, Indemnity, Insurance and Disclosure |
| Deed Poll | Indemnity and Insurance Deed Poll dated 12 September 2007 |
| DFVTPL | designated as FVTPL |
| Directors | the Voting Directors of MBL (unless the context indicates otherwise) |
| Divisions | named divisions within the Macquarie Group |
| DPS Plan | Directors' Profit Share Plan |
| DSU | Deferred Share Unit issued under the MEREP |
| E | |
| EAD | exposure at default |
| ECL | expected credit loss |
| EIR | effective interest rate |
| EMEA | Europe, Middle East and Africa |
| EPS | earnings per share |
| ESP | Macquarie Group Employee Share Plan |
| Executive Director | Macquarie Group's most senior employees including Group Heads, Division Heads and senior business unit managers |
| Executive Key Management Personnel (Executive KMP) | members of the Executive Committee of MBL |
| Executive Voting Director | an executive Board member |
| F–H | |
| FCTR | foreign currency translation rate |
| FLI | forward looking information |
| FMG | Financial Management Group |
| FRN | floating rate notes |
| FVA | funding valuation adjustment |
| FVOCI | fair value through other comprehensive income |
| FVTPL | fair value through profit or loss |
| GDP | gross domestic product |
| Gfanz | Glasgow Financial Alliance for Net Zero |
| GST | Goods and Services Tax |
| HFT | held for trading |
| I–J | |
| IASB | International Accounting Standards Board |
| IBOR | Interbank-offered rates |
| IFRS | International Financial Reporting Standards |
| K | |
| Key Management Personnel (KMP) | all Voting Directors and members of the Executive Committee of MBL |

| Defined term | Definition |
|---|---|
| L | |
| LGD | loss given default |
| LGG | Legal and Governance Group |
| LMI | lender mortgage insurance |
| LuxSE | Luxembourg Stock Exchange |
| M | |
| Macquarie Bank, the Consolidated Entity | MBL and its subsidiaries |
| Macquarie Board | the Board of Voting Directors of MGL |
| Macquarie Group | MGL and its subsidiaries |
| MACS | Macquarie Additional Capital Securities |
| Malus | the ability of the MGL Board or its delegate to reduce or eliminate unvested profit share for certain senior employees in certain circumstances |
| MAM | Macquarie Asset Management Group |
| Management | Division Directors and Executive Directors who have management or risk responsibility for a Division or business area |
| MBHPL | Macquarie B.H. Pty Ltd |
| MBL, the Company | Macquarie Bank Limited ABN 46 008 583 542 |
| MCN3 | Macquarie Group Capital Notes 3 |
| MCN4 | Macquarie Group Capital Notes 4 |
| MCN5 | Macquarie Group Capital Notes 5 |
| MEREP | Macquarie Group Employee Retained Equity Plan |
| MFHPL | Macquarie Financial Holdings Pty Limited |
| MGL | Macquarie Group Limited, ABN 94 122 169 279 |
| MGL ordinary shares, MQG | MGL fully paid ordinary shares |
| MGSA | Macquarie Group Services Australia Pty Limited |
| MG SPL | Macquarie Global Services Private Limited |
| MIS | Macquarie Income Securities |
| MNA | master netting arrangements |
| N | |
| NCI | non-controlling interests |
| NED | Non-Executive Director |
| NIFO | net investment in foreign operations |
| Non-Bank Group | MGL, MFHPL and its subsidiaries, MAMHPL and its subsidiaries |
| NPAT | net profit after tax |
| O | |
| OCI | other comprehensive income |
| Operating Groups | the Operating Groups consist of BFS, CGM, MAM and Macquarie Capital |
| OTC | over-the-counter |
| P-Q | |
| PD | probability of default |

| Defined term | Definition |
|------------------------|--|
| PSU | Performance Share Unit issued under the MEREP |
| PwC | PricewaterhouseCoopers |
| R | |
| RBA | Reserve Bank of Australia |
| RMG | Risk Management Group |
| ROE | return on ordinary equity |
| ROU | right-of-use |
| RSU | Restricted Share Unit issued under the MEREP |
| S | |
| Senior Executive | Macquarie Group's combined Division Director and Executive Director population |
| Senior Management | members of Macquarie Group's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation |
| SEs | structured entities |
| SFE | Sydney Futures Exchange |
| SGX | Singapore Stock Exchange |
| SICR | significant increase in credit risk |
| SPPI | solely payment of principal and interest |
| Statutory Remuneration | statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and as disclosed throughout the Remuneration Report |
| T-U | |
| TFF | Term Funding Facility |
| TSR | total shareholder return |
| V-Z | |
| VaR | Value-at-Risk |
| Voting Directors | the Voting Directors of MBL as defined in the MBL Constitution |

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