

## Supplemental Listing Document

If you are in any doubt about this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, accountant or other professional adviser. The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this document. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of Macquarie Bank Limited, the Index (defined below) or the Warrants.

**Non-collateralised warrants**  
**48,000,000 European Style Index Call Warrants**  
**relating to the Hang Seng Index**  
**issued by**



**Macquarie Bank Limited**  
(ABN 46 008 583 542)  
**(Incorporated under the laws of Australia)**

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**Issue Price: SGD 0.211 per Warrant**

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This document is published for the purpose of obtaining a listing of all the above warrants (the “**Warrants**”) to be issued by Macquarie Bank Limited (the “**Issuer**”) and is supplemental to and should be read in conjunction with a base listing document published on 15 July 2019 (the “**Base Listing Document**”) for the purpose of giving information with regard to the Issuer and the Warrants. Information relating to the Hang Seng Index (the “**Index**”) is contained in this document.

This document does not constitute or form part of any offer, or invitation, to subscribe for or to sell, or solicitation of any offer to subscribe for or to purchase, Warrants or other securities of the Issuer, nor is it calculated to invite, nor does it permit the making of, offers by the public to subscribe for or purchase for cash or other consideration Warrants or other securities of the Issuer. Restrictions have been imposed on offers and sales of the Warrants and on distributions of documents relating thereto in Singapore, the United States, the United Kingdom, Hong Kong and Australia (see Base Listing Document).

**Investors are warned that the price of the Warrants may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Warrants and carefully study the risk factors set out in this document before they invest in the Warrants.**

The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and of no other person, including those in respect of deposits, but excluding any debts for the time being preferred by law and any subordinated obligations and if you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against the Index Sponsor (as defined below) or any companies constituting the Index.

The Issuer is regulated as an authorised deposit taking institution by the Australian Prudential Regulation Authority (“APRA”). The Issuer, acting through its Singapore branch is authorised and licensed by the Monetary Authority of Singapore to carry on wholesale banking business in Singapore pursuant to the Banking Act, Chapter 19 of Singapore and therefore is subject to the supervision of the Monetary Authority of Singapore.

03 June 2020

Application has been made to the SGX-ST for permission to deal in and for quotation of the Warrants and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Warrants. It is expected that dealings in the Warrants will commence on 04 June 2020.

Warrants are complex instruments and are not suitable for inexperienced investors. Investors should also have sufficient financial resources and liquidity to bear all of the risks of an investment in the Warrants. Prospective purchasers should not invest in Warrants which are complex financial instruments unless they have the expertise (either alone or with a financial adviser) to evaluate how the Warrants will perform under changing conditions, the resulting effects on the value of the Warrants and the impact this investment will have on the potential investor's overall investment portfolio.

Subject as set out below, the Issuer accepts full responsibility for the accuracy of the information contained in this document and the Base Listing Document in relation to itself and the Warrants. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document and the Base Listing Document for which it accepts responsibility (subject as set out below in respect of the information contained herein with regard to the Index) is in accordance with the facts and is not limited by anything likely to affect the import of such information. The information with regard to the Index as set out herein is extracted from publicly available information. The Issuer accepts responsibility for accurately reproducing such extracts but accept no further or other responsibility in respect of such information.

Neither the delivery of this document nor any sale made hereunder shall create any implication that there has been no change in the affairs of the Issuer, and its subsidiaries and affiliates since the date hereof. No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the offering of the Warrants, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer.

This document does not constitute an offer or invitation by or on behalf of the Issuer to purchase or subscribe for any of the Warrants. The distribution of this document and the offering of the Warrants may, in certain jurisdictions, be restricted by law. The Issuer requires persons into whose possession this document comes to inform themselves of and observe all such restrictions.

The Warrants have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). Warrants, or interests therein, may not at any time be offered, sold, resold or delivered within the United States or to, or for the account or benefit of, U.S. persons and any offer, sale, resale or delivery made within the United States or to, or for the account or benefit of, a U.S. person will not be recognised. A further description of certain restrictions on offering and sale of the Warrants and distribution of this document is given in the section headed “Sales Restrictions” in the Base Listing Document.

The SGX-ST has made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the merits of investing in the Warrants, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

The Issuer or its affiliates may repurchase Warrants at any time and any Warrant which is repurchased may be offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer. Investors should not therefore make any assumption as to the number of Warrants in issue at any time.

References in this document to the “**Conditions**” shall mean references to the Terms and Conditions of the European Style Index Call Warrants contained in the Base Listing Document. Terms not defined herein shall have the meanings ascribed thereto in the Conditions.

## TERMS AND CONDITIONS OF THE WARRANTS

*The following are the terms and conditions of the Warrants and should be read in conjunction with, and are qualified by reference to, the other information set out in this document and the base listing document dated 15 July 2019 (the “**Base Listing Document**”).*

The Conditions are set out in the section headed “Terms and Conditions of the European Style Index Call Warrants” in the Base Listing Document. For the purposes of the Conditions, the following terms shall have the following meanings:

Warrants:	48,000,000 European Style Index Call Warrants relating to the Index
Index:	The Hang Seng Index (Reuters Instrument Code: .HSI)
Index Sponsor:	Hang Seng Indexes Company Limited
Conversion Ratio (Number of units per Warrant):	0.000833 (i.e. every 1,200 Warrants initially relate to 1 index unit)
Reference Level <sup>1</sup> and Source:	23,000.000 (out of the money) (Reuters/Bloomberg)
Strike Level:	23,800.000 (subject to adjustment as provided in Condition 6 of the Warrants)
Gearing <sup>1</sup> :	16.6x
Premium <sup>1</sup> :	9.5%
Volatility <sup>1</sup> :	Implied: 42% Historical: 21%
Launch Date:	29 May 2020
Closing Date:	03 June 2020
Dealing Commencement Date:	04 June 2020
Last Trading Date:	The 5th Business Day immediately preceding the Expiry Date, provided that if such day is not a day on which HKEX is open for dealings during its normal trading hours (“HK Business Day”), the Business Day immediately preceding such day which is also a HK Business Day, currently being 21 August 2020
Expiry Date:	28 August 2020 or if the Valuation Date falls after 28 August 2020, the Expiry Date shall be the Business Day following the Valuation

<sup>1</sup> These figures are calculated as at, and based on information available to the Issuer on or about, the date of the termsheet in respect of the Warrants. The Issuer is not obliged, and undertakes no responsibility to any person, to update or inform any person of any changes to the figures after the date of the termsheet in respect of the Warrants.

Date (subject to adjustment of the Valuation Date upon the occurrence of Market Disruption Event(s) as set out in the Conditions of the Warrants)

Board Lot: 100 Warrants

Valuation Date: 28 August 2020 or if such day is not the day on which the Hang Seng Index August 2020 Futures Contract expires on the Hong Kong Futures Exchange Limited, the day on which the Hang Seng Index August 2020 Futures Contract will expire on the Hong Kong Futures Exchange Limited or its successor or assign

Settlement Currency: Singapore dollars

Reference Currency: Hong Kong dollars

Exercise: Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) of the Warrants. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date) and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

Cash Settlement Amount: In respect of each Warrant, is the amount equal to:

$$[(\text{Closing Level} - \text{Strike Level}) \times \text{Conversion Ratio}] \times \text{Exchange Rate}$$

Where the Exchange Rate is the prevailing rate of exchange between the Hong Kong dollar to Singapore dollar as at 5:00 p.m. (Singapore time) on the Valuation Date as shown on Reuters provided that if the Reuters service ceases to display such information, such page as displays such information on such other services as may be selected by the Issuer

Closing Level: The final settlement price for settling the Hang Seng Index August 2020 Futures Contract determined pursuant to Regulation 012 of the Regulations for trading Stock Index Futures and the Contract Specifications for Hang Seng Index Futures Contracts (as

amended from time to time) of the Hong Kong Futures Exchange Limited.

Exercise Expenses: Warrantholders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants.

Relevant Stock Exchange: The Stock Exchange of Hong Kong Limited ("**HKEX**")

Clearing System: The Central Depository (Pte) Limited ("**CDP**")

Fees and Charges: Normal transaction and brokerage fees shall apply to the trading of the Warrants on the SGX-ST.

*The Conditions set out in the section headed “Terms and Conditions of the European Style Index Call Warrants” in the Base Listing Document are set out below. This section is qualified in its entirety by reference to the detailed information appearing elsewhere in this document which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions set out below, replace or modify the relevant Conditions for the purpose of the Warrants.*

## **TERMS AND CONDITIONS OF THE EUROPEAN STYLE INDEX CALL WARRANTS**

### **1. Form, Status, Transfer and Title**

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
  - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantholder**” shall be construed accordingly.

### **2. Warrant Rights and Exercise Expenses**

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 4.
- (b) *Exercise Expenses.* Warrantholders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantholders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantholders in accordance with Condition 4.

### 3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date (as defined below) falls after the Expiry Date, the Expiry Date shall be the Business Day (as defined below) following the Valuation Date).

### 4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by the Closing Level of the Index. If the Closing Level of the Index is greater than the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Closing Level of the Index is less than or equal to the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date) and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantholder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantholder only (or, in the case of joint Warrantholders, the first-named

Warrantholder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantholder and posted to the Warrantholder's address appearing in the records maintained by CDP (or, in the case of joint Warrantholders, to the address of the first-named Warrantholder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Index Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Index Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (i) that fifth Index Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that fifth Index Business Day but for the Market Disruption Event.

For the avoidance of doubt, if the Closing Level references the final settlement price for settling a futures contract and the final settlement price is not available on the scheduled Valuation Date, the Issuer may postpone the Valuation Date further until the publication of the relevant final settlement price.

**"Market Disruption Event"** means the occurrence or existence, on a Valuation Date, of any of:

- (A) the suspension or limitation of the trading of a material number of securities/commodities from time to time comprising the Index; or
- (B) the suspension or limitation of the trading of securities/commodities (1) on the SGX-ST or the relevant stock exchange on which the Shares related to the Warrants are traded ("**Relevant Stock Exchange**") (as specified in the relevant Supplemental Listing Document) or (2) generally; or
- (C) the suspension or limitation of the trading of (1) options or futures relating to (i) the Index or (ii) any exchange-traded fund over the Index on any options or futures exchanges or (2) options or futures generally on any options and/or futures exchanges on which options or futures relating to the Index are traded; or
- (D) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition, (aa) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (bb) a limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason



of the movements in price exceeding the levels permitted by any relevant exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the relevant exchange will constitute a Market Disruption Event.

“Valuation Date” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, the date or dates specified in the relevant Supplemental Listing Document.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore and an “**Index Business Day**” shall be a day on which the Index is published by the Index Sponsor or, as the case may be, the Successor Index Sponsor and where the Index closes at the normal trading hours.

## 5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantholders.

## 6. Adjustments to the Index

- (a) *Successor Sponsor Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the “**Successor Index Sponsor**”) acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.
- (b) *Modification and Cessation of Calculation of Index.* If:
  - (i) on or prior to a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the

Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stocks, contracts or commodities and other routine events); or

- (ii) on a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index,

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer (A) in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange); or (B) by reference to the price of the options or futures relating to (i) the Index or (ii) any exchange-traded fund over the Index.

- (c) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of determination in accordance with Condition 9.

## **7. Purchases**

The Issuer or its related corporations may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

## **8. Meetings of Warrantholders; Modification**

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warrantholders.

Such a meeting may be convened by the Issuer or by Warrantholders holding not less than ten per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

## **9. Notices**

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warrantholder or to which a Warrantholder is entitled or which the Issuer shall have agreed to deliver to a Warrantholder may be delivered by hand or sent by post addressed to the Warrantholder at his address appearing in the records maintained by CDP or, in the case of joint Warrantholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.
- (b) *Notices.* All notices to Warrantholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

## **10. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

## **11. Early Termination for Illegality and Force Majeure, etc.**

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9.

## **12. Governing Law**

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

## **13. Prescription**

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within six years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

## **14. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore**

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

## SUMMARY OF THE ISSUE

*The following is a summary of the issue and should be read in conjunction with, and is qualified by reference to, the other information set out in this document and the Base Listing Document. Terms used in this Summary are defined in the Conditions.*

Issuer:	Macquarie Bank Limited
Index:	The Hang Seng Index
The Warrants:	European Style Index Call Warrants relating to the Index
Number:	48,000,000 Warrants
Form:	The Warrants will be issued subject to, and with the benefit of, an instrument by way of deed poll dated 03 June 2020 (the “ <b>Instrument</b> ”) and executed by the Issuer and a master warrant agent agreement dated 26 November 2004 (the “ <b>Warrant Agent Agreement</b> ”) and made between the Issuer and the Warrant Agent.
Conversion Ratio (Number of units per Warrant):	0.000833 (i.e. every 1,200 Warrants initially relate to 1 index unit)
Cash Settlement Amount:	<p>In respect of each Warrant, is the amount equal to:</p> $[(\text{Closing Level} - \text{Strike Level}) \times \text{Conversion Ratio}] \times \text{Exchange Rate}$ <p>Where the Exchange Rate is the prevailing rate of exchange between the Hong Kong dollar to Singapore dollar as at 5:00 p.m. (Singapore time) on the Valuation Date as shown on Reuters provided that if the Reuters service ceases to display such information, such page as displays such information on such other services as may be selected by the Issuer</p>
Denominations:	Warrants are represented by a global warrant in respect of all the Warrants.
Exercise:	Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) of the Warrants. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry

Date, the Expiry Date shall be the Business Day following the Valuation Date) and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

Trading Currency: Singapore dollars

Transfers of Warrants: Warrants may only be transferred in Board Lots (or integral multiples thereof). All transfers in Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records of CDP.

Listing: Application has been made to the SGX-ST for permission to deal in and for quotation of the Warrants and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Warrants. Issue of the Warrants is conditional on such listing being granted. It is expected that dealings in the Warrants on the SGX-ST will commence on or about 04 June 2020.

Governing Law: The laws of Singapore

Warrant Agent: Macquarie Capital Securities (Singapore) Pte. Limited

Further Issues: Further issues which will form a single series with the Warrants will be permitted.

*The above summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this document and the Base Listing Document.*

## RISK FACTORS

The following risk factors are relevant to the Warrants:

- (a) investment in Warrants involves substantial risks including market risk, liquidity risk, and the risk that the Issuer will be unable to satisfy its obligations under the Warrants. Investors should ensure that they understand the nature of all these risks before making a decision to invest in the Warrants. You should consider carefully whether Warrants are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. Warrants are not suitable for inexperienced investors;
- (b) the Warrants constitute direct, general and unsecured contractual obligations of the Issuer and no other person and will rank *pari passu* with the Issuer's other unsecured contractual obligations and with the Issuer's unsecured and unsubordinated debt other than indebtedness preferred by mandatory provisions of law. The Warrants are not secured by any collateral. Section 13A of the Banking Act of 1959 of Australia provides that, in the event of the Issuer becoming unable to meet its obligations or suspending payments, the assets of the Issuer in Australia shall be available to satisfy specified liabilities in priority to all other liabilities of the Issuer (including the obligations of the Issuer under the Warrants). The specified liabilities include first, certain obligations of the Issuer to APRA in respect of amounts payable by APRA to holders of protected accounts, and then as the next priority obligations of the Issuer in respect of APRA's costs of administration, then other liabilities of the Issuer in relation to protected accounts in Australia, following this any debts that the Authorized Deposit-taking Institution owes to the Reserve Bank of Australia and any liabilities under a certified support contract (certified under section 11CB of the Banking Act) and then, other liabilities, in order of their priority. If you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against any other person. In particular, it should be noted that the Issuer issues a large number of financial instruments, including Warrants, on a global basis and, at any given time, the financial instruments outstanding may be substantial. If you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against the sponsor of the underlying indices or any companies or trusts forming part of any indices to which the Warrants relate. The Issuer is not a fiduciary of Warrantholders (as defined in the Conditions) and has substantially no obligation to a Warrantholder other than to pay amounts in accordance with the terms thereof as set forth herein and in the Base Listing Document. The Issuer does not in any respect underwrite or guarantee the performance of any Warrant. Any profit or loss realised by a Warrantholder in respect of a Warrant upon exercise or otherwise due to changes in the value of such Warrant, or the indices underlying the Warrants, is solely for the account of such Warrantholder. In addition, the Issuer shall have the absolute discretion to put in place any hedging transaction or arrangement which it deems appropriate in connection with any Warrant or the applicable underlying indices. A reduction in the rating, if any, accorded to outstanding debt securities of the Issuer by any one of its rating agencies could result in a reduction in the trading value of the Warrants;
- (c) the price of the Warrants may fall in value as rapidly as it may rise and Warrantholders may sustain a total loss of their investment. The risk of losing all or any part of the purchase price of a Warrant upon the expiry of the Warrants means that, in order to recover and realise a return on investment, investors in Warrants must generally anticipate correctly the direction, timing and magnitude of any change in the units of the underlying Index. Changes in the price of the level of the underlying Index can be unpredictable, sudden and large and such changes may result in the index moving in a direction which will negatively impact upon the return on

an investment. In the case of Warrants relating to a share Index, certain events relating to such units of the Index or the Index components may cause adverse movements in the value and level of the underlying Index as a result of which, the Warrantholders may, in certain circumstances, sustain a total loss of their investment if the Closing Level of the underlying Index on the valuation date falls below or is equal to the exercise level;

- (d) due to their nature, the Warrants can be volatile instruments and may be subject to considerable fluctuations in value. The price of the Warrants may fall in value as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the level of the underlying index, dividends and interest rate, the time remaining to expiry and the creditworthiness of the Issuer;
- (e) before exercising or selling the Warrants, the holders of Warrants should carefully consider, among other things, (i) the trading price of the Warrants; (ii) the value and volatility of the Index; (iii) the time remaining to expiration; (iv) the probable range of Cash Settlement Amounts; (v) any change(s) in interim interest rates and dividend yields; (vi) any change(s) in currency exchange rates; (vii) the depth of the market or liquidity of the Index; (viii) any related transaction costs; and (ix) the creditworthiness of the Issuer;
- (f) fluctuations in the level of the underlying Index will affect the price of the Warrants but not necessarily in the same magnitude and direction, therefore, prospective investors intending to purchase Warrants to hedge their market risk associated with investing in the underlying Index should recognize the complexities of utilizing the Warrants in this manner;
- (g) the settlement amount of Warrants at any time prior to the expiry of the Warrants may be less than the trading price of such Warrants at that time. The difference between the trading price and the settlement amount as the case may be, will reflect, among other things, a “time value” for the Warrants. The “time value” of the Warrants will depend partly upon the length of the period remaining to the expiry date of the Warrants and expectations concerning the value of the underlying Index or the components of the underlying Index;
- (h) investors should note that an investment in the Warrants involves valuation risks in relation to the underlying asset. The value of the underlying asset may vary over time and may increase or decrease by reference to various factors, which may include changes in computation or composition, macro economic factors and market trends. Certain (but not all) events relating to any indices underlying the Warrants require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions. However, the Issuer is not required to make an adjustment for every event that affects the underlying asset. If an event occurs that does not require the Issuer to adjust the Conversion Ratio or any other part of the Conditions, the market price of the Warrants and the return upon the exercise of the Warrants may be affected;
- (i) as indicated in the Conditions, a Warrantholder must tender a specified number of Warrants at any one time in order to exercise. Thus, Warrantholders with fewer than the specified minimum number of Warrants in a particular series will either have to sell their Warrants or purchase additional Warrants, incurring transactions costs in each case, in order to realise their investment;
- (j) unless otherwise specified in the Conditions, in the case of any exercise of the Warrants, there may be a time lag between the date on which the Warrants are exercised and the time the applicable settlement amount relating to such an event is determined. Any such delay



between the time of exercise and the determination of the settlement amount will be specified in the Conditions. However such delay could be significantly longer, particularly in the case of a delay in the exercise of the Warrants arising from, a determination by the Issuer that a Market Disruption Event has occurred at any relevant time or that adjustments are required in accordance with the Conditions. That applicable settlement amount, may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Warrants;

- (k) if, whilst any of the Warrants remain unexercised, trading in the shares or securities relating to or constituting the Index is suspended, trading of options or futures relating to the Index on any options or futures exchanges is suspended, or options or futures generally on any options and/or futures exchanges on which options relating to the Index are traded is suspended, or if the Index for whatever reason is not calculated, trading in the Warrants may be suspended for a similar period;
- (l) in the case of the Warrants, certain events relating to indices permit the Issuer to make certain determinations in respect of the indices;
- (m) a level for the Index (as defined in the Conditions) may be published by the Index Sponsor (as defined in the Conditions) at a time when one or more shares comprised in the Index are not trading. If this occurs on a Valuation Date (as defined in the Conditions) and there is no Market Disruption Event under the terms of the relevant Warrants then the value of such shares will not be included in the closing level of the Index. In addition, certain events relating to the Index (including a material change in the formula or the method of calculating the Index or a failure to publish the Index) permits the Issuer to determine the level of the Index on the basis of the formula or method last in effect prior to such change of formula;
- (n) the Warrants are only exercisable on their expiry date and may not be exercised by Warrantholders prior to such expiry date. Accordingly, if on such expiry date the Cash Settlement Amount (where applicable) is zero or negative, a Warrantholder will lose the value of his investment;
- (o) investors should note that there may be an exchange rate risk in the case of the Warrants where the Cash Settlement Amount may be converted from a foreign currency into Singapore dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments, and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Warrants. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies;
- (p) investors should note that it is not possible to predict the price at which the Warrants will trade in the secondary market or whether such market will be liquid or illiquid. A decrease in the liquidity of the Warrants or the futures, derivatives or other security related to the Warrants may cause, in turn, an increase in the volatility associated with the price of such issue of Warrants. The Issuer may, but is not obligated to, at any time, purchase Warrants at any price in the open market or by tender or private agreement. Any Warrants so purchased may be held or resold or surrendered for cancellation. As the Warrants are only exercisable on the

expiry date, an investor will not be able to exercise his warrants to realize value in the event that the relevant issue becomes illiquid;

- (q) in the event of any delisting of the Warrants from the SGX-ST (other than at expiry), the Issuer will use all reasonable efforts to list the Warrants on another exchange. If the Warrants are not listed or traded on any exchange, pricing information for the Warrants may be difficult to obtain and the liquidity of the Warrants may be adversely affected;
- (r) two or more risk factors may simultaneously have an effect on the value of a Warrant such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a Warrant;
- (s) in the ordinary course of their business, including without limitation in connection with the Issuer or its appointed designated market maker's market making activities, the Issuer and any of its respective subsidiaries and affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the underlying units and/or indices or related derivatives. In addition, in connection with the offering of any Warrants, the Issuer and any of its respective subsidiaries and affiliates may enter into one or more hedging transactions with respect to the underlying units and/or indices or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer and any of its respective subsidiaries and its affiliates, the Issuer and any of its respective subsidiaries and affiliates may enter into transactions in the underlying units and/or indices or related derivatives which may affect the market price, liquidity or value of the Warrants and which may affect the interests of Warrantholders;
- (t) if the Issuer determines in good faith that the performance of its obligations under the Conditions has become unlawful or impractical in whole or in part, the Issuer may at its sole and absolute discretion and without obligation, terminate the Warrants prior to the expiry date, in which event the Issuer to the extent permitted by any relevant applicable law, will pay to each Warrantholder an amount as determined by the Issuer, in its sole and absolute discretion, in accordance with the Conditions. If the Issuer terminates the Warrants prior to the expiry date, the Issuer will, if and to the extent permitted by any relevant applicable law, pay each Warrantholder an amount to be determined by the Issuer, in its sole and absolute discretion, to be the fair market value of the Warrants immediately prior to such termination or otherwise determined as specified in the Conditions, notwithstanding the illegality or impracticality;
- (u) the Issuer may enter into discount, commission or fee arrangements with brokers and/or any of its affiliates with respect to the primary or secondary market in the Warrants and such arrangement may present certain conflicts of interest for the brokers. The arrangements may or may not result in the benefit to investors in Warrants buying and selling Warrants through nominated brokers. Investors in the Warrants should note that any brokers with whom the Issuer has a commission arrangement does not, and cannot be expected to deal, exclusively in the Warrants, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the shares in the underlying Index and/or structured products of other issuers over the same shares in the same underlying Index as the Warrants for their proprietary accounts and/or accounts of their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Warrants and present certain conflicts of interests;

- (v) changes in Singapore tax law and/or policy may adversely affect Warrantholders. Warrantholders who are in any doubt as to the effects of any such changes should consult their stockbrokers, bank managers, accountants, solicitors or other professional advisers;
- (w) as the Warrants are represented by a global warrant certificate which will be deposited with the CDP:
  - (i) investors should note that no definitive certificate will be issued in relation to the Warrants;
  - (ii) there will be no register of Warrantholders and each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants by way of interest (to the extent of such number) in the global warrant certificate in respect of those Warrants represented thereby shall be treated as the holder of such number of Warrants;
  - (iii) investors will need to rely on any statements received from their brokers/custodians as evidence of their interest in the Warrants; and
  - (iv) notices to such Warrantholders will be published on the web-site of the SGX-ST. Investors will need to check the web-site of the SGX-ST regularly and/or rely on their brokers/custodians to obtain such notices; and
- (x) the value of the Warrants depends upon, amongst other things, the ability of Issuer to fulfil its obligations under the terms which, in turn is primarily dependent on the financial prospects of the Issuer; and
- (y) Foreign Account Tax Compliance withholding may affect payments on the Warrants

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") impose a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

While the Warrants are in dematerialised form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. An Issuer's obligations under the Warrants are discharged once it has paid the clearing systems and an

Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

- (z) our business and financial condition has been and may be negatively affected by adverse global credit and other market conditions as well as geopolitical events. Global economic conditions may have a negative effect on our financial condition and liquidity.

Macquarie Group Limited (ABN 94 122 169 279) (“**MGL**”) and its controlled entities (“**Macquarie Group**”) businesses operate in or depend on the operation of global markets, including through exposures in securities, loans, derivatives and other activities. In particular, past uncertainty and volatility in global credit markets, liquidity constraints, increased funding costs, constrained access to funding, and the decline in equity and capital market activity have adversely affected and may again affect transaction flow in a range of industry sectors. If repeated, such factors could adversely impact our financial performance.

In conducting our businesses and maintaining and supporting our global operations, we are subject to risks of possible nationalization and/or confiscation of assets, expropriation, price controls, capital controls, redenomination risk, exchange controls, protectionist trade policies, economic sanctions and other restrictive governmental actions, unfavourable political and diplomatic developments and changes in legislation. These risks are particularly elevated in emerging markets.

The Issuer may face new costs and challenges as a result of general economic and geopolitical events and conditions. For instance, a European sovereign default, slowdown in the U.S. or Chinese economies, slowing growth in emerging economies, the departure of the United Kingdom or another member country from the Euro zone or the market’s anticipation of such events could disrupt global funding markets and the global financial system more generally. Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, may also adversely affect global financial markets, general economic and business conditions and the Issuer’s ability to continue operating or trading in a country. Potential risks of default on sovereign debt in some jurisdictions could expose us to substantial losses, and market and economic disruptions of all types could have an adverse impact on our business.

Poor economic conditions and other adverse geopolitical conditions and developments such as growing tensions between the United States and China relating to tariff levels and reciprocal trade and the ongoing negotiations between the United Kingdom and the European Union to determine the terms of the United Kingdom’s departure from the European Union, can adversely affect and have adversely affected investor and client confidence, resulting in declines in the size and number of underwritings and financial advisory transactions and increased market risk as a result of increased volatility, which could have an adverse effect on our revenues and our profit margins.

In the aftermath of the global financial crisis that began in 2007, governments, regulators and central banks took a number of steps to increase liquidity and to restore investor and public confidence. As the global economic environment improved, a number of the extraordinary measures have been curtailed or withdrawn. The withdrawal of such measures may create or contribute to uncertainty and volatility in global credit markets and reduce economic growth.

- (aa) our liquidity, profitability and businesses may be adversely affected by an inability to access international capital markets or by an increase in our cost of funding.

Liquidity is essential to our business, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired if we are unable to access debt markets or sell assets or if we experience unforeseen outflows of cash or collateral. Our liquidity may also be

impaired due to circumstances that we may be unable to control, such as general market disruptions, which may occur suddenly and dramatically, an operational problem that affects our trading clients, or changes in our credit spreads, which are market-driven, and subject at times to unpredictable and highly volatile movements.

General business and economic conditions significantly affect our access to credit and equity capital markets, cost of funding and ability to meet our liquidity needs. Renewed turbulence or a worsening general economic climate could adversely impact factors such as short-term and long-term interest rates, inflation, monetary supply, commodity prices, debt and equity capital markets, foreign exchange rates, consumer confidence and the strength of the economies in which we operate. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and may limit our ability to replace, maturing liabilities, which could adversely affect our ability to fund and grow our business.

If our current sources of funding prove to be insufficient, we may be forced to seek alternative financing, which could include selling liquid securities or other assets. The cost of these financing alternatives and/or the unavailability of sufficient funding could slow the growth rate of our businesses, cause us to reduce our term assets and increase our cost of funding.

- (ab) many of our businesses are highly regulated and we could be adversely affected by changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions.

We operate various kinds of businesses across multiple jurisdictions, and some of our businesses operate across more than one jurisdiction or sector and are regulated by more than one regulator. Additionally, some members of the Issuer and/or its controlled entities ("**MBL Group**") own or manage assets and businesses that are regulated. Our businesses include an Authorised Deposit-taking Institution ("**ADI**") in Australia (regulated by the Australian Prudential Regulation Authority ("**APRA**")), bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and South Korea and representative offices in the United States and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of the Issuer's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation.

Regulatory agencies and governments frequently review and revise banking and financial services laws, security and competition laws, fiscal laws and other laws, regulations and policies, including fiscal policies. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally or on financial institutions or transactions, limiting the type of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Global economic conditions and increased scrutiny of the culture in the banking sector have led to increased supervision and regulation, as well as changes in regulation in markets in which we operate, particularly for financial institutions, and may lead to further significant changes of this kind. In Australia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "**Royal Commission**") was established in December 2017 and concluded on 1 February 2019. The Royal Commission inquired into the causes of and responses to misconduct by financial services entities and conduct following below community standards and expectations and held rounds of public hearings on a wide range of matters, including consumer and SME lending, financial advice, superannuation, insurance, culture, governance, remuneration, and the remits of regulators. The Royal Commission's final report

was published on 4 February 2019 and contains 76 recommendations. No findings were made by the Royal Commission in relation to the Macquarie Group or the Issuer. The Australian federal government has agreed to take action on all recommendations contained in the final report. The Royal Commission's recommendations are likely to result in a range of significant legislative, regulatory and industry practice changes. Such changes may adversely impact the Issuer's business, operations, compliance costs, financial performance and prospects. We are closely monitoring the governmental, regulatory and industry responses to these recommendations and will participate in public and industry consultations as appropriate.

In some countries in which we do business or may in the future do business, in particular in emerging markets, the laws and regulations applicable to the financial services industry are uncertain and evolving, and it may be difficult for us to determine the requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation.

APRA may introduce new prudential regulations or modify existing regulations, including those that apply to the Issuer as an ADI. Any such event could result in changes to the organisational structure of Macquarie Group and adversely affect the MBL Group.

We are also subject in our operations worldwide to rules and regulations relating to corrupt and illegal payments and money laundering, as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries. The geographical diversity of our business increases the risk that we may be found in violation of such rules or regulations. Emerging technologies, such as cryptocurrencies, could limit our ability to track the movement of funds. Our ability to comply with these laws is dependent on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability.

- (ac) We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

The financial crisis and the subsequent political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny, investigations and litigation. Investigations, inquiries, penalties and fines sought by regulatory authorities have increased substantially over the last several years, and regulators have become aggressive in commencing enforcement actions or with advancing or supporting legislation targeted at the financial services industry. If we are subject to adverse regulatory findings, the financial penalties could have a material adverse effect on our results of operations. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation with clients and on the morale and performance of our employees.

- (ad) Changes and increased volatility in currency exchange rates may adversely impact our financial results and our financial and regulatory capital positions.

While our consolidated financial statements are presented in Australian dollars, a significant portion of our operating income is derived, and operating expenses are incurred, from our offshore business activities, which are conducted in a broad range of currencies. Changes in the rate at which the Australian dollar is translated from other currencies can impact our financial statements and the economics of our business. Insofar as we are unable to hedge or

have not completely hedged our exposure to currencies other than Australian dollar, our reported profit or foreign currency translation reserve would be affected.

In addition, because MBL Group's regulatory capital position is assessed in Australian dollars, our capital ratios may be adversely impacted by a depreciating Australian dollar, which increases the capital requirement for assets denominated in currencies other than Australian dollars.

- (ae) Our business may be adversely affected by our failure to adequately manage the risks associated with strategic opportunities and new businesses, including acquisitions, and the exiting or restructuring of existing businesses.

We are continually evaluating strategic opportunities and undertaking acquisitions of businesses, some of which may be material to our operations. Our completed and prospective acquisitions and growth initiatives may cause us to become subject to unknown liabilities of the acquired or new business and additional or different regulations.

We may be exposed to a number of risks in acquiring new businesses and in outsourcing, exiting or restructuring existing businesses. Where our acquisitions are in foreign jurisdictions, or are in emerging or growth economies in particular, we may be exposed to heightened levels of regulatory scrutiny and political, social or economic disruption and sovereign risk in emerging and growth markets.

Future growth, including through acquisitions, mergers and other corporate transactions, may also place significant demands on our managerial, legal, accounting, IT, risk management, operational and financial resources and may expose us to additional risks.

- (af) Our business depends on our brand and reputation.

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in the MBL Group and many of the funds managed by entities owned, in whole or in part, by MBL and MGL use the Macquarie name. We do not control those entities that are not in MBL Group, but their actions may reflect directly on our reputation.

Our business may be adversely affected by negative publicity or poor financial performance in relation to any of the entities using the Macquarie name, including any Macquarie-managed fund or funds that Macquarie has promoted or is associated with.

- (ag) Competitive pressure, both in the financial services industry as well as in the other industries in which we operate, could adversely impact our business.

We face significant competition from local and international competitors, which compete vigorously in the markets and sectors across which we operate. In addition, the use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models, including in relation to digital payment services and open data banking, that challenge, and could potentially disrupt, traditional financial services. We face competition from established providers of financial services as well as from businesses developed by non-financial services companies. We believe that we will continue to experience pricing pressures in the future as some of our competitors seek to obtain or increase market share.

Any consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition in the financial services industry has

also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. Many of our competitors are larger than we are and may have significantly greater financial resources than we do and/or may be able to offer a wider range of products which may enhance their competitive position.

The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins and could adversely impact our businesses, prospects, results of operations or financial condition.

- (ah) Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance.

Our employees are our most important resource, and our performance largely depends on the talents and efforts of highly skilled individuals. Our continued ability to compete effectively in our businesses and to expand into new business areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new employees. Competition from within the financial services industry and from businesses outside the financial services industry for qualified employees has historically been intense and we expected it to increase during periods of economic growth.

In order to attract and retain qualified employees, we must compensate such employees at or above market levels. As a regulated entity, we may be subject to limitations on remuneration practices. These limitations may require us to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees.

- (ai) Our business is subject to the risk of loss associated with falling prices in the equity and other markets in which we operate.

We are exposed to changes in the value of financial instruments and other financial assets that are carried at fair market value, as well as changes to the level of our advisory and other fees, due to changes in interest rates, exchange rates, equity and commodity prices and credit spreads and other market risks. These changes may result from changes in economic conditions, monetary and fiscal policies, market liquidity, availability and cost of capital, international and regional political events, acts of war or terrorism, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics or a combination of these or other factors. Certain financial instruments that we hold and contracts to which we are a party are complex, and these complex structured products often do not have readily available markets to access in times of liquidity stress.

- (aj) Defaults by one or more other large financial institutions or counterparties could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. Concerns about, or a default by, one or more institutions or by a sovereign could lead to market-wide liquidity problems, losses or defaults by other institutions globally that may further affect us. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, hedge funds and exchanges that we interact with on a daily basis. If any of our counterpart financial institutions fail, our financial exposures to that institution may lose some or all of their value. The failure of one financial institution may also affect the soundness of other financial institutions with which we transact, resulting in additional failures, financial instruments losing



their value and liquidity, and interruptions to capital markets. Any of these events would have a serious adverse effect on our liquidity, profitability and value.

- (ak) An increase in the failure of third parties to honor their commitments in connection with our trading, lending and other activities may adversely impact our business.

We are exposed to the potential for credit-related losses as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur.

- (al) Failure to maintain our credit ratings and those of our subsidiaries could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.

The credit ratings assigned to us and certain of our subsidiaries by rating agencies are based on an evaluation of a number of factors, including our ability to maintain a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, funding stability and security, disciplined liquidity management and our key operating environments, including the availability of systemic support in Australia. In addition, a credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events that are not related to the MBL Group.

If we fail to maintain our current credit ratings, this could (i) adversely affect our cost of funds and related margins, liquidity, competitive position, the willingness of counterparties to transact with us and our ability to access capital markets or (ii) trigger our obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with us or require us to post additional collateral, which could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

- (am) We may incur losses as a result of ineffective risk management processes and strategies.

While we employ a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

- (an) MBL Group relies on services provided by Macquarie Group.

Macquarie Group provides shared services to MBL Group. These shared services include, but are not limited to, risk management, financial and treasury services, information technology, human resources, other group-wide services and business shared services. Other than shared service arrangements and compliance with legal obligations, entities of Macquarie Group that are not part of the MBL Group are not obligated to support the businesses of MBL Group. Any failure by Macquarie Group to continue to provide shared services or an increase in the cost of such services will have an adverse impact on our results or operations.

- (ao) Our business operations expose us to potential tax liabilities that could have an adverse impact on our results of operations and our reputation.

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. While we believe that we have in place controls and procedures that are designed to ensure that transactions involving third parties comply with applicable tax laws and regulations, any actual or alleged failure to comply with or any change in the interpretation, application or enforcement of applicable tax laws and regulations could adversely affect our reputation and affected business areas, significantly increase our own tax liability and expose us to legal, regulatory and other actions.

- (ap) we may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events.

Our businesses depend on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control.

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems or from external suppliers and service providers including cloud-based outsourced technology platforms, or external events.

In addition, there have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee, contractor and external service provider misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases, which could result in financial losses, regulatory intervention and reputational damage.

In addition, we face the risk of operational failure, termination or capacity constraints of any of the counterparties, clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities or derivatives transactions, and as our interconnectivity with our clients and counterparties grows, the risk to us of failures in our clients' and counterparties' systems also grows.

- (aq) A cyber attack, information or security breach, or a technology failure could adversely affect our ability to conduct our business, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information and increase our costs.

Our businesses depend on the security and efficacy of our information technology systems, as well as those of third parties with whom we interact or on whom we rely. We implement measures designed to protect the security, confidentiality, integrity and availability of our computer systems, software and networks, including maintaining the confidentiality of information that may reside on those systems. However, there can be no assurances that our security measures will provide absolute security.

Information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications

technology and the increased sophistication and activities of attackers. We, our customers, regulators and other third parties have been subject to, and are likely to continue to be the target of, cyber attacks. Despite efforts to protect the integrity of our systems and implement protective measures, we may not be able to anticipate all security breaches or implement preventive measures against such security breaches.

Information security threats may also occur as a result of our plans to continue to implement internet banking and mobile banking channel strategies, develop additional remote connectivity solutions and outsource some of our business operations. We face indirect technology, cybersecurity and operational risks relating to the customers, clients, external service providers and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities.

As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. Any third-party technology failure, cyber attack or other information or security breach, termination or constraint could adversely affect our businesses.

Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences for MBL Group.

- (ar) Our businesses are subject to the risk of unforeseen, hostile or potential catastrophic events, and environmental, social, reputational and other risks.

Our businesses and assets are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, extreme weather events, occurrence of diseases, leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events. Additionally, rising climate change concerns may lead to additional regulation that could increase the operating costs and/or reduce the profitability of our investments.

The occurrence of any such events may prevent us from performing under our agreements with clients, may disrupt our business activities, impair our operations or financial results, affect the value of assets held in the affected locations, and may result in litigation, regulatory action, negative publicity or other reputational harm. In addition, such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect our business, prospects, financial performance or financial condition.

- (as) Conflicts of interest could limit our current and future business opportunities.

As we expand our businesses and our client base, we increasingly have to address potential or perceived conflicts of interest, including situations where our services to a particular client conflict with, or are perceived to conflict with, our own proprietary investments or other interests or with the interests of another client, as well as situations where one or more of our businesses have access to material non-public information that may not be shared with other businesses within Macquarie Group. While we believe we have adequate procedures and controls in place to address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses, appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged and the willingness of clients or counterparties to enter into transactions may be adversely affected if we fail, or

appear to fail, to deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to claims by and liabilities to clients, litigation or enforcement actions.

- (at) Litigation and regulatory actions may adversely impact our results of operations.

We may, from time to time, be subject to material litigation and regulatory actions, for example, as a result of inappropriate documentation of contractual relationships, class actions or regulatory violations, which, if they crystallize, may adversely impact upon our results of operations and financial condition in future periods or our reputation. We regularly obtain legal advice and make provisions, as deemed necessary. There is a risk that any losses may be larger than anticipated or provided for or that additional litigation, regulatory actions or other contingent liabilities may arise. Furthermore, even where monetary damages may be relatively small, an adverse finding in a regulatory or litigation matter could harm our reputation or brand, thereby adversely affecting our business.

## INFORMATION RELATING TO THE INDEX

*All information contained in this document regarding the Index is derived from publicly available information which appears on the website of Hang Seng Indexes Company Limited at [www.hsi.com.hk](http://www.hsi.com.hk). The Issuer has not independently verified any of such information.*

### **Description of the Index**

The Hang Seng Index (“**HSI**”) is one of the earliest stock market indexes in Hong Kong. Publicly launched on 24 November 1969, the HSI has become the most widely quoted indicator of the performance of the Hong Kong stock market.

The HSI is managed and compiled by Hang Seng Indexes Company Limited (the “**Index Sponsor**”) (formerly HSI Services Limited), which is a wholly-owned subsidiary of Hang Seng Bank.

### **Constituent Stocks**

To better reflect the price movements of major industry sectors of the market, HSI constituent securities are grouped into 4 sectors including Finance, Utilities, Properties, and Commerce and Industry sub-indexes. The constituent stocks are as follows (effective 9 September 2019):

#### *Finance*

<b>Company Name</b>	<b>Stock Code</b>
HSBC Holdings plc	5
Hang Seng Bank Limited	11
Hong Kong Exchanges and Clearing Limited	388
China Construction Bank Corporation	939
AIA Group Limited	1299
Industrial and Commercial Bank of China Limited	1398
Ping An Insurance (Group) Company of China, Ltd.	2318
BOC Hong Kong (Holdings) Limited	2388
China Life Insurance Company Limited	2628
Bank of Communications Co., Ltd.	3328
Bank of China Limited	3988

#### *Utilities*

<b>Company Name</b>	<b>Stock Code</b>
CLP Holdings Limited	2
The Hong Kong and China Gas Company Limited	3
Power Assets Holdings Limited	6
CK Infrastructure Holdings Limited	1038

#### *Properties*

<b>Company Name</b>	<b>Stock Code</b>
Henderson Land Development Company Limited	12
Sun Hung Kai Properties Limited	16
New World Development Company Limited	17

Sino Land Company Limited	83
Hang Lung Properties Limited	101
China Overseas Land & Investment Limited	688
Link Real Estate Investment Trust	823
China Resources Land Limited	1109
CK Asset Holdings Limited	1113
Wharf Real Estate Investment Company Limited	1997
Country Garden Holdings Company Limited	2007

### *Commerce and Industry*

<b>Company Name</b>	<b>Stock Code</b>
CK Hutchison Holdings Limited	1
Swire Pacific Limited 'A'	19
Galaxy Entertainment Group Limited	27
MTR Corporation Limited	66
Want Want China Holdings Limited	151
Geely Automobile Holdings Limited	175
CITIC Limited	267
WH Group Limited	288
China Petroleum & Chemical Corporation	386
Techtronic Industries Co. Ltd.	669
Tencent Holdings Limited	700
China Unicom (Hong Kong) Limited	762
PetroChina Company Limited	857
CNOOC Limited	883
China Mobile Limited	941
Hengan International Group Company Limited	1044
China Shenhua Energy Company Limited	1088
CSPC Pharmaceutical Group Limited	1093
Sino Biopharmaceutical Limited	1177
Sands China Ltd.	1928
AAC Technologies Holdings Inc.	2018
Shenzhou International Group Holdings Limited	2313
China Mengniu Dairy Company Limited	2319
Sunny Optical Technology (Group) Company Limited	2382

### **Eligibility and Selection Criteria**

A security is eligible for constituent selection if it fulfils the following eligibility criteria.

#### ***Market Value ("MV") Requirement***

The MV of each individual security refers to the average of month-end MVs for the past 12 months of any review period.

Securities in the universe are sorted in descending order of MV and the cumulative MV coverage is calculated at each security. Securities among those that constitute the cumulative MV coverage of top 90% are eligible.

#### ***Turnover Requirement***

For each security, turnover in the past 24 months is assessed for eight quarterly sub-periods.

The turnover requirement adopts a scoring approach, with details as follows:

- (a) for each quarterly sub-period, securities in the universe are sorted in descending order of aggregate turnover and the cumulative aggregate turnover coverage is calculated at each security. A security will be regarded as passing the turnover requirement in that period if it is among the top 90% of the cumulative aggregate turnover coverage
- (b) two points will be assigned for each 'pass' achieved over the latest four sub-periods, and one point will be assigned for each 'pass' attained over the previous four sub-periods

The highest score for turnover requirement is 12 points. Securities should obtain at least 8 points to meet the turnover requirement.

### ***Listing History Requirement***

To ensure that constituents of the HSI are representative securities of the Hong Kong stock market and meet the MV and turnover requirements in 3.4–3.8, a security should normally be listed for at least 24 months before becoming eligible for inclusion in the HSI.

A security with a very large MV but with a listing history of less than 24 months may be considered for inclusion in the HSI if it satisfies the more stringent MV requirements detailed below:

MV Rank by Review Cut-off Date	Minimum Listing History
Top 5	3 Months
6-15	6 Months
16-20	12 Months
21-25	18 Months
Below 25	24 Months

Note: MV Rank refers to:

- (i) average of month-end MVs since the listing date for securities listed for less than 12 months; and
- (ii) average of month-end MVs for the past 12 months for securities listed for 12 or more months.

For a security with a listing history of less than or equal to 12 months, it will pass the turnover requirement if it is among the top 90% of the cumulative market turnover of the Universe for each quarterly sub-period. For a security with a listing history of over 12 months, it will pass the turnover requirement should its score reach the minimum requirement, i.e. 8 points, as detailed in 3.7–3.8.

The listing history is defined as the period between the listing date and the next review meeting date (both dates inclusive).

### ***Special Requirement for H-share Companies***

The H-shares of mainland China enterprises listed on HKEX will not be selected unless the company has no unlisted share capital.

### ***Principles of Final Selection***

Companies or REITs meeting all eligibility requirements will be considered for inclusion in the HSI.

Principles that are applied in assessing potential constituents include:

- (a) MV and turnover rank of securities;
- (b) representation of the relevant sub-sector within the HSI directly reflecting that of the market; and

(c) financial performance.

The final selection will be decided by the Advisory Committee after the above criteria have been taken into consideration.

### **Index Capping**

The HSI is freefloat-adjusted MV weighted index with a 10% cap on individual securities.

### **Index Formula**

$$\text{Current Index} = \frac{\sum(P_t \times \text{IS} \times \text{FAF} \times \text{CF})}{\sum(P_{t-1} \times \text{IS} \times \text{FAF} \times \text{CF})} \times \text{Yesterday's Closing Index}$$

$P_t$  : Current Price at Day  $t$

$P_{t-1}$  : Closing Price at Day  $t-1$

IS : Issued Shares

FAF : Freefloat Adjusted Factor, which is between 0 and 1

CF : Capping Factor, which is between 0 and 1

### **Index Rebalancing**

The following provides the general principles on index rebalancing. Please refer to the Index Operation Guide for details about corporate actions adjustments and index rebalancing.

#### ***Frequency and Schedule***

The adjustment of the freefloat-adjusted factors ("FAFs"), the calculation of the Cap Factors ("CFs") and the update of issued shares ("IS") will be undertaken quarterly.

The regular rebalancing is usually implemented after market close on the first Friday in March, June, September and December, and comes into effect on the next trading day.

The schedule for regular index rebalancing is available at the HSIL website: [https://www.hsi.com.hk/static/uploads/contents/en/products/is\\_update.xlsx](https://www.hsi.com.hk/static/uploads/contents/en/products/is_update.xlsx)

#### ***Ad Hoc Changes***

IS will be updated simultaneously with the index adjustment for corporate actions such as bonus issue, rights issue, share split and share consolidation.

Ad hoc rebalancing will be conducted if a constituent's IS and/ or FAF is substantially different from the production data.

The index will also be recapped in the event of constituent changes if the newly added component has a weighting that is higher than the index cap level.



A minimum notice period of two trading days will be given to subscribers of data products issued by HSIL for any ad hoc rebalance.

#### **Further information on the HSI and its constituent stocks**

If investors in the Warrants would like to obtain any other information on the HSI, they may consider taking the following steps:

- (i) consulting their financial advisers; or
- (ii) viewing the website of the Index Sponsor (if there is one) which at the date of this document is [www.hsi.com.hk](http://www.hsi.com.hk). The Index Sponsor may not always maintain a website and may change or add a new website. Intending investors should conduct their own web searches to ensure that they are viewing the most up to date version of the Index Sponsor's website. The Issuer takes no responsibility for the contents of the Index Sponsor's website and makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Index Sponsor's website.

#### **Disclaimer of the Index Sponsor**

The Hang Seng Index (the "**Index(es)**") is/are published and compiled by Hang Seng Indexes Company Limited pursuant to a licence from Hang Seng Data Services Limited. The mark(s) and name(s) "Hang Seng Index" are proprietary to Hang Seng Data Services Limited. Hang Seng Indexes Company Limited and Hang Seng Data Services Limited have agreed to the use of, and reference to, the Index(es) by the Issuer in connection with the warrants (the "**Product**"), **BUT NEITHER HANG SENG INDEXES COMPANY LIMITED NOR HANG SENG DATA SERVICES LIMITED WARRANTS OR REPRESENTS OR GUARANTEES TO ANY BROKER OR HOLDER OF THE PRODUCT OR ANY OTHER PERSON (i) THE ACCURACY OR COMPLETENESS OF ANY OF THE INDEX(ES) AND ITS COMPUTATION OR ANY INFORMATION RELATED THERETO; OR (ii) THE FITNESS OR SUITABILITY FOR ANY PURPOSE OF ANY OF THE INDEX(ES) OR ANY COMPONENT OR DATA COMPRISED IN IT; OR (iii) THE RESULTS WHICH MAY BE OBTAINED BY ANY PERSON FROM THE USE OF ANY OF THE INDEX(ES) OR ANY COMPONENT OR DATA COMPRISED IN IT FOR ANY PURPOSE, AND NO WARRANTY OR REPRESENTATION OR GUARANTEE OF ANY KIND WHATSOEVER RELATING TO ANY OF THE INDEX(ES) IS GIVEN OR MAY BE IMPLIED.** The process and basis of computation and compilation of any of the Index(es) and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by Hang Seng Indexes Company Limited without notice. **TO THE EXTENT PERMITTED BY APPLICABLE LAW, NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY HANG SENG INDEXES COMPANY LIMITED OR HANG SENG DATA SERVICES LIMITED (i) IN RESPECT OF THE USE OF AND/OR REFERENCE TO ANY OF THE INDEX(ES) BY THE ISSUER IN CONNECTION WITH THE PRODUCT; OR (ii) FOR ANY INACCURACIES, OMISSIONS, MISTAKES OR ERRORS OF HANG SENG INDEXES COMPANY LIMITED IN THE COMPUTATION OF ANY OF THE INDEX(ES); OR (iii) FOR ANY INACCURACIES, OMISSIONS, MISTAKES, ERRORS OR INCOMPLETENESS OF ANY INFORMATION USED IN CONNECTION WITH THE COMPUTATION OF ANY OF THE INDEX(ES) WHICH IS SUPPLIED BY ANY OTHER PERSON; OR (iv) FOR ANY ECONOMIC OR OTHER LOSS WHICH MAY BE DIRECTLY OR INDIRECTLY SUSTAINED BY ANY BROKER OR HOLDER OF THE PRODUCT OR ANY OTHER PERSON DEALING WITH THE PRODUCT AS A RESULT OF ANY OF THE AFORESAID, AND NO CLAIMS, ACTIONS OR LEGAL PROCEEDINGS MAY BE BROUGHT AGAINST HANG SENG INDEXES COMPANY LIMITED AND/OR HANG SENG DATA SERVICES LIMITED** in connection with the Product in any manner whatsoever by any broker, holder or other person dealing with the Product. Any broker, holder or other person dealing with the Product does so therefore in full knowledge of this disclaimer and can place no reliance whatsoever on Hang Seng Indexes Company Limited and Hang

Seng Data Services Limited. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any broker, holder or other person and Hang Seng Indexes Company Limited and/or Hang Seng Data Services Limited and must not be construed to have created such relationship.

## INFORMATION RELATING TO THE DESIGNATED MARKET MAKER

Macquarie Capital Securities (Singapore) Pte. Limited (“**MCSSP**”) has been appointed the designated market maker (“**DMM**”) for the Warrants. The DMM will provide competitive buy and sell quotes for the Warrants continuously during the trading hours of the SGX-ST on the following basis:

- (a) Maximum bid and offer spread : 10 times the minimum permitted price movement in the Warrants in accordance with the rules of the SGX-ST or SGD 0.20, whichever is the greater
- (b) Minimum quantity subject to bid and offer spread : 10,000 Warrants
- (c) Last Trading Day for Market Making : The date falling five Business Days immediately preceding the Expiry Date, provided that if such day is not a day on which HKEX is open for dealings during its normal trading hours (“HK Business Day”), the Business Day immediately preceding such day which is also a HK Business Day

Quotations will/may however not be provided by the DMM in the following circumstances:

- (a) during the pre-market opening and five minutes following the opening of the SGX-ST on any trading day;
- (b) if the Warrant is valueless (where the Issuer’s bid price is below the minimum bid size for such securities as prescribed by the SGX-ST);
- (c) when trading in the shares or securities relating to or constituting the Index is suspended or limited in a material way for any reason (including price quote limits activated by the relevant exchange or otherwise), for the avoidance of doubt, the DMM is not obliged to provide quotations for the Warrants at any time when the shares or securities relating to or constituting the Index are not traded for any reason;
- (d) when trading in the Warrants is suspended or limited in a material way for any reason;
- (e) market disruption events, including, without limitation, any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the SGX-ST or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) in shares or securities relating to or constituting the Index, options or futures relating to the Index on any options or futures exchanges or options or futures generally on any options and/or futures exchanges on which options relating to the Index are traded;
- (f) when the Issuer or DMM faces technical problems affecting the ability of the DMM to provide the bid and offer prices;

- (g) when the ability of the Issuer to source a hedge or unwind an existing hedge, as determined by the Issuer in good faith, is materially affected by the prevailing market conditions. The Issuer will inform the SGX-ST of its inability to do so as soon as practicable;
- (h) in cases where the Issuer has no Warrants to sell, the DMM will only provide the bid price;
- (i) when the stock market experiences exceptional price movements and volatility; and
- (j) when it is a public holiday in Singapore and/or Hong Kong and/or the SGX-ST and/or the HKEX are not open for dealings.

## **History and Business**

MCSSP holds a Capital Markets Services License issued by the Monetary Authority of Singapore and is a trading member of SGX-ST as well as a Clearing Member of the CDP. Under the Capital Markets Services License, MCSSP is permitted to deal in securities and provide custodial services as well as act as an exempt financial adviser. Its principal activities are those relating to the provision of stock and share broking services, prescribed under the rules and regulations of the SGX-ST, and related securities research services. MCSSP is a wholly owned subsidiary of Macquarie Group Holdings (Singapore) Pte. Limited and its ultimate holding company is Macquarie Group Limited.

## **SUPPLEMENTAL INFORMATION RELATING TO THE ISSUER**

The Macquarie Bank Limited 2020 Financial Report for the financial year ended 31 March 2020 is set out in Appendix I of this document and has been extracted from the Macquarie Bank 2020 Annual Report. References to page numbers in Appendix I are to page numbers of the Macquarie Bank 2020 Annual Report. Copies of the Macquarie Bank 2020 Annual Report can be obtained at the office of Macquarie Capital Securities (Singapore) Pte. Limited at 9 Straits View #21-07 Marina One West Tower Singapore 018937, and viewed at [www.macquarie.com.au](http://www.macquarie.com.au).

For more information on the Issuer, please see [www.macquarie.com](http://www.macquarie.com).

Queries regarding the Warrants may be directed to 1800 288 2880 (Toll Free) or +65 6601 0289 (International) or [info@warrants.com.sg](mailto:info@warrants.com.sg).

## SALE

### General

No action has been or will be taken by the Issuer that would permit a public offering of the Warrants or possession or distribution of any offering material in relation to the Warrants in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Warrants, or distribution of any offering material relating to the Warrants may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on the Issuer. In the event that the Issuer contemplates a placing, placing fees may be payable in connection with the issue and the Issuer may at its discretion allow discounts to placees.

### United Kingdom and European Economic Area

Please note that in relation to EEA states, additional selling restrictions may apply in respect of any specific EEA state, including those set out below for the United Kingdom.

The Warrants are not offered, sold or otherwise made available and will not be offered, sold, or otherwise made available under this document to any retail investor in the European Economic Area. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRiIPs Regulation**") for offering or selling the Warrants or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Warrants or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPS Regulation. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or
  - (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the Prospectus Directive); and
- (b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Warrants to be offered so as to enable an investor to decide to purchase or subscribe the Warrants.

In addition, all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") must be complied with in respect of anything done in relation to any Warrants in, from or otherwise involving the United Kingdom. An invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) may only be communicated or caused to be communicated in connection with the issue or sale of any Warrants in circumstances in which Section 21(1) of the FSMA does not or where applicable would not, if the Issuer was not an authorised person, apply to the Issuer.

### United States of America

The Warrants have not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Warrants, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Warrants, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with registration requirements of the Securities Act or pursuant to an exemption therefrom. As used herein, “**United States**” means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and “**U.S. person**” means any citizen or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other “**U.S. person**” as such term is defined in Regulation S under the Securities Act.

### **Singapore**

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Warrants may not be circulated or distributed, nor may Warrants be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than pursuant to, and in accordance with the conditions of, any applicable provision of the Securities and Futures Act, Chapter 289 of Singapore.

### **Hong Kong**

Each distributor, purchaser or subscriber of the Warrants has represented and agreed that it has not issued or had in its possession for the purposes of issue, and will not issue, or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Warrants, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Warrants which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

### **Commonwealth of Australia**

This document is not a prospectus, product disclosure statement or any other disclosure document for the purposes of the Corporations Act 2001 (Cth) (the “**Act**”). This document has not been, and will not be, lodged with the Australian Securities and Investments Commission, ASX Limited or any other government agency in Australia. Each Warrantholder will be required to represent and agree that, unless the applicable final terms otherwise provides, it:

- (a) has not offered or invited applications, and will not make any offer, or invite applications, for the issue, sale or purchase of any Warrant in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this document, any addendum to the Base Listing Document and this document or any other offering material or advertisement relating to any Warrant in Australia,

Unless:

- (a) the offeree or invitee is a “wholesale client”, “sophisticated investor” or “professional investor” (as defined in the Act);
- (b) the minimum aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in other currencies but disregarding moneys lent by the offeror or its associates); or
- (c) the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Act.

Section 708(19) of the Act provides that an offer of debentures for issue or sale does not need disclosure to investors under Part 6D.2 of the Act if the issuer is an Australian authorised deposit-taking institution (“**ADI**”). As at the date of this document, the Issuer is an ADI.



## SUPPLEMENTAL GENERAL INFORMATION

The information set out herein is supplemental to, and should be read in conjunction with, the information set out on page 115 of the Base Listing Document.

1. Settlement of trades done on a normal “ready basis” on the SGX-ST generally takes place on the third Business Day following the transaction. Dealing in the Warrants will take place in Board Lots in Singapore dollars. For further details on the transfer of Warrants and their exercise, please refer to the section headed “Summary of the Issue” above.
2. It is not the current intention of the Issuer to apply for a listing of the Warrants on any stock exchange other than the SGX-ST.
3. The Issuer is an indirect subsidiary of Macquarie Group Limited. Macquarie Group Limited, with its controlled entities (“**Macquarie Group**”), is a large diversified Australian-based financial institution with a long and successful history. Like any financial institution, Macquarie Group has been subject to lawsuits.

There are no, nor have there been, any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which Macquarie Bank or the Macquarie Group is aware) in the 12 month period prior to the date of this document which may have or have had a significant effect on the financial position or profitability of Macquarie Bank.

### Germany

The Issuer was a lender to a group of independent investment funds in 2011. The funds were trading shares around the dividend payment dates where investors were seeking to obtain the benefit of dividend withholding tax credits. The investors’ credit claims were refused and there was no loss to the German revenue in relation to this matter.

With respect to the civil case, two of the investors have already sued the Swiss bank that introduced them to the investment. They and other investors have now sold their claims to a German litigation special purpose vehicle controlled by the same lawyer who acted in the litigation against the Swiss bank. In 2018 that vehicle brought a claim against the Issuer seeking 30 million in damages. The Issuer strongly disputes this claim noting that it did not arrange, advise or otherwise engage with the investors, who were high net-worth individuals with their own advisers. Many, if not all, had previously participated in similar transactions.

The Cologne Prosecutor’s Office (“**CPO**”) is investigating the transaction. Although no current staff members have been interviewed to date, as expected as part of their ongoing investigation, the CPO has formally classified 22 current and former staff members as persons of interest or suspects under German law, including the Macquarie Group CEO and the former Macquarie Group CEO.

Macquarie Group will continue to cooperate fully with the German authorities. Macquarie Group notes that it has already resolved its two other matters involving German dividend trading that took place between 2006 and 2009, where the authorities noted Macquarie’s “unreserved cooperation”. The industry-wide investigation relating to dividend trading continues and Macquarie Group continues to respond to requests for information about its activities in this market. Macquarie Group’s profits from these activities were not material.

4. To the best of the Issuer's knowledge, there has been no adverse change, material in the context of the issue of the Warrants, in the financial position of the Issuer since 31 March 2020.
5. The following contracts, relating to the issue of the Warrants, have been or will be entered into by the Issuer and may be material to the issue of the Warrants:
  - (a) the Instrument; and
  - (b) the Warrant Agent Agreement.

None of the directors of the Issuer has any direct or indirect interest in any of the above contracts.

6. The Issuer has appropriate risk management capabilities to manage the issue of the Warrants.
7. Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the office of Macquarie Capital Securities (Singapore) Pte. Limited at 9 Straits View, #21-07 Marina One West Tower, Singapore 018937, until the expiry of the Warrants:
  - (a) the Constitution of the Issuer;
  - (b) the annual reports for the financial years ended 31 March 2019 and 31 March 2020 of the Issuer;
  - (c) the Instrument;
  - (d) the Warrant Agent Agreement; and
  - (e) the Base Listing Document.

## **APPENDIX I**

### **REPRODUCTION OF THE MACQUARIE BANK LIMITED 2020 FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020**

# Contents

For the financial year ended 31 March 2020

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The Financial Report was authorised for issue by the Board of Directors on 8 May 2020.

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

# Income statements

For the financial year ended 31 March 2020

	Notes	CONSOLIDATED		COMPANY	
		2020 <sup>(1)</sup> \$m	2019 <sup>(1)</sup> \$m	2020 <sup>(1)</sup> \$m	2019 <sup>(1)</sup> \$m
Interest and similar income					
Effective interest method	2	3,777	4,135	3,267	3,564
Other	2	686	678	512	587
Interest and similar expense	2	(2,423)	(2,835)	(2,540)	(2,886)
<b>Net interest income</b>		<b>2,040</b>	<b>1,978</b>	<b>1,239</b>	<b>1,265</b>
Fee and commission income	2	1,185	1,231	904	962
Net trading income	2	2,615	2,526	1,250	1,053
Net operating lease income	2	371	289	114	50
Share of net profits of associates and joint ventures	2	27	28	–	–
Net credit impairment charges	2	(451)	(131)	(220)	(38)
Other impairment (charges)/reversal	2	(21)	(116)	30	–
Other operating income and charges	2	406	106	892	841
<b>Net operating income</b>		<b>6,172</b>	<b>5,911</b>	<b>4,209</b>	<b>4,133</b>
Employment expenses	2	(1,347)	(1,448)	(970)	(1,054)
Brokerage, commission and trading-related expenses	2	(596)	(777)	(586)	(772)
Occupancy expenses	2	(104)	(117)	(82)	(91)
Non-salary technology expenses	2	(170)	(167)	(132)	(136)
Other operating expenses	2	(2,060)	(1,923)	(1,642)	(1,560)
<b>Total operating expenses</b>		<b>(4,277)</b>	<b>(4,432)</b>	<b>(3,412)</b>	<b>(3,613)</b>
<b>Operating profit from continuing operations before income tax</b>		<b>1,895</b>	<b>1,479</b>	<b>797</b>	<b>520</b>
Income tax expense	4	(586)	(394)	(324)	(141)
<b>Profit from continuing operations after income tax</b>		<b>1,309</b>	<b>1,085</b>	<b>473</b>	<b>379</b>
<b>Profit from discontinued operations after income tax</b>	39	<b>164</b>	<b>956</b>	<b>164</b>	<b>1,252</b>
<b>Profit from continuing and discontinued operations after income tax</b>		<b>1,473</b>	<b>2,041</b>	<b>637</b>	<b>1,631</b>
Profit attributable to non-controlling interests		–	(4)	–	–
<b>Profit attributable to equity holders of Macquarie Bank Limited</b>		<b>1,473</b>	<b>2,037</b>	<b>637</b>	<b>1,631</b>
Distribution paid or provided for on:					
Macquarie Income Securities	5	(12)	(15)	–	–
<b>Profit attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>1,461</b>	<b>2,022</b>	<b>637</b>	<b>1,631</b>
From continuing operations		<b>1,297</b>	<b>1,066</b>	<b>473</b>	<b>379</b>
From discontinued operations		<b>164</b>	<b>956</b>	<b>164</b>	<b>1,252</b>

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

(1) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 39 *Discontinued operations*.

# Statements of comprehensive income

For the financial year ended 31 March 2020

	Notes	CONSOLIDATED		COMPANY	
		2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Profit from continuing and discontinued operations after income tax</b>		<b>1,473</b>	2,041	<b>637</b>	1,631
Other comprehensive income (loss)/income <sup>(1)</sup> :					
Movements in items that may be subsequently reclassified to the income statement:					
Fair value through other comprehensive income (FVOCI) reserve <sup>(2)</sup> :					
Revaluation movement	25	(46)	(8)	(11)	4
Changes in allowance for expected credit losses	25	6	(1)	–	(3)
Net change in Cash flow hedges and cost of hedging:					
Revaluation movement	25	(93)	(72)	(29)	(47)
Transferred to income statement	25	44	(17)	12	13
Share of other comprehensive loss of associates and joint ventures	25	(2)	(3)	–	–
Exchange differences on translation and hedge of foreign operations		566	140	13	(13)
Movements in items that will not be subsequently reclassified to the income statement:					
Fair value gain attributable to own credit risk on debt that is subsequently measured at fair value through profit or loss	25	50	6	50	6
Total other comprehensive income/(loss)		525	45	35	(40)
Other comprehensive income/(loss) from continuing operations		525	165	35	(40)
Other comprehensive loss from discontinued operations after tax	39	–	(120)	–	–
<b>Total comprehensive income</b>		<b>1,998</b>	2,086	<b>672</b>	1,591
Total comprehensive income attributable to non-controlling interests		–	(5)	–	–
Total comprehensive income attributable to Macquarie Income Securities holders		(12)	(15)	–	–
<b>Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>1,986</b>	2,066	<b>672</b>	1,591
From continuing operations		1,822	1,231	508	339
From discontinued operations	39	164	835	164	1,252
Total comprehensive income		1,998	2,086	672	1,591

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

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

(2) Comprehensive income has been disaggregated into both continuing and discontinued operations. Other comprehensive income related to discontinued operations has been presented under Note 39 *Discontinued operations*.

# Statements of financial position

For the financial year ended 31 March 2020

		CONSOLIDATED		COMPANY	
	Notes	2020 \$m	2019 <sup>(1)</sup> \$m	2020 \$m	2019 <sup>(1)</sup> \$m
<b>Assets</b>					
Cash and bank balances		7,847	6,550	6,037	5,233
Cash collateral on securities borrowed and reverse repurchase agreements		37,708	29,671	36,034	28,757
Trading assets	6	16,251	16,277	14,499	13,960
Margin money and settlement assets	7	12,183	9,091	10,015	6,496
Derivative assets		44,845	14,022	41,604	12,181
Financial investments	8	7,484	5,470	7,366	5,315
Other assets	9	3,267	4,637	2,266	3,757
Loan assets	10	87,719	73,158	64,975	53,321
Due from subsidiaries	27	–	–	27,040	22,079
Due from other related body corporate entities	27	5,278	1,548	5,105	1,022
Property, plant and equipment and right-of-use assets	12	2,598	2,738	819	1,317
Interests in associates and joint ventures	13	251	219	42	48
Intangible assets	14	185	177	78	81
Investments in subsidiaries	15	–	–	5,592	5,166
Deferred tax assets	16	520	441	470	418
<b>Total assets</b>		<b>226,136</b>	<b>163,999</b>	<b>221,942</b>	<b>159,151</b>
<b>Liabilities</b>					
Cash collateral on securities lent and repurchase agreements		2,322	4,216	2,322	4,216
Trading liabilities	17	5,363	6,557	5,395	7,175
Margin money and settlement liabilities	18	19,052	12,222	16,662	10,710
Derivative liabilities		37,823	12,523	35,973	11,330
Deposits	19	67,253	56,120	67,186	56,033
Other liabilities	20	2,946	3,296	1,774	2,076
Borrowings		3,047	1,560	2,304	1,166
Due to subsidiaries	27	–	–	18,249	9,894
Due to other related body corporate entities	27	22,115	16,794	22,013	15,106
Debt issued	21	46,922	34,787	34,235	27,714
Deferred tax liabilities	16	69	134	21	46
<b>Total liabilities excluding loan capital</b>		<b>206,912</b>	<b>148,209</b>	<b>206,134</b>	<b>145,466</b>
<b>Loan capital</b>	23	<b>4,997</b>	<b>4,550</b>	<b>4,997</b>	<b>4,550</b>
<b>Total liabilities</b>		<b>211,909</b>	<b>152,759</b>	<b>211,131</b>	<b>150,016</b>
<b>Net assets</b>		<b>14,227</b>	<b>11,240</b>	<b>10,811</b>	<b>9,135</b>
<b>Equity</b>					
Contributed equity	24	8,899	7,898	8,789	7,785
Reserves	25	991	516	(58)	(43)
Retained earnings	25	4,336	2,824	2,080	1,393
<b>Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>14,226</b>	<b>11,238</b>	<b>10,811</b>	<b>9,135</b>
<b>Non-controlling interests</b>	25	<b>1</b>	<b>2</b>	<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>14,227</b>	<b>11,240</b>	<b>10,811</b>	<b>9,135</b>

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

(1) Refer to Note 1(i) *Basis of preparation* for an explanation of the re-presentation of certain comparative financial information.

# Statements of changes in equity

For the financial year ended 31 March 2020

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
<b>CONSOLIDATED</b>							
<b>Balance as at 1 Apr 2018</b>		9,928	478	2,545	12,951	12	12,963
Profit from continuing and discontinued operations after income tax		–	–	2,037	2,037	4	2,041
Other comprehensive income, net of tax		–	38	6	44	1	45
Total comprehensive income		–	38	2,043	2,081	5	2,086
Transactions with equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,763)	(1,763)	–	(1,763)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(1)	(1)	(7)	(8)
Dividends and distributions paid or provided for		–	–	–	–	(8)	(8)
Other equity movements:							
Return of capital to parent entity <sup>(1)</sup>	24	(2,040)	–	–	(2,040)	–	(2,040)
Contribution from ultimate parent entity in relation to share-based payments <sup>(2)</sup>	24	10	–	–	10	–	10
		(2,030)	–	(1,764)	(3,794)	(15)	(3,809)
<b>Balance as at 31 Mar 2019</b>		<b>7,898</b>	<b>516</b>	<b>2,824</b>	<b>11,238</b>	<b>2</b>	<b>11,240</b>
Profit from continuing operations after income tax		–	–	1,473	1,473	–	1,473
Other comprehensive income, net of tax		–	475	50	525	–	525
Total comprehensive income		–	475	1,523	1,998	–	1,998
Transactions with equity holders:							
Contributions of ordinary equity	24	1,000	–	–	1,000	–	1,000
Dividends and distributions paid or provided for	5	–	–	(12)	(12)	–	(12)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	1	1	(1)	–
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	24	1	–	–	1	–	1
		1,001	–	(11)	990	(1)	989
<b>Balance as at 31 Mar 2020</b>		<b>8,899</b>	<b>991</b>	<b>4,336</b>	<b>14,226</b>	<b>1</b>	<b>14,227</b>

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

(1) Macquarie B.H. Pty Limited.  
(2) Macquarie Group Limited.



	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
<b>COMPANY</b>					
<b>Balance as at 1 Apr 2018</b>		9,821	3	1,504	11,328
Profit from continuing and discontinued operations after income tax		–	–	1,631	1,631
Other comprehensive (loss)/income, net of tax		–	(46)	6	(40)
Total comprehensive (loss)/income		–	(46)	1,637	1,591
Transactions with equity holders:					
Dividends paid or provided for	5	–	–	(1,748)	(1,748)
Other equity movements:					
Return of capital to parent entity <sup>(1)</sup>	24	(2,040)	–	–	(2,040)
Contributions from ultimate parent entity in relation to share-based payments <sup>(2)</sup>	24	4	–	–	4
		(2,036)	–	(1,748)	(3,784)
<b>Balance as at 31 Mar 2019</b>		<b>7,785</b>	<b>(43)</b>	<b>1,393</b>	<b>9,135</b>
Profit from continuing and discontinuing operations after income tax		–	–	637	637
Other comprehensive (loss)/income, net of tax		–	(15)	50	35
Total comprehensive (loss)/income		–	(15)	687	672
Transactions with equity holders:					
Contributions of ordinary equity	24	1,000	–	–	1,000
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments <sup>(2)</sup>	24	4	–	–	4
		1,004	–	–	1,004
<b>Balance as at 31 Mar 2020</b>		<b>8,789</b>	<b>(58)</b>	<b>2,080</b>	<b>10,811</b>

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

(1) Macquarie B.H. Pty Limited.

(2) Macquarie Group Limited.

# Statements of cash flows

For the financial year ended 31 March 2020

		CONSOLIDATED		COMPANY	
	Notes	2020 <sup>(1)</sup> \$m	2019 <sup>(2)</sup> \$m	2020 \$m	2019 <sup>(2)</sup> \$m
<b>Cash flows generated from/(utilised in) operating activities</b>					
Interest income and expense:					
Received		4,482	4,906	3,804	4,387
Paid		(2,467)	(2,909)	(2,579)	(2,980)
Fees, commissions and non-interest income and expenses:					
Received		1,252	1,327	1,262	1,390
Paid		(630)	(750)	(619)	(563)
Operating lease income received		1,196	1,855	617	75
Dividends and distributions received		4	32	134	1,003
Operating expenses paid:					
Employment expenses		(1,385)	(1,464)	(978)	(1,172)
Other operating expenses		(2,544)	(1,920)	(2,074)	(1,369)
Income tax paid		(278)	(367)	(1)	(114)
Changes in operating assets:					
Net movement in loan assets and balances with related entities		(13,802)	(2,926)	(5,730)	1,904
Net movement in assets under operating lease		(516)	(961)	(25)	(711)
Net movement in other assets		(454)	254	(160)	356
Net movement in trading assets and liabilities, derivatives, cash collateral and repurchase transactions, margin money and settlement balances		3,746	(122)	939	(426)
Changes in operating liabilities:					
Net movement in deposits		10,916	7,910	10,939	7,771
Net movement in borrowings		1,516	1,158	1,276	(1,411)
Net movement in debt issued		8,573	(9,690)	2,935	(7,763)
Net movement in other liabilities		(12)	(39)	(17)	(38)
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		426	1,326	–	–
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		(422)	(1,330)	–	–
Net cash flows generated from/(utilised in) operating activities	26	9,601	(3,710)	9,723	339
<b>Cash flows (utilised in)/generated from investing activities</b>					
Net (payments for)/proceeds from financial investments		(1,363)	689	(1,325)	649
Associates, subsidiaries and businesses:					
Proceeds from disposal of discontinued operations, net of cash deconsolidated		–	6,084	102	3,980
Proceeds from the disposal or capital return, net of cash deconsolidated		273	1,217	436	730
Payments for capital contribution or acquisition, net of cash acquired		(29)	(222)	(368)	(1,752)
Payment for the acquisition of property, plant and equipment, right-of-use assets and intangible assets		(71)	(115)	(68)	(64)
Net cash flows (utilised in)/generated from investing activities		(1,190)	7,653	(1,223)	3,543
<b>Cash flows generated from/(utilised in) financing activities</b>					
Issuance of ordinary shares to parent		1,000	–	1,000	–
Payment on return of capital to parent		–	(2,040)	–	(2,040)
Payment to non-controlling interests		(1)	(13)	–	–
Payment on redemption of loan capital		(429)	–	(429)	–
Dividends and distributions paid		(13)	(1,203)	–	(1,188)
Net cash flows generated from/(utilised in) financing activities		557	(3,256)	571	(3,228)
Net increase in cash and cash equivalents		8,968	687	9,071	654
<b>Cash and cash equivalents at the beginning of the financial year</b>	26	16,743	16,279	15,795	15,364
Foreign exchange movement on cash and cash equivalents		1,579	(223)	1,326	(223)
<b>Cash and cash equivalents at the end of the financial year</b>	26	27,290	16,743	26,192	15,795

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

(1) The March 2020 financial results reflect the adoption of AASB 16 on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated the comparative financial reporting periods. Refer to Note 1 for the impact on initial adoption of AASB 16.

(2) Refer to Note 1(i) *Basis of preparation* for an explanation of the re-presentation of certain comparative financial information.

# Notes to the financial statements

For the financial year ended 31 March 2020

## Note 1

### Summary of significant accounting policies

#### (i) 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 below. 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 to the Company (Macquarie Bank Limited), unless otherwise stated.

#### 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.

#### Basis of measurement

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

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

#### Changes to the Consolidated Entity's statements of financial position and statement of cash flows

As part of an assessment of the impact of the AASB's revised *Conceptual Framework* (AASB framework) on the Consolidated Entity and the Company's financial statements (refer to Note 1(i)(b)), a review of client monies was undertaken to verify whether such balances met the revised definition of an asset, i.e. "a present economic resource controlled by the entity as a result of past events".

The review concluded that certain client-related margin money deposited with clearing houses and excess cash received from certain clients did not meet the revised definition of an asset. This was determined by taking into consideration whether the Consolidated Entity and the Company have control of these balances, and the extent of the Consolidated Entity's and Company's exposure to risks and rewards in relation to these

balances. Further, in considering the practical application of the current definition of an asset to client monies, it was noted that changes in industry practice along with accounting developments with respect to the control concept necessitated a change in the Consolidated Entity's accounting policy as it relates to client monies.

As a result of the retrospective application of the revised accounting policy (refer to Note 1(xxvii) *Fiduciary assets*), the Consolidated Entity and the Company's statements of financial position have been re-presented to remove client-related margin money deposited with clearing houses as well as excess cash received from certain clients. These amendments had no impact on reserves. For the Consolidated Entity, as at 31 March 2020, this resulted in a reduction to:

- margin money and settlement assets of \$6,098 million (31 March 2019: \$3,605 million)
- cash and bank balances of \$2,190 million (31 March 2019: \$1,144 million)
- trading assets of \$Nil (31 March 2019: \$702 million)
- due from related body corporate entities of \$97 million (31 March 2019: \$15 million)
- margin money and settlement liabilities of \$8,255 million (31 March 2019: \$5,426 million), and
- due to related body corporate entities of \$130 million (31 March 2019: \$40 million).

For the Company, as at 31 March 2020, the revised accounting policy resulted in a reduction to:

- margin money and settlement assets of \$2,151 million (31 March 2019: \$1,585 million)
- cash and bank balances of \$2,190 million (31 March 2019: \$1,144 million)
- due from related body corporate entities of \$97 million (31 March 2019: \$15 million)
- due from subsidiaries of \$3,055 million (31 March 2019: \$1,736 million)
- margin money and settlement liabilities of \$6,603 million (31 March 2019: \$4,258 million)
- due to related body corporate entities of \$10 million (31 March 2019: \$Nil), and
- due to subsidiaries of \$880 million (31 March 2019: \$222 million).

The review also highlighted that certain balances were required to be reclassified out of due from subsidiaries and related body corporate entities and into margin money and settlement assets, as follows:

- for the Consolidated Entity, as at 31 March 2020, this resulted in a reclassification from due from subsidiaries and related body corporate entities to margin money and settlement assets of \$10 million (31 March 2019: \$Nil), and
- for the Company, as at 31 March 2020, this resulted in a reclassification from due from subsidiaries and related body corporate entities to margin money and settlement assets of \$150 million (31 March 2019: \$80 million).

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

The amendment to these balances impacted the Consolidated Entity's and Company's presentation of cash and cash equivalents for the purposes of the statement of cash flows. In addition to re-presenting for this change, and in order to more closely align with the Consolidated Entity's cash and liquid assets portfolio, the Consolidated Entity extended its review of the balances included in the determination of cash and cash equivalents. The impact on the Consolidated Entity's and Company's cash and cash equivalents and statement of cash flows is explained in Note 26 *Notes to the statements of cash flows*.

Separately, the Consolidated Entity reclassified several other balances within the statements of financial position in order to better reflect the nature of the underlying asset or liability. In accordance with Note 1(xxix) *Comparatives*, comparative information has been reclassified to conform to these changes in the current year.

#### Critical accounting estimates and significant judgements

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

- determining the appropriate business model for a group of financial assets which includes determining the level at which the business model condition is applied and whether past or expected sales activity is consistent with a held to collect business model (Note 1(viii))
- assessing whether the cash flows generated by a financial asset constitute solely payment of principal and interest (SPPI) may require the application of judgement, particularly for certain subordinated or non-recourse positions, and in the determination of whether compensation for early termination of a contract is reasonable (Note 1(viii))
- the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss (ECL) including the determination of significant increase in credit risk (SICR), forecasts of economic conditions and the weightings assigned thereto (Note 1(xxiii) and Note 11)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including reversal of impairment (Note 1(ii), Note 1(xxiii), Note 13 and Note 15)
- the impairment of goodwill and other identifiable intangible assets (Note 1(xxiii) 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 1(xi) and Note 35)

- determination of significant influence over associates, joint control over joint 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 1(ii))
- 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 1(vii), Note 4 and Note 16)
- recognition and measurement of provisions related to actual and potential claims and the determination of contingent liabilities (Note 1(xviii))
- determining whether a foreign operation has been sold and the determination of the amount of the foreign currency translation reserve, and associated net investment hedge reserves to be reclassified following on disposal of a foreign operation (Note 1(iv) and Note 25)
- the application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 1(xi) and Note 32)
- the determination of whether an asset or group of assets is held for sale (and/or constitutes a discontinued operation of the Consolidated Entity) (Note 1 (xviii))
- the timing of derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 1(ii)).

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.

#### Coronavirus (COVID-19) Impact

##### Background

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global economies and equity, debt and commodity markets. The Consolidated Entity has considered the impact of COVID-19 and other market volatility in preparing its financial statements.

## Note 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

While COVID-19 did not result in the identification of any further areas of judgement and critical accounting estimates in addition to that disclosed above, it did result in the application of additional judgement. Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impacts of such a pandemic, and the short duration between the declaration of the pandemic and the preparation of these financial statements, changes to the estimates and outcomes that have been applied in the measurement of the Consolidated Entity's assets and liabilities may arise in the future. 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.

#### Impact of COVID-19 on the macroeconomic outlook

Forward-looking information, including a detailed explanation of the scenarios and related probabilities considered in determining the Consolidated Entity's forward-looking assumptions for the purposes of its expected credit loss (ECL), has been provided in Note 11 to the financial statements. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how COVID-19 and its social and economic consequences will flow, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

#### Process applied

As a consequence of COVID-19 and in preparing these financial statements, management:

- updated its economic outlook – principally for the purposes of inputs into the determination of its ECL through the application of forward-looking information, but also for input into the impairment analysis of other Financial and non-Financial asset classes and disclosures such as fair value disclosures of financial assets and liabilities
- reviewed external market communications to identify other COVID-19 related impacts
- reviewed public forecasts and experience from previous downturns
- conducted several internal processes to ensure consistency in the application of the expected impact of COVID-19 across all asset classes
- assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19
- ran multiple stress testing scenarios, which are an integral component of Consolidated Entity's risk management framework and a key input to the capital adequacy assessment process, to assess the potential impacts of the COVID-19 pandemic on its portfolio to assist in the organisation's prudent risk management
- considered the impact of COVID-19 on the Consolidated Entity's financial statement disclosures.

### Consideration of the Statements of financial position and further disclosures

Key Statements of financial position items and related disclosures that have been impacted by COVID-19 were as follows:

#### Trading assets, trading liabilities and financial investments

Given recent market volatility, the Consolidated Entity reviewed the appropriateness of the inputs to its valuations. These included the use of counterparty and own credit spreads. The impact of changes in valuation inputs has also been considered in terms of the classification of exposures in the fair value hierarchy, transfers within the fair value hierarchy and the Level 3 sensitivity analysis. The Consolidated Entity's financial investments include a portfolio of unlisted equity investments which, in accordance with the Consolidated Entity's accounting policies, are measured at FVTPL. The determination of the investments' carrying value included a consideration of the impact of COVID-19.

#### Derivative assets and liabilities

Given recent market volatility, the Consolidated Entity reviewed the appropriateness of the inputs to its valuations. These included valuation adjustments (XVA) and notably the credit valuation adjustment (CVA), debit valuation adjustment (DVA) and funding valuation adjustment (FVA). The impact of changes of inputs to the valuations has also been considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy.

#### Loan assets, due from subsidiaries and other assets

In response to COVID-19 the Consolidated Entity and the Company undertook a review of wholesale and retail credit portfolios, loans to its subsidiaries and other financial asset exposures, as applicable, and the ECL for each. The review considered the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. While these model inputs, including forward-looking information; scenarios and associated weightings together with the determination of the staging of exposures were revised, the ECL models; SICR thresholds; and definitions of default remained consistent with prior periods. The impact of COVID-19 on the credit risk management disclosures, notably in relation to credit quality and collateral and other credit enhancements was also considered. Refer to Note 11 and Note 33.

#### Intangible assets

Intangible assets comprise of goodwill and other intangible assets with both finite and indefinite lives. Consistent with the Consolidated Entity's accounting policies, the Consolidated Entity has assessed the carrying value of its intangible assets at the reporting date for indicators of impairment and, where applicable, reviewed the measurement of the carrying value of such intangible assets. Such assessment incorporated a consideration of COVID-19. Refer to Note 14.

#### Debt issued and loan capital

Debt-related covenants were assessed to determine whether there were any breaches for which disclosure is required. The Consolidated Entity identified no such breaches at 31 March 2020 nor at the time at which these financial statements were authorised for issue. Refer to Note 21 and Note 23.



# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 1

### Summary of significant accounting policies *continued*

#### (i) Basis of preparation *continued*

##### Hedge accounting

An assessment was conducted as to the impact of COVID-19 with respect to whether the hedged forecasted cash flows in cash flow hedge relationships remain highly probable at the balance date. Based on available facts as at 31 March 2020, including announcements from governments and regulators, as well as discussions with our clients, the modelling of the hedged future cash flows were determined to remain highly probable and hence hedge accounting has continued to be applied.

##### Risk management

The Consolidated Entity's robust risk management framework continues to be applied across the Operating and Central Service Groups and RMG continues to monitor the impact of COVID-19 on Consolidated Entity's risk profile. Non-financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of Consolidated Entity's risk management framework.

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

##### (i) AASB 16 *Leases*

AASB 16 replaced AASB 117 *Leases* (AASB 117) for the Consolidated Entity's financial year that commenced on 1 April 2019. Subject to certain exceptions, contracts that are leases within the scope of AASB 16 from the lessee's perspective require the recognition of a right-of-use (ROU) asset and a related lease liability. The classification of leases where the Consolidated Entity is a lessor remains unchanged under AASB 16.

##### Transition

The Consolidated Entity has applied AASB 16 from 1 April 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under both AASB 117 and Interpretation 4 *Determining whether an arrangement contains a lease*. At the date of transition to AASB 16, \$50 million of ROU assets and \$53 million of associated lease liabilities were recognised after adjusting related amounts previously recorded on the balance sheet. The transition did not have a material impact on the Consolidated Entity's opening retained earnings.

The key changes in the Consolidated Entity's significant accounting policies following the transition to AASB 16 have been included within the relevant sections of this note. Accounting policies applicable to the prior period have been provided in *italics* as appropriate for comparability purposes.

##### (ii) AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

AASB Interpretation 23 (Interpretation 23) clarified the application of the recognition and measurement criteria in AASB 112 *Income Taxes* (AASB 112) where there is uncertainty over income tax treatments and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates.

The amount is determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements are reassessed as and when new facts and circumstances are presented.

Interpretation 23 is effective for the Consolidated Entity's annual financial reporting period beginning on 1 April 2019. The Consolidated Entity's existing recognition and measurement accounting policies, together with accounting related judgements, were in alignment with those required by Interpretation 23 and hence no transition adjustment to retained earnings was required. On adoption of Interpretation 23 the Consolidated Entity has amended the presentation of its uncertain tax positions by increasing its opening income tax payable to \$230 million with an offsetting decrease in deferred tax liabilities to \$9 million. The Consolidated Entity has not restated the comparative financial reporting period.

##### (iii) AASB 123 *Borrowing costs*

An amendment to AASB 123 *Borrowing costs* (AASB 123) clarified that, to the extent an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. Borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset are capitalised to that asset and are thus excluded from this calculation until substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The amendment to AASB 123 is applicable to borrowing costs that the Consolidated Entity incurred on or after 1 April 2019. The application of the amendment did not have a material impact on the Consolidated Entity's financial statements.

## Note 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

#### (iv) AASB 119 *Employee benefits*

An amendment to AASB 119 *Employee Benefits* (AASB 119) specifies how an entity should account for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment requires the use of assumptions for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The amendment to AASB 119, which was applied by the Consolidated Entity from 1 April 2019 did not have a material impact on the Consolidated Entity's financial statements.

#### (v) AASB 2019-3 *Interest Rate Benchmark Reform* IBOR reform: Transition from inter-bank offered rates (IBOR) to alternative reference rates (ARRs)

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

The UK Financial Conduct Authority (the regulator of LIBOR, the most widely used interest rate benchmark) has confirmed that it will no longer compel or persuade panel banks to submit rates for the calculation of LIBOR beyond the end of 2021. As such, there can be no guarantee that LIBOR will be determined after 2021 on the same basis as at present, if at all. Therefore, LIBOR is being replaced with alternative reference rates (ARRs). For example, the ARR for GBP LIBOR is SONIA (Sterling Overnight Index Average), calculated from unsecured cash transactions reported to the Bank of England, and SOFR (Secured Overnight Funding Rate) for USD LIBOR, calculated from overnight transactions in the USD Treasury repurchase market.

Existing LIBOR-linked contracts for derivatives, loans, bonds and other financial instruments that mature beyond the end of 2021 are expected to transition to ARR. Industry working groups are currently working with authorities and consulting with market participants to develop market practices that may be used to transition these contracts. One of the main considerations is the differences between LIBOR and ARR. LIBOR are term rates which are quoted for forward-looking periods (for example, one-, three-, six- or twelve-month periods) at the beginning of that period. LIBOR also includes a credit spread for bank credit risk. ARR on the other hand

are overnight rates with little or no credit risk. To facilitate the transition of contracts from LIBOR to ARR on an economically equivalent basis, adjustments for term and credit differences will need to be applied.

In Australia, measures have been taken to reform BBSW, the most widely used Australian dollar interest benchmark, such that it is expected to continue for the foreseeable future with the nominated ARR for AUD being the RBA Cash Rate (also known as AONIA). Nevertheless, reforms in global interest rate benchmarks may change market practices in Australia. For example, some parties may develop a preference to use AONIA instead of BBSW, or contracts may include more robust terms to deal with a potential future cessation of BBSW.

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

#### The Consolidated Entity's IBOR project

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

The scope of the project to manage the impacts of IBOR reform across the Consolidated Entity includes:

- assessing the impacts and risks of LIBOR transition across Operating and Support Groups including legal agreements, systems, models and processes
- assessing the impact on clients and developing plans to support their transition to ARR
- developing ARR products and implementing plans for operational readiness
- monitoring market developments with respect to both LIBOR and ARR, including any changes to accounting standards and other regulator activity
- the identification of the impact of the reform on separate legal entities within the Consolidated Entity, including those entities that are subject to separate regulatory requirements and oversight and responding to regulator and other industry bodies regarding IBOR-related requests for information.

#### Impacts on financial reporting

AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, issued in October 2019, amended AASB 9, *Financial Instruments* (AASB 9) and AASB 7, *Financial Instruments: Disclosure*, to provide certain relief from applying specific hedge 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 and is mandatorily effective for annual reporting periods beginning on or after 1 January 2020. The Consolidated Entity elected to early adopt the amendments and there are no significant impacts on the Consolidated Entity's financial statements.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 1

### Summary of significant accounting policies *continued*

#### (i) Basis of preparation *continued*

Impacted hedge relationships include those that hedge the variability of cash flows (cash flow hedges) and fixed interest rate risk (fair value hedges) due to the likely cessation of USD LIBOR and GBP LIBOR to which the Consolidated Entity's hedging relationships are exposed. With the BBSW having been reformed, the Consolidated Entity has not applied the relief to instruments referencing BBSW.

The amendments provide the following relief:

- when determining whether a forecast transaction is highly probable, the Consolidated Entity assumes that the interest rate benchmark on which its hedged cash flows are based are not altered as a result of the IBOR reform. The amendment also applies to cash flow hedges that have been discontinued with an amount remaining in the Consolidated Entity's cash flow hedge reserve
- in determining that there is an economic relationship between the hedged item and the hedging instrument, the Consolidated Entity has assumed that the interest rate benchmark on which the hedged cash flows and/or hedged risk are based are not altered as a result of the IBOR reform
- for hedges of a non-contractually specified benchmark component of interest rate risk, the Consolidated Entity is required to determine that the risk component is separately identifiable only at the inception of the hedging relationship.

The Consolidated Entity will cease to apply the relief when (a) the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the IBOR based cash flows; or (b) the hedging relationship is discontinued, whichever is earlier.

Note 32 *Hedge accounting* provides certain information about hedging relationships for which the Consolidated Entity has applied the relief.

In April 2020, the IASB released an exposure draft on proposed amendments to various accounting standards, including IFRS 9 *Financial Instruments*, to address the accounting issues that will arise following the transition to ARR. The proposed amendments provide guidance on a number of accounting matters such as:

- the accounting for the modification of financial assets and financial liabilities, including lease liabilities, required for transition
- hedge accounting relating to post-transition issues
- additional quantitative and qualitative disclosure requirements.

The final amendments are expected to be published during the second half of 2020. The Consolidated Entity will continue to monitor these developments to determine the impact thereof on its project and its financial statements.

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

#### AASB Revised Conceptual Framework for Financial Reporting

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

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

The AASB Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts. The application of the AASB Framework from 1 April 2020 is not expected to have a material impact on the Consolidated Entity's financial statements. However, management's impact assessment of the AASB Framework identified changes necessary to the Consolidated Entity's statements of financial position for the year ended 31 March 2020, as explained in Note 1(i) *Basis of preparation*.

#### (ii) Principles of consolidation

##### Subsidiaries

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

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

The determination of control is based on current facts and circumstances and is continuously assessed. The Consolidated Entity has power over an entity when it has existing substantive rights that provide it with the current ability to direct the entity's relevant activities. Relevant activities are 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 whether it has exposure or rights to variable returns that, in aggregate, are significant.

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.



## Note 1

### Summary of significant accounting policies continued

#### (ii) Principles of consolidation continued

##### Structured entities

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

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

##### Consolidation

The effects of all transactions between entities 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 capacity to influence returns 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.

Subsidiaries held by the Company are carried in its financial statements at cost less impairment, adjusted for changes in fair value attributable to the risk being hedged where such subsidiaries are held 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, but not control. Existing ownership interests (including in-substance existing ownership interests) in associates and joint ventures are accounted for under the equity method. Equity accounting is applied from the date that the Consolidated Entity has significant influence or joint control and ceases when the Consolidated Entity no longer has significant influence or joint control.

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

The equity method of accounting is applied in the consolidated Financial Report and requires the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or loss in the consolidated income statement, and the share of the post-acquisition movements in reserves in the consolidated statement of comprehensive income. 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, which are in the nature of debt and in-substance form part of the net investment in the associate or joint venture, but to which the equity method is not applied, are accounted for in accordance with the Consolidated Entity's financial instruments' accounting policies. Subsequently, the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures* are applied. The Consolidated Entity calculates expected credit losses on these loans in accordance with AASB 9.

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 as impairment charges as part of other operating income and charges. 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.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 1

### Summary of significant accounting policies continued

#### (ii) Principles of consolidation continued

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 in associates and joint ventures held by the Company are carried in its financial statements at cost less impairment, adjusted for changes in fair value attributable to the risk being hedged where such investments are held in qualifying fair value hedge relationships.

#### Change in ownership interests

When acquiring additional interests of a financial asset (such that it becomes an associate, joint venture or subsidiary) or an investment in an associate or joint venture (such that it becomes a subsidiary) and the underlying entity constitutes a business, previously held interests are revalued to their current fair value and any gain or loss is immediately 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 current fair value and any gain or loss is immediately recognised in investment income as part of other operating income and charges. To the extent the sale represents a contribution to an associate or joint venture, retained ownership interests are not revalued.

Changes in the Consolidated Entity's interest in a subsidiary that does not result in the loss of control are accounted for directly within equity. Increases in the Consolidated Entity's ownership of 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.

#### (iii) Business combinations

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

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

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

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. The Consolidated Entity elects, on a transaction-by-transaction basis, to 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 impairments.

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 directly 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. The Consolidated Entity accounts for the difference between the consideration paid and the book value of the assets and liabilities acquired as a gain or loss in equity.

## Note 1

### Summary of significant accounting policies continued

#### (iii) Business combinations continued

In the Consolidated Entity's financial statements, to the extent the common control transaction occurred between entities ultimately controlled by Macquarie Bank Limited, 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.

In the Company's financial statements, investments in subsidiaries are accounted for at cost on acquisition and subsequently in accordance with Note 1(ii) *Principles of consolidation*.

#### (iv) Foreign currency translation

##### Functional and presentation currency

The functional currency of each entity in the Consolidated Entity is determined as the currency of the primary economic environment in which the entity operates. The Consolidated Entity's 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

Foreign currency transactions are translated into each entity's functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in net trading income, except when deferred in OCI as a result of meeting cash flow hedge or net investment hedge accounting requirements (see Note 32 *Hedge accounting*).

Translation differences on financial instruments measured at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement.

Translation differences on financial assets classified as FVOCI are included in the income statement, including when they form part of fair value hedge relationships see Note 1(xi) *Derivative instruments and hedging activities* and Note 1(viii) *Financial instruments*.

##### Subsidiaries and other entities

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

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and 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).

For net investment in foreign operations where such investments are designated as qualifying hedged items in a 'Net investment in foreign operation hedge', refer to Note 1(xi) *Derivative instruments and hedging activities*.

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.

When a foreign operation is disposed of, exchange differences recognised in the FCTR are reclassified to the income statement and recognised in investment income as part of other operating income and charges. Where there is a partial disposal of the foreign operation, without resulting in the loss of control, a proportionate share of the accumulated FCTR is reattributed within equity to non-controlling interest. When there is a partial disposal of a foreign operation that is an associate or joint arrangement, without resulting in loss of significant influence or joint control, a proportionate share of the accumulated FCTR is reclassified to profit or loss.

#### (v) Revenue and expense recognition

##### Net interest income

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

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

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

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 1

### Summary of significant accounting policies *continued*

#### (v) Revenue and expense recognition *continued*

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

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

#### Fee and commission income

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

##### *Brokerage and other trading-related income*

The Consolidated Entity enters into contracts with customers to act as an agent to buy and sell securities and fees related to this service are recognised on trade date. The brokerage and commission income is presented net of any rebates.

##### *Other fee and commission income*

Other fee and commission income includes fees earned on a range of banking products and services platforms, wealth services, credit cards, structuring fees, portfolio administration, lending services, stock borrow and lending activities and income on structured products which are 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. It comprises operating lease income and supplemental rent and is presented net of the related depreciation expense.

#### Supplemental rent, maintenance liability and end of lease compensation

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

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

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

#### 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 at fair value through profit or loss 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 from other changes in fair value.

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 1(ii) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

#### Dividends

Dividends or distributions on financial assets are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends and distributions from associates and joint ventures reduce the carrying amount of the investment in the Consolidated Entity's statements of financial position. Dividends or distributions from subsidiaries, associates and joint ventures are recognised in the income statement of the Company when the right to receive the dividend or distribution is established.

#### Expenses

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

#### (vi) Segment reporting

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



## Note 1

### Summary of significant accounting policies continued

#### (vi) Segment reporting continued

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.

#### (vii) 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.

#### 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 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.

The tax consolidated group recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB Interpretation 1052 *Tax Consolidation Accounting*. Under the terms and conditions of a tax funding agreement, 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.

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

#### Goods and Services tax (GST)

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

#### (viii) 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 for (in the case of instruments not classified at FVTPL) 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 earned relating to financial instruments carried at FVTPL are recorded in the income statement.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 1

### Summary of significant accounting policies continued

#### (viii) Financial instruments continued

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 data 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 the income statement over the life of the transaction or when the inputs become observable. The Consolidated Entity applies this day 1 profit or loss policy to all financial instruments measured at fair value.

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
- consideration of whether each of the financial instruments has its own terms and conditions and each 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
- the Consolidated Entity is prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
- the Consolidated Entity is obligated to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Consolidated Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. Any interest in the transferred and derecognised financial asset that is created or retained by the Consolidated Entity is recognised as a separate asset or liability. In transfers where control over the asset is retained, the Consolidated Entity continues to recognise the asset to the extent of its continuing involvement as determined by the extent to which it is exposed to changes in the value of the transferred asset.

##### Financial liabilities

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

Gains and losses arising from the derecognition of debt financial assets or financial liabilities that are subsequently measured at amortised cost are recognised in other income as part of other operating income and charges, while those arising from the derecognition of debt financial assets or financial liabilities that are subsequently measured at FVTPL or at FVOCI are recognised as investment income as part of other operating income and charges.

##### Financial guarantee contracts

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

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

##### Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial instrument 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 recorded in other income.

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 other income reflecting the adjustment of the gross carrying amount to reflect the renegotiated or modified contractual cash flows, discounted at the 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.

## Note 1

### Summary of significant accounting policies continued

#### (viii) Financial instruments continued

##### Business model assessment

The Consolidated Entity determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- (i) 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
- (ii) 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
- (iii) 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).

The Consolidated Entity exercises judgement to determine the appropriate level at which to assess its business models and its intention with respect to its financial assets.

##### Solely payment of principal and interest (SPPI)

The contractual cash flows of a financial asset are assessed to determine whether these represent SPPI on the principal amount outstanding. This includes an assessment of whether 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:

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

Interest income is determined in accordance with the EIR method.

##### Fair value through other comprehensive income (FVOCI)

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

- (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements, and
- (iii) the financial asset has not been classified as DFVTPL.

Subsequent changes in fair value are recognised in OCI, with the exception of interest (which is recognised as part of interest income), ECL (which is recognised as a credit impairment charge in other operating income and charges) and foreign exchange gains and losses (which are recognised in net trading income). When debt financial assets at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI and recognised in investment income as part of other operating income and charges.

##### 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 that have been designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (DFVTPL)
- 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
- financial assets that fail the SPPI test (FVTPL).

Equity financial assets are measured at FVTPL.

Changes in the fair value of HFT financial assets are recognised in net trading income. Changes in the fair value of financial assets that are DFVTPL and FVTPL are recognised as investment income as part of other operating income and charges.

The interest component of financial assets that are classified as HFT, DFVTPL and FVTPL is recognised in interest 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 held for trading, in which case they are classified as HFT, or have been designated to be measured at FVTPL (DFVTPL). A financial liability may be DFVTPL if:

- the liability contains embedded derivatives which must otherwise be separated and carried at fair value, or
- such a designation eliminates or significantly reduces an accounting mismatch that would otherwise have arisen.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 1

### Summary of significant accounting policies *continued*

#### (viii) Financial instruments *continued*

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.

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

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported on 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.

#### (ix) 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 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. These transactions include:

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

Similar transactions with related body corporates are reported as part of 'Due to/from related body corporate entities and subsidiaries.' Refer to Note 1(xx).

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 followed 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 measured at DFVTPL to eliminate an accounting mismatch created by managing these agreements together with the reverse repurchase agreements measured at FVTPL.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of these assets and liabilities. 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 profit or loss arising from revaluing that contract to fair value is recognised in the income statement. Refer to Note 1(viii) *Financial instruments*.

#### (x) Trading assets and liabilities

Trading assets (long positions) comprise financial instruments such as debt and equity securities, bank bills, treasury notes, loans and commodity contracts purchased with the intent of being actively traded either individually or as part of a portfolio. It also includes commodities for which the Consolidated Entity has a trading intention.

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

Trading assets and liabilities are classified as HFT. Commodity inventory is measured at fair value less costs to sell in accordance with the broker-trader exception, 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.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of trading assets and liabilities. 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 profit or loss arising from revaluing that contract to fair value is recognised as part of net trading income in the income statement. When the Consolidated Entity becomes party to a sale contract, and the derecognition criteria are met, it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.



**(xi) 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 and forecast financial and non-financial assets and liabilities 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.

Fair values are obtained from quoted prices in active markets where available, and 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 1(viii) *Financial instruments*.

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

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 1

### Summary of significant accounting policies continued

#### (xi) Derivative instruments and hedging activities continued

##### 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). In order to account for the difference in measurement bases or location of the gains and losses between the exposure that is being hedged and the hedging instrument, the Consolidated Entity applies hedge accounting as detailed in the table that follows:

	Fair value hedge	Cash flow hedge	Net investment hedge
<b>Nature of hedge</b>	The hedge of the fair value risk of a financial asset or non-financial asset or liability.	The hedge of the change in cash flows of a financial asset or liability or a highly probable forecast transaction.	The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates.
<b>Hedged risk</b>	<ul style="list-style-type: none"> <li>– Interest rate risk</li> <li>– Commodity price risk</li> <li>– Foreign exchange risk (spot)<sup>(1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>– Interest rate risk</li> <li>– Foreign exchange risk (spot)</li> </ul>	<ul style="list-style-type: none"> <li>– Foreign exchange risk (spot)</li> </ul>
<b>Hedged item</b>	<ul style="list-style-type: none"> <li>– Fixed interest rate financial assets and liabilities</li> <li>– Commodity transportation contracts</li> <li>– Equity investments in foreign currency denominated subsidiaries<sup>(1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>– Floating interest rate financial assets and liabilities</li> <li>– Foreign currency denominated interest bearing financial assets and liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>– Foreign operations</li> </ul>
<b>Hedging instruments</b>	<ul style="list-style-type: none"> <li>– Interest rate swaps</li> <li>– Commodity forward contracts</li> <li>– Foreign exchange forward contracts<sup>(1)</sup></li> <li>– Cross currency swaps<sup>(1)</sup></li> <li>– Foreign currency denominated issued debt<sup>(1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>– Interest rate swaps</li> <li>– Cross currency swaps</li> </ul>	<ul style="list-style-type: none"> <li>– Foreign exchange forward contracts</li> <li>– Foreign currency denominated issued debt.</li> </ul>
<b>Designation and documentation</b>	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.		
<b>Hedge effectiveness method</b>	<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"> <li>– an economic relationship exists between the hedged item and the hedging instrument</li> <li>– credit risk does not dominate the changes in value of either the hedged item or the hedging instrument</li> <li>– the hedge ratio is reflective of the Consolidated Entity's risk management approach.</li> </ul> <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>		

(1) The Company (but not the Consolidated Entity) designates fair value hedges of spot foreign exchange risk arising from the fair value of equity investments in foreign currency denominated subsidiaries.

**Note 1****Summary of significant accounting policies continued****(xi) Derivative instruments and hedging activities continued**

	Fair value hedge	Cash flow hedge	Net investment hedge
<b>Accounting treatment for the hedging instrument</b>	Fair value through the income statement.	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.	Fair value through the foreign currency translation reserve as part of OCI and recognised in the income statement at the time at which there is a disposal of the hedged foreign operation or to non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated.
<b>Accounting treatment for the hedged item</b>	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.
<b>Accounting treatment for hedge ineffectiveness</b>	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.	
<b>Accounting treatment if the hedge relationship is discontinued</b>	Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an EIR basis.	<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>	The gain or loss remains recognised in the FCTR until such time as there is a disposal of the hedged foreign operation or is recognised in non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated.
<b>Other accounting policies</b>	None	The foreign currency basis spread of the hedging instrument, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the cost of hedging reserve and released to the income statement at the time at which the hedged exposure affects the income statement.	

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 1

### Summary of significant accounting policies continued

#### (xii) 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 margin and variance margin which varies based on trading activities. Settlement balances represent outstanding trade timing balances as at the reporting date due to the timing difference between trade date 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.

#### (xiii) 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 are in the nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities.

Financial investments are initially recognised on trade date at fair value (adjusted for directly attributable transaction costs for debt investments subsequently measured at FVOCI) and subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments Note 1(viii).

#### (xiv) 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 at fair value on settlement date (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments Note 1(viii).

Certain finance lease receivables are also presented as part of loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 1(viii).

#### (xv) 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) less, accumulated depreciation and where applicable, accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the asset.

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

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

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

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

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

Annual depreciation rates are summarised below:

Property, Plant and Equipment and right-of-use assets	Depreciation rate
Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements <sup>(1)</sup>	10 to 20%
Equipment	33 to 50%
Infrastructure assets <sup>(2)</sup>	2 to 12%
Aviation <sup>(3)</sup>	2 to 8%
Meters	5 to 15%
Rail cars	3 to 5%
Telecommunications	41%
Other operating lease assets	2 to 50%

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.

(2) Includes infrastructure assets, for which depreciation is calculated on a unit of production basis.

(3) Includes aircraft, for which depreciation is calculated on a diminishing-value basis.

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 Consolidated Entity does not recognise a right-of-use asset for short term or low value leases, instead the expense is recognised over the lease term as appropriate as part of 'operating expenses' in the income statement.

#### (xvi) 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.

## Note 1

### Summary of significant accounting policies continued

#### (xvi) Goodwill and other identifiable intangible assets continued

##### 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.

Amortisation of intangible assets is recognised in other operating expenses and impairments are recognised in other operating income and charges.

##### 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. Amortisation of computer software programmes and impairments, where applicable, is recognised in other operating expenses.

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

#### (xvii) Deposits

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

#### (xviii) 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, these are recorded as contract assets. Both receivables and contract assets are assessed for impairment in accordance with AASB 9.

The Consolidated Entity, as permitted by AASB 15, has applied the practical expedient that allows for costs incurred to obtain a contract to be expensed as incurred where the amortisation period for any asset recognised would be less than 12 months. The Consolidated Entity also applies the practical expedient not to adjust consideration for the effects of a significant financing component, where the period between transferring a good or service and when the customer pays for that good or service is expected to be one year or less.

Contract liabilities relate to prepayments received from customers where the Consolidated Entity is yet to satisfy its performance obligation.

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

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

These assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and it is highly probable that it, they will be sold or distributed 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 are 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 is satisfied.

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 the income statement. 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.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 1

### Summary of significant accounting policies *continued*

#### (xviii) Other assets and liabilities *continued*

##### Life investment linked assets and liabilities

Life investment policies consist of two components: a financial instrument (deposit component) and an investment management fee. The investment management fee is recognised in the income statement over the period for which the service is provided.

The deposit component of the financial instrument is designated at FVTPL to eliminate the accounting mismatch created by the Life investment linked assets, which are managed on a fair value basis and are measured at FVTPL. Life investment contract liabilities are directly linked to the performance and market value of the assets that back them and the fair value is measured as the minimum current surrender value. Withdrawals and surrenders of life investment contracts are treated as a reduction in the investment contract liability.

##### Employee benefit provisions

A liability for employee benefits is recognised by the entity that has the obligation to the employee. Generally, this is consistent with the legal position of the parties to the employment contract.

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

Provisions for dividends to be paid by the Company are recognised in the statements of financial position as a liability and a reduction in retained earnings when the dividend has been declared.

#### (xix) Borrowings

Borrowings includes loans and other payables due to banks and financial institutions. These balances are subsequently measured at amortised cost using the EIR method.

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

Transactions between the Consolidated Entity and other related body corporate entities under common control 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. Refer to Note 1(v) *Revenue and expense recognition* and Note 1(viii) *Financial instruments*.

Financial assets and financial liabilities are presented net where the offsetting requirements are met Note 1(viii), such that the net amount is reported in the statements of financial position.

#### (xxi) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at amortised cost using the EIR method and at fair value for DFVTPL items in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 1(viii).

#### (xxii) Loan Capital

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

Capital instruments with conversion features, such as Common Equity Capital Trigger Events or Non-Viability Trigger Events, are assessed as to whether they contain embedded derivatives and, where applicable, are recognised separately as derivative assets and liabilities with changes in the fair value being recognised as part of net trading income in the income statement.

#### (xxiii) Impairment

##### Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost or are classified as FVOCI, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts. 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 or macroeconomic information (FLI). Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD).

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



## Note 1

### Summary of significant accounting policies continued

#### (xxiii) Impairment continued

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 PD over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

##### (ii) Stage II – Lifetime ECL 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 applies its judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Consolidated Entity's process to determine whether there has been a SICR is provided in Note 11 *Expected credit losses*.

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

##### (iii) Stage III – Lifetime ECL 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, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for FLI.

##### (iv) Purchased or originated credit-impaired financial assets (POCI)

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

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

#### Presentation of loss allowances

The loss allowances for ECL 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 fair value through OCI – as a reduction in the OCI reserve account under equity. The carrying amount of the asset is not adjusted as it is recognised 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 – as a provision included in other liabilities.

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

#### Impairment of interests in associates and joint ventures

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

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

Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the income statement if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised.

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.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 1

### Summary of significant accounting policies *continued*

#### (xxiii) Impairment *continued*

##### 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 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 right-of-use 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.

#### (xxiv) 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 a corresponding increase in contributed equity with reference to the vesting period of those awards. To the extent that the Consolidated Entity or Company pays the ultimate parent for MEREP awards offered to its employees, a corresponding debit is recognised in contributed equity. To the extent the amount is paid in advance, a receivable due from the ultimate parent is recognised. The receivable is amortised to the income statement as share-based payment expense over the vesting period. MEREP receivable amounts are recognised and disclosed in Note 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.

#### (xxv) Leases

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

##### (i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods and may include extension options. Leases are recognised as a ROU asset (as explained in Note 1(xv) *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.



## Note 1

### Summary of significant accounting policies continued

#### (xxv) Leases continued

##### 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' in the income statement 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 in the income statement 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, in the income statement, where the carrying value of the ROU asset has been fully written down.

##### Presentation

The Consolidated Entity presents ROU assets in Note 12 *Property, plant and equipment and right-of-use assets* and in Note 20 *Other liabilities* in the statements of financial position.

*Prior to the adoption of AASB 16, where the Consolidated Entity was the lessee in an operating lease arrangement, the total fixed payments were charged to the income statement on a straight-line basis over the period of the lease. The difference between the cumulative expense recognised and cash paid was recorded on the balance sheet as either a payable or receivable as appropriate.*

##### (ii) Accounting where the Consolidated Entity is a lessor

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

##### Finance lease

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

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

##### Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over its useful life in accordance with the rates specified in Note 1(xv) *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.

##### (xxvi) 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 proceeds.

##### (xxvii) Fiduciary assets

The Consolidated Entity engages in trust, fund or other fiduciary 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 activities is included in the Consolidated Entity's income statement.

##### (xxviii) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank 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 thus restricted from use.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

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## Note 1

### Summary of significant accounting policies

*continued*

#### (xxix) Investment property

Investment properties are initially recognised at cost and subsequently stated at fair value at each reporting date. Any change in fair value is recognised in other income as part of other operating income and charges.

#### (xxx) Discontinued operations

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

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

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

#### (xxxi) Comparatives

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

#### (xxxii) 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.

CONSOLIDATED		COMPANY	
2020 <sup>(1)</sup>	2019 <sup>(1)</sup>	2020 <sup>(1)</sup>	2019 <sup>(1)</sup>
\$m	\$m	\$m	\$m

**Note 2****Operating profit from continuing operations before income tax****Net interest income**

## Interest and similar income

Effective interest method <sup>(2)</sup>	3,777	4,135	3,267	3,564
Other	686	678	512	587
Interest and similar expense <sup>(3)</sup>	(2,423)	(2,835)	(2,540)	(2,886)
Net interest income	2,040	1,978	1,239	1,265

**Fee and commission income**

Brokerage and other trading-related income	501	532	386	410
Portfolio administration fees	233	283	33	16
Lending fees	149	133	209	253
Other fee and commission income	302	283	276	283
Total fee and commission income	1,185	1,231	904	962

**Net trading income<sup>(4)</sup>**

Commodities <sup>(5)</sup>	1,857	1,841	821	632
Equities	410	425	290	339
Credit, interest rate and foreign exchange products	348	260	139	82
Net trading income	2,615	2,526	1,250	1,053

**Net operating lease income**

Rental income	1,197	1,119	671	645
Depreciation on assets under operating lease (Note 12)	(826)	(830)	(557)	(595)
Net operating lease income	371	289	114	50

**Share of net profits of associates and joint ventures**

	27	28	–	–
--	----	----	---	---

(1) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax'. Refer to Note 39 *Discontinued operations*.

(2) Includes interest income calculated using the effective interest rate method of \$3,674 million (2019: \$4,003 million) in the Consolidated Entity and \$1,654 million (2019: \$1,985 million) in the Company on financial assets that are measured at amortised cost and \$103 million (2019: \$132 million) in the Consolidated Entity and \$1,613 million (2019: \$1,579 million) in the Company on financial assets measured at FVOCI.

(3) Includes interest expense calculated using the effective interest rate method of \$2,249 million (2019: \$2,629 million) in the Consolidated Entity and \$2,401 million (2019: \$2,727 million) in the Company on financial liabilities measured at amortised cost.

(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships, fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk and foreign currency gains and losses on foreign-denominated monetary assets and liabilities. Refer to Note 1(xi) *Derivative instruments and hedging activities*.

(5) Includes \$492 million (2019: \$347 million) in the Consolidated Entity and \$51 million (2019: \$Nil) in the Company of transportation, storage and certain other trading related costs.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

	CONSOLIDATED		COMPANY	
	2020 <sup>(1)</sup> \$m	2019 <sup>(1)</sup> \$m	2020 <sup>(1)</sup> \$m	2019 <sup>(1)</sup> \$m
<b>Note 2</b>				
<b>Operating profit from continuing operations before income tax <i>continued</i></b>				
<b>Credit and other impairment (charges)/reversal</b>				
<b>Credit impairment (charges)/reversal</b>				
Loan assets	(325)	(137)	(148)	(69)
Margin money and settlement assets	(66)	–	(28)	–
Financial investments, other assets, undrawn commitments, financial guarantees <sup>(2)</sup>	(72)	(8)	(49)	18
Gross credit impairment charges	(463)	(145)	(225)	(51)
Recovery of loans previously written off	12	14	5	13
<b>Net credit impairment charges</b>	<b>(451)</b>	<b>(131)</b>	<b>(220)</b>	<b>(38)</b>
<b>Other impairment charges</b>				
Interests in associates and joint ventures	(7)	(102)	(5)	(15)
Intangible assets and other non-financial assets	(14)	(14)	(11)	(4)
Investment in subsidiaries	–	–	46	19
Total other impairment (charges)/reversal	(21)	(116)	30	–
<b>Total credit and other impairment charges</b>	<b>(472)</b>	<b>(247)</b>	<b>(190)</b>	<b>(38)</b>
<b>Other operating income and charges</b>				
<b>Investment income</b>				
Net gain on equity and debt investments	9	55	134	47
Net gain on the disposal of interests in associates and joint ventures	18	62	13	6
Net gain on the disposal of businesses and subsidiaries held for sale <sup>(3)</sup>	241	–	185	130
Net gain on change of control, joint control and/or significant influence	–	10	–	3
Dividends received/receivable from subsidiaries (Note 27)	–	–	131	285
Total investment income	268	127	463	471
Other income and charges <sup>(4),(5)</sup>	138	(21)	429	370
<b>Total other operating income and charges</b>	<b>406</b>	<b>106</b>	<b>892</b>	<b>841</b>
<b>Net operating income</b>	<b>6,172</b>	<b>5,911</b>	<b>4,209</b>	<b>4,133</b>

(1) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax'. Refer to Note 39 *Discontinued operations*.

(2) Includes ECL reversal on Due from subsidiaries \$9 million (2019: \$6 million) for the Company.

(3) Relates to \$241 million of gain on the sale of Macquarie Specialised Investment Solutions (MSIS) fiduciary businesses to Macquarie Asset Management Holdings Pty Limited (MAMHPL), a related party of MBL, and is a wholly owned subsidiary of MGL.

(4) Includes \$4 million loss (2019: \$4 million) in the Consolidated Entity and \$11 million loss (2019: \$4 million) in the Company on derecognition of loans at amortised cost.

(5) Includes \$15 million gain (2019: \$33 million loss) in the Consolidated Entity and \$18 million loss (2019: \$41 million loss) in the Company on loans measured at FVTPL.

## CONSOLIDATED

## COMPANY

2020<sup>(1)</sup>  
\$m2019<sup>(1)</sup>  
\$m2020<sup>(1)</sup>  
\$m2019<sup>(1)</sup>  
\$m**Note 2****Operating profit from continuing operations before income tax continued****Employment expenses**

Salary and related costs including commissions, superannuation and performance-related profit share

**(1,154)**

(1,305)

**(841)**

(958)

Share-based payments

**(192)**

(144)

**(129)**

(98)

(Provision for)/reversal of long service leave and annual leave

**(1)**

1

**–**

2

Total employment expenses

**(1,347)**

(1,448)

**(970)**

(1,054)

**Brokerage, commission and trading-related expenses**

Brokerage and other trading-related expenses

**(530)**

(667)

**(390)**

(504)

Other fee and commission expenses

**(66)**

(110)

**(196)**

(268)

Total brokerage, commission and trading-related expenses

**(596)**

(777)

**(586)**

(772)

**Occupancy expenses**

Operating lease expenses

**(6)**

(13)

**–**

(5)

Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements (Note 12)

**(4)**

(4)

**(3)**

(3)

Other occupancy expenses

**(94)**

(100)

**(79)**

(83)

Total occupancy expenses

**(104)**

(117)

**(82)**

(91)

**Non-salary technology expenses**

Information services

**(83)**

(84)

**(61)**

(62)

Depreciation on own use assets: equipment (Note 12)

**(4)**

(5)

**(3)**

(4)

Service provider and other non-salary technology expenses

**(83)**

(78)

**(68)**

(70)

Total non-salary technology expenses

**(170)**

(167)

**(132)**

(136)

**Other operating expenses**

Service cost recoveries from related entities

**(1,643)**

(1,427)

**(1,344)**

(1,204)

Professional fees

**(145)**

(134)

**(104)**

(104)

Indirect and other taxes

**(78)**

(50)

**(57)**

(39)

Travel and entertainment expenses

**(41)**

(47)

**(27)**

(33)

Auditor's remuneration (Note 38)

**(22)**

(24)

**(11)**

(12)

Amortisation of intangible assets

**(20)**

(19)

**(16)**

(16)

Advertising and promotional expenses

**(19)**

(20)

**(16)**

(19)

Communication expenses

**(11)**

(11)

**(7)**

(8)

Other expenses

**(81)**

(191)

**(60)**

(125)

Total other operating expenses

**(2,060)**

(1,923)

**(1,642)**

(1,560)

**Total operating expenses****(4,277)**

(4,432)

**(3,412)**

(3,613)

**Operating profit from continuing operations before income tax****1,895**

1,479

**797**

520

(1) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax'. Refer to Note 39 *Discontinued operations*.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 3

### Segment reporting

#### (i) Operating segments

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

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

In the first half, CAF's core business in the Bank Group was aligned to CGM, reflecting longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients. In addition, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance in the Bank Group to MAM in the Non-Bank Group.

Comparatives have been reclassified to reflect this reorganisation between the Operating Groups.

These segments have been set up based on the different core products and services offered.

Following the reorganisation described above, the Operating Groups comprise:

- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a diverse range of tailored specialised asset finance solutions globally across a variety of industries and asset classes.

The financial information disclosed relates to the Consolidated Entity's continuing operations.

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 investments, assets and businesses that are no longer core for strategic reasons and are not allocated to either of the Operating Groups.

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 expenses include earnings from investments, central credit and asset related impairments, including certain additional central overlays on expected credit losses, 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 and holders of Macquarie Income Securities (MIS). The MIS were repaid on 15 April 2020, followed by a redemption on 16 April 2020.

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 Banking Group. BFS receives a deposit premium from Group Treasury on deposits that it generates. This deposit premium is included 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. There is a requirement for accounting symmetry in such transactions.

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

For businesses that predominately earn income from lending activities, derivatives that hedge interest rate risk are required to be measured at fair value. The changes in fair value (volatility) are recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for changes in fair value that are attributable to hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of the non-trading businesses, with changes in fair value recognised within the Corporate segment and managed via the

application of hedge accounting.

## Note 3

### Segment reporting continued

#### (i) Operating segments continued

##### Central service groups

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

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

##### Performance-related profit share and share-based payments expense

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

##### Income tax

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

This internal management revenue/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.

##### Reportable segment assets

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



# Notes to the financial statements

For the financial year ended 31 March 2020 continued

	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate \$m	Total \$m
<b>Note 3</b>				
<b>Segment reporting continued</b>				
<b>(i) Operating segments continued</b>				
	<b>CONSOLIDATED 2020</b>			
Net interest and trading income	1,728	2,830	97	4,655
Fee and commission income	441	731	13	1,185
Net operating lease income	–	360	11	371
Share of net profits/(losses) of associates and joint ventures	3	25	(1)	27
Credit and other impairment charges	(149)	(238)	(85)	(472)
Other operating income and charges	9	82	315	406
Internal management revenue/(charge)	2	21	(23)	–
Net operating income	2,034	3,811	327	6,172
Total operating expenses	(1,267)	(1,989)	(1,021)	(4,277)
Operating profit/(loss) before income tax	767	1,822	(694)	1,895
Income tax expense	–	–	(586)	(586)
Operating profit/(loss) after income tax	767	1,822	(1,280)	1,309
Distributions paid or provided for on MIS	–	–	(12)	(12)
<b>Net profit/(loss) attributable to the ordinary equity holder from continuing operations</b>	<b>767</b>	<b>1,822</b>	<b>(1,292)</b>	<b>1,297</b>
<b>Reportable segment assets</b>	<b>76,776</b>	<b>131,361</b>	<b>17,999</b>	<b>226,136</b>
	<b>CONSOLIDATED 2019</b>			
Net interest and trading income	1,679	2,672	153	4,504
Fee and commission income	473	705	53	1,231
Net operating lease income	–	285	4	289
Share of net profits/(losses) of associates and joint ventures	8	21	(1)	28
Credit and other impairment charges	(82)	(157)	(8)	(247)
Other operating income and charges	19	128	(41)	106
Internal management revenue/(charges)	2	14	(16)	–
Net operating income	2,099	3,668	144	5,911
Total operating expenses	(1,346)	(1,981)	(1,105)	(4,432)
Operating profit/(loss) before income tax	753	1,687	(961)	1,479
Income tax expense	–	–	(394)	(394)
Operating profit/(loss) after income tax	753	1,687	(1,355)	1,085
Profit attributable to non-controlling interests	–	(2)	(2)	(4)
Profit/(loss) attributable to equity holders	753	1,685	(1,357)	1,081
Distributions paid or provided for on MIS	–	–	(15)	(15)
<b>Net profit/(loss) attributable to the ordinary equity holder from continuing operations</b>	<b>753</b>	<b>1,685</b>	<b>(1,372)</b>	<b>1,066</b>
<b>Reportable segment assets</b>	<b>63,885</b>	<b>90,785</b>	<b>9,329</b>	<b>163,999</b>



**Note 3****Segment reporting continued****(ii) Fee and commission income relating to contracts with customers**

The table below represents the disaggregation of fee and commission income by Operating Segment:

	Banking and Financial Services \$m	Commodities and Global Market \$m	Corporate \$m	Total \$m
<b>Fee and commission income</b>	<b>CONSOLIDATED 2020</b>			
Brokerage and other trading-related income	49	452	–	501
Portfolio administration fee	219	5	9	233
Lending fees	130	19	–	149
Other fee and commission income	43	255	4	302
<b>Total fee and commission income</b>	<b>441</b>	<b>731</b>	<b>13</b>	<b>1,185</b>
<b>Fee and commission income/(expense)</b>	<b>CONSOLIDATED 2019</b>			
Brokerage and other trading-related income	67	464	1	532
Portfolio administration fee	233	11	39	283
Lending fees	133	10	(10)	133
Other fee and commission income	40	220	23	283
<b>Total fee and commission income</b>	<b>473</b>	<b>705</b>	<b>53</b>	<b>1,231</b>

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## 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:

- **Asset and wealth management:** manufacture and distribution of wealth management products
- **Financial markets:** trading in fixed income, equities, foreign exchange and commodities and broking services, and
- **Lending:** corporate and structured finance, banking activities, home loans, asset financing and leasing.

	CONSOLIDATED	
	2020 \$m	2019 \$m
<b>Revenue from external customers</b>		
Financial markets	5,160	5,038
Lending	4,690	4,777
Asset and wealth management	555	358
<b>Total revenue from external customers<sup>(1)</sup></b>	<b>10,405</b>	<b>10,173</b>

#### (iv) Geographical areas

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

	CONSOLIDATED 2020		CONSOLIDATED 2019	
	Revenue from external customers \$m	Non current assets <sup>(2)</sup> \$m	Revenue from external customers \$m	Non current assets <sup>(2)</sup> \$m
Australia	5,489	990	5,621	1,503
Americas <sup>(3)</sup>	2,127	318	2,120	257
Europe, Middle East and Africa <sup>(4)</sup>	2,066	1,665	1,920	1,298
Asia Pacific	723	61	512	84
<b>Total</b>	<b>10,405</b>	<b>3,034</b>	<b>10,173</b>	<b>3,142</b>

#### (v) Major customers

The Consolidated Entity does not rely on any major customer.

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, income associated with investing activities and other income.

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

(3) Includes external revenue generated in the United States of America of \$1,934 million (2019: \$1,888 million).

(4) Includes external revenue generated in the United Kingdom of \$2,014 million (2019: \$1,854 million).

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Note 4</b>				
<b>Income tax expense</b>				
<b>(i) Income tax expense</b>				
Current tax expense	(556)	(745)	(340)	(298)
Deferred tax benefit	32	169	78	110
<b>Total income tax expense</b>	<b>(524)</b>	<b>(576)</b>	<b>(262)</b>	<b>(188)</b>
Income tax expense is attributable to:				
Profit from continuing operations	(586)	(394)	(324)	(141)
Profit from discontinued operations	62	(182)	62	(47)
<b>(ii) Reconciliation of income tax (expense)/benefit to prima facie tax payable</b>				
Prima facie income tax expense on operating profit <sup>(1)</sup>	(599)	(785)	(269)	(545)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:				
Rate differential on offshore income	19	147	(129)	(8)
Impairment charge on subsidiaries	–	–	14	6
Intra-group dividends	–	–	39	219
Gain on sale of discontinued operations	93	67	93	139
Other items	(37)	(5)	(10)	1
<b>Total income tax expense</b>	<b>(524)</b>	<b>(576)</b>	<b>(262)</b>	<b>(188)</b>
<b>(iii) Tax benefit/(expense) relating to items of OCI</b>				
FVOCI reserve	3	3	(22)	(3)
Own credit risk	(21)	(3)	(21)	(3)
Cash flow hedge reserve	(7)	29	(18)	8
<b>Total tax (expense)/benefit relating to items of OCI</b>	<b>(25)</b>	<b>29</b>	<b>(61)</b>	<b>2</b>
<b>(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/(liabilities)</b>				
Property, plant and equipment	(10)	21	(9)	12
Intangible assets	2	5	(4)	2
Financial investments, associates and joint ventures	4	(39)	(10)	(50)
Tax losses	(21)	43	(15)	17
Operating and finance leases	33	45	99	75
Loan assets and derivatives	(14)	(21)	10	(9)
Other assets and liabilities	38	115	7	63
<b>Total deferred tax benefit represents movements in deferred tax assets/(liabilities)</b>	<b>32</b>	<b>169</b>	<b>78</b>	<b>110</b>

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 positions.

(1) Prima facie income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (2019: 30%).

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m

## Note 5

### Dividends and distributions paid or provided for

#### (i) Dividends paid

##### Ordinary share capital

Dividend paid <sup>(1)</sup>	–	1,188	–	1,188
Dividend provided for <sup>(2)</sup>	–	560	–	560
<b>Total dividends paid (Note 25)</b>	<b>–</b>	<b>1,748</b>	<b>–</b>	<b>1,748</b>

#### (ii) Distributions paid or provided for Macquarie Income Securities<sup>(3)</sup>

Distributions paid (net of distributions previously provided for)	9	9	–	–
Distributions provided for	3	6	–	–
<b>Total distributions paid or provided for (Note 25)</b>	<b>12</b>	<b>15</b>	<b>–</b>	<b>–</b>
<b>Total dividend and distribution paid or provided for</b>	<b>12</b>	<b>1,763</b>	<b>–</b>	<b>1,748</b>

## Note 6

### Trading assets

Listed equity securities	4,405	7,658	4,324	7,227
Debt securities				
Commonwealth and foreign government securities	6,763	4,752	6,751	4,695
Corporate loans and securities	281	1,209	175	575
Treasury notes	318	81	318	80
Other debt securities	1	24	1	14
Commodity contracts	943	679	820	527
Commodities	3,540	1,874	2,110	842
<b>Total trading assets</b>	<b>16,251</b>	<b>16,277</b>	<b>14,499</b>	<b>13,960</b>

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

(1) Prior year includes \$264 million dividend paid on disposal of business. Refer to Note 39 *Discontinued operations* for further information.

(2) Dividend of \$560 million provided during March 2019 was paid on 5 April 2019.

(3) Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Company. Refer to Note 24 *Contributed equity* for further details on these instruments.

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Note 7</b>				
<b>Margin money and settlement assets</b>				
Margin money	6,842	3,283	5,959	2,460
Security settlements	3,207	3,203	2,839	2,811
Commodity settlements	2,134	2,605	1,217	1,225
<b>Total margin money and settlement assets<sup>(1)</sup></b>	<b>12,183</b>	<b>9,091</b>	<b>10,015</b>	<b>6,496</b>

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

## Note 8

### Financial investments

Equity securities				
Listed	39	65	36	50
Unlisted	115	195	73	141
Debt securities				
Bonds and NCDs	7,163	5,005	7,163	5,005
Money market securities	55	81	55	81
Corporate loans and securities	39	38	39	38
Other debt securities	73	86	–	–
<b>Total financial investments</b>	<b>7,484</b>	<b>5,470</b>	<b>7,366</b>	<b>5,315</b>

Of the above amounts, \$3,253 million (2019: \$2,258 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$3,237 million (2019: \$2,160 million) by the Company.

## Note 9

### Other assets

Debtors and prepayments <sup>(2)</sup>	1,077	1,196	779	987
Commodity-related receivables	1,525	2,781	1,295	2,657
Life investment linked contracts and other unitholder assets	308	382	–	–
Income tax receivable	330	220	190	111
Others	27	58	2	2
<b>Total other assets</b>	<b>3,267</b>	<b>4,637</b>	<b>2,266</b>	<b>3,757</b>

Of the above amounts, \$3,118 million (2019: \$4,486 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$1,831 million (2019: \$3,357 million) by the Company.

(1) During the year, the Consolidated Entity undertook a review of client monies and concluded that certain client-related margin money and settlement balances did not meet the definition of an asset under the conceptual framework and therefore should not be presented in the statements of financial position as at 31 March 2020. Previous year balances were represented to conform to the current year presentation. Refer to Note 1(i) *Changes to the Consolidated Entity's statements of financial position and statement of cash flows* for further detail.

(2) Includes \$182 million (2019: \$135 million) of fee and commission receivables.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

	2020			2019		
	Gross \$m	ECL allowance <sup>(1)</sup> \$m	Net \$m	Gross \$m	ECL allowance <sup>(1)</sup> \$m	Net \$m
<b>Note 10</b>						
<b>Loan assets</b>						
	<b>CONSOLIDATED</b>					
Home loans <sup>(2)</sup>	56,106	(62)	56,044	41,965	(60)	41,905
Asset financing <sup>(2)</sup>	16,453	(294)	16,159	18,225	(240)	17,985
Corporate, commercial and other lending	13,288	(331)	12,957	11,697	(209)	11,488
Investment lending	2,560	(1)	2,559	1,781	(1)	1,780
<b>Total loan assets</b>	<b>88,407</b>	<b>(688)</b>	<b>87,719</b>	<b>73,668</b>	<b>(510)</b>	<b>73,158</b>
	<b>COMPANY</b>					
Home loans	52,895	(26)	52,869	40,888	(15)	40,873
Asset financing	2,477	(59)	2,418	3,432	(71)	3,361
Corporate, commercial and other lending	9,677	(286)	9,391	9,006	(184)	8,822
Investment lending	297	–	297	265	–	265
<b>Total loan assets</b>	<b>65,346</b>	<b>(371)</b>	<b>64,975</b>	<b>53,591</b>	<b>(270)</b>	<b>53,321</b>

Of the above amounts, \$26,195 million (2019: \$21,847 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$17,588 million (2019: \$17,122 million) by the Company. Following the economic consequences of COVID-19 at the reporting date the timing of recovery is subject to evolving regulatory and industry support for counterparties requesting such support.

## Reposessed collateral

In the event of a customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. During the financial year the Consolidated Entity has not reposessed any asset held as security. During the previous year the Consolidated Entity reposessed assets with a carrying value of \$32 million for corporate commercial and other lending where customers defaulted on facilities.

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

(2) Includes \$16,402 million (2019: \$10,753 million) held by consolidated Structured Entities (SEs), which are available as security to note holders and debt providers.

## Note 10

### Loan assets continued

#### Finance lease receivables

Finance lease receivables are included within loan assets. The Consolidated Entity provides finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment. Finance lease receivables do not include retail products such as hire purchase, mortgages related to movable property and consumer loans.

	2020			2019		
	Gross investment in finance lease receivable \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m	Gross investment in finance lease receivable \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m
<b>CONSOLIDATED</b>						
Within one year	2,039	(197)	1,842	2,076	(203)	1,873
Between one to two years	1,540	(139)	1,401	1,470	(153)	1,317
Between two to three years	1,079	(98)	981	1,239	(124)	1,115
Between three to four years	628	(59)	569	754	(79)	675
Between four to five years	280	(26)	254	401	(41)	360
Later than five years	68	(3)	65	62	(2)	60
<b>Total</b>	<b>5,634</b>	<b>(522)</b>	<b>5,112</b>	<b>6,002</b>	<b>(602)</b>	<b>5,400</b>
<b>COMPANY</b>						
Within one year	123	(11)	112	133	(19)	114
Between one to two years	100	(8)	92	120	(19)	101
Between two to three years	81	(6)	75	94	(12)	82
Between three to four years	29	(2)	27	68	(10)	58
Between four to five years	6	–	6	41	(2)	39
Later than five years	1	–	1	1	–	1
<b>Total</b>	<b>340</b>	<b>(27)</b>	<b>313</b>	<b>457</b>	<b>(62)</b>	<b>395</b>

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 11

### Expected credit losses

At the reporting date the Consolidated Entity has presented the ECL allowances in its statements of financial position as follows:

- financial assets measured at amortised cost: Deduction against the gross carrying amount
- debt investments measured at FVOCI: Included in OCI since the asset's carrying value is measured at fair value
- undrawn credit commitments, financial guarantee contracts and letters of credit: Recognised as a provision and included in other liabilities
- purchased or originated credit-impaired financial assets: Recognised as part of the net carrying value of the asset on initial recognition.

### Model inputs

The Consolidated Entity models the ECL for on-balance sheet financial assets measured at amortised cost or FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees and letters of credit. 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. These groupings are subject to review to ensure that the portfolios remain homogeneous.

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. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to the potential date of default
- Probability of default (PD): The calculation of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. In calculating the PD, credit performance information for each portfolio is gathered and statistically analysed to determine a point in time PD. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for both retail and wholesale portfolios are also adjusted for Forward-looking information (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. These factors include collateral, seniority, industry, recovery costs and the structure of the facility. LGD estimates are also adjusted for FLI.

### Method of determining significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Quantitative factors are described below for the Consolidated Entity's material retail and wholesale portfolios. Qualitative factors include, but are not limited to, whether an exposure has been identified and placed on CreditWatch. Where there is a deteriorating credit risk profile, the exposures are monitored through the CreditWatch reports. The business remains responsible for management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. 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 an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

In response to COVID-19 the Consolidated Entity undertook a review of its wholesale and retail credit portfolios and the ECL for each. The review considered the macroeconomic outlook, client and customer credit quality, the type of collateral held, exposure at default and the effect of payment deferral options as at the reporting date. While these model inputs including forward-looking information were revised, the ECL models, SICR thresholds, and definitions of default remain consistent with prior periods.

### Retail exposures

Exposures are assigned a behavioural score which considers the exposure's lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposure's behaviour. The score includes factors such as limit utilisation, payment history (including delinquency) and product specific features (for example cash advances for credit cards or changes in novation status for selected car leases).

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. Where the behavioural score subsequently improves such that the change since origination is back within the SICR threshold, the exposure is assessed for categorisation back to stage I. The pre-defined SICR thresholds are periodically reviewed and calibrated based on historical default experience.

The Consolidated Entity completed a review of the retail exposures in March 2020. Judgement resulted in a number of counterparties being downgraded due to the increasing risk of default arising from the macroeconomic environment as at 31 March 2020. The deferral of contractual payments for short periods of time has not been treated as an automatic indicator of SICR by and of themselves.



## Note 11

### Expected credit losses continued

#### Wholesale exposures

The Consolidated Entity assigns an internal credit rating to each exposure at origination based on information available at that date. These internal ratings are broadly aligned to external credit rating agencies such as Standard & Poor's and Moody's. The internal ratings for each exposure are reviewed at least once a year, or more frequently if necessary, to ensure any deterioration is identified and reflected in an adjustment to their rating.

Furthermore, other indicators of deterioration in credit quality are regularly monitored, such as payment history, credit limit utilisation, requests to modify the debt for forbearance, changes in the exposure's business, external data from credit reference agencies, media reports, external credit ratings external quoted bond and credit default swap prices.

Where an exposure's assigned credit rating deteriorates beyond pre-defined thresholds, the exposure is categorised as stage II. If the exposure's rating subsequently improves so that it does not exceed the threshold, the exposure is assessed for reclassification to stage I. 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. The rating methodology is periodically reviewed and calibrated based on historical default experience.

The Consolidated Entity completed a review of the wholesale exposures in March 2020. Judgement resulted in a number of counterparties being downgraded due to the increasing risk of default arising from the macroeconomic environment as at 31 March 2020.

For both retail and wholesale portfolios:

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

#### Definition of default

The Consolidated Entity's definition of default determines the reference point for the calculation of the ECL components, and in particular the PD. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full, without recourse by the Consolidated Entity to the realisation of collateral; or the borrower is 90 days or more past due. The Consolidated Entity periodically monitors its exposures for potential indicators of default such as significant financial difficulty of the borrower including breaches of lending covenants; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Retail and wholesale exposures that are identified as in default can be reclassified from stage III following a pre-defined period over which the exposure demonstrates that it has returned to a performing status and, in the case of wholesale exposures, based on an individual assessment of the exposure.

#### Forward-looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The Consolidated Entity has identified a number of key indicators that are used in modelling the ECL, the most significant of which are gross domestic product (GDP), unemployment rate and the level of house prices, interest rates, equity indices and commodity prices. The predicted relationships between these key indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the development of internal models, calibration and validation process. These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial year.

The Consolidated Entity has used judgement to apply overlays in adjusting modelled ECL results during the period. These overlays reflect the Consolidated Entity's assessment of how ECL outcomes may vary to the modelled outcomes using the key indicators noted above. The total quantum of overlays at the balance sheet date was not material to the Consolidated Entity's ECL.

The Consolidated Entity has considered the application of overlays necessary due to the level of government, regulatory and product specific support that was made available to counterparties as at the reporting date. These overlays are necessary to ensure that the ECL models, whilst calibrated against historical observations, generate ECL expectations that factor in the consequences of such levels of support being made available to the Consolidated Entity's customers within the current and future expected macroeconomic environment.

RMG is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, three possible economic scenarios have been developed, being an upside, downside and base case scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposure's PDs and LGDs. The scenarios and the assigned probabilities are updated semi-annually or more frequently if a material disruption event were to occur. In prior periods the Consolidated Entity used four scenarios, broadly representing base, upside, downside and severe downside scenarios. In the current macroeconomic environment, the Consolidated Entity considered three rather than four scenarios to be more reflective of the potential macroeconomic outcomes as at the reporting date.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

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## Note 11

### Expected credit losses *continued*

The scenarios, including its underlying indicators, 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. Previously the Consolidated Entity has anchored the upside and downside scenarios initially to a certain degree of deviation in GDP growth from the baseline. At the reporting date the Consolidated Entity adopted an alternate approach recognising that COVID-19 is the key driver of the macroeconomic outlook at the reporting date.

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

The scenarios are refined through consultation with internal specialists and have historically been benchmarked to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks, when available.

With limited official data sources against which to benchmark key economic indicators on a forward-looking basis management has exercised judgement when determining the duration, severity and impact of the macroeconomic scenarios used by the Consolidated Entity.

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

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

The Consolidated Entity reviews and, where appropriate, updates its FLI, which includes the scenarios and related probabilities, on a semi-annual basis. Changes in the scenarios and the probabilities assigned have occurred during the reporting period.

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

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

The modelled ECL for each scenario is sensitive to the length of time between a downturn and a recovery, and the period of time recovery action takes to complete, as it influences both the probability of default, and the value of collateral that may be utilised.

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

## Note 11

### Expected credit losses continued

Scenario	Weighting	Expectation
<b>Baseline</b>  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 <sup>(1)</sup>	Probable	<p><b>Global:</b> The baseline assumes widespread restrictions on movement are required to contain the spread of COVID-19. Chinese GDP is expected to contract ~2% year on year in the quarter ended March 2020 with growth returning in the following quarter, albeit below the pre-COVID-19 trend as the spread of the virus slows growth in the western hemisphere.</p> <p>In the rest of the world, the impact to GDP is expected to lag China by one quarter, with global GDP contracting by ~6.5% year on year in the June quarter as a result of the travel and social gathering restrictions, recovering to pre-COVID-19 levels by mid-2021. Falls in consumption and investment levels are expected to lead to historically high unemployment rates with credit markets continuing to see material movements in credit spreads. The impact expected in mid-2020 will be broadly spread across the major advanced economies with differences driven by the respective stimulus packages and government approaches to the containment of COVID-19.</p> <p>Globally, the virus peak is assumed to occur in late April/early May, with social activities gradually resuming from July, which in conjunction with co-ordinated fiscal and monetary stimulus leads to output beginning to stabilise and quarterly growth resuming in the September quarter. Equity markets are expected to grow strongly in the second half of the year driven by this stimulus support.</p> <p><b>Australia:</b> With business activity impacted unemployment rates rise to ~9% in mid-2020 with a recovery occurring to broadly pre-COVID-19 levels over the following 3 years. Australian GDP contracts by ~9% year on year in mid-2020, recovering to pre-COVID-19 levels in late 2021. House prices decline ~15% during 2020, before recovering to pre-COVID-19 levels in early 2021. The Reserve Bank of Australia (RBA) maintains the cash rate at its current lows until 2023.</p> <p><b>United States:</b> The unemployment rate rises to ~14% in mid-2020 and is expected to decline, but remain above pre-COVID-19 levels, reaching ~8% in early 2023. US GDP contracts by ~10% year on year by mid-2020, returning to pre-COVID-19 levels by mid-2022. 10-year government bond yields are expected to recover slightly post September but remain at historical lows.</p> <p><b>Europe:</b> EU GDP is expected to contract by ~13% year on year by mid-2020, with GDP remaining slightly below pre-COVID-19 levels by early-2023. The unemployment rate rises to ~12% by mid-2020 and returns to pre-COVID-19 levels of ~7% by 2023. The ECB maintains its policy rate in slightly negative territory.</p>

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

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 11

### Expected credit losses continued

Scenario	Weighting	Expectation
<b>Downside</b> A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$1,150 million <sup>(1)</sup>	Possible	<p><b>Global:</b> The downside assumes the spread of COVID-19 takes longer to contain leading to movement restrictions being maintained and delaying the expected recovery for an additional two quarters above the baseline scenario.</p> <p>The impact on the global economy and markets of this scenario is more pronounced and there is a more permanent reduction in GDP growth potential. Government stimulus is increased but the recovery continues to be weaker than assumed in the baseline scenario. China's economic rebound is constrained and does not return to pre-COVID-19 levels.</p> <p>Globally, the virus peak occurs in late 2020, with social activities gradually starting to resume in the December quarter of 2020. Global GDP remains suppressed through 2020, returning to ~4.5% year on year growth in mid-2021. Government debt and central banks' balance sheets increase further. Equity and commodity prices remain lower for longer, while consumption and investment are impacted for a longer duration. Credit spreads remain high during the period, and the economic impact is broadly spread across the globe.</p> <p><b>Australia:</b> With business activity impacted more severely, unemployment rates rise to ~11% in early 2021 before declining to ~7% (or ~2% above pre-COVID-19 levels) over the following 3 years. Australian GDP contracts by ~9% year on year by the end of 2020 and continues to be slightly below pre-COVID-19 levels in 2023. House prices decline ~30% by early 2021, before recovering to pre-COVID-19 levels by early 2023. The Reserve Bank of Australia (RBA) maintains the cash rate at its current throughout the forecast period.</p> <p><b>United States:</b> The unemployment rate rises to ~17% by mid-2020 before gradually declining to levels that of ~4% above pre-COVID-19 levels by 2023. US GDP contracts by ~10% year on year by mid-2020 before returning to pre-COVID-19 levels by 2023. 10-year government bond yields remain below 1% for the forecast period.</p> <p><b>Europe:</b> EU GDP growth contracts by ~13% year on year by mid-2020, with GDP likely to still be ~5% below pre-COVID-19 levels at the end of 2022. The unemployment rate rises to ~16% by the end of 2020 and remains slightly above pre-COVID-19 levels at ~8% in 2023. The ECB maintains its policy rate in negative territory for the forecast period.</p>
<b>Upside</b> 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 ~\$650 million <sup>(1)</sup>	Unlikely	<p><b>Global:</b> The scenario assumes that either a treatment is found for COVID-19 or the spread of COVID-19 diminishes significantly by May 2020, allowing employees to return to work quickly resulting in the contraction in the first half of 2020 being proceeded by a return to normality. Global interest rates start slowly normalising in 2021. House prices in Australia increase ~24% from current levels by end 2024. China's growth rebounds strongly but remains below 6%.</p>

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

## Note 11

### Expected credit losses continued

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<sup>(1)</sup>.

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT <sup>(1)</sup>			Total exposure	ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			Total ECL allowance
	Amortised cost	FVOCI	Other <sup>(2)</sup>		Amortised cost	FVOCI	Other	
	\$m				\$m		\$m	
CONSOLIDATED 2020								
Cash and bank balances <sup>(3)</sup>	7,847	–	–	7,847	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	6,687	23,064	–	29,751	–	–	–	–
Margin money and settlement assets	11,694	–	–	11,694	66	–	–	66
Financial investments	–	7,256	–	7,256	–	10	–	10
Other assets	1,454	–	–	1,454	73	–	–	73
Loan assets	88,158	–	–	88,158	688	–	–	688
Due from other related body corporate entities	4,347	–	–	4,347	1	–	–	1
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Undrawn credit commitments and financial guarantees <sup>(4)</sup>	–	–	4,885	4,885	–	–	10	10
<b>Total</b>	<b>120,192</b>	<b>30,320</b>	<b>4,885</b>	<b>155,397</b>	<b>832</b>	<b>10</b>	<b>10</b>	<b>852</b>
CONSOLIDATED 2019								
Cash and bank balances <sup>(3)</sup>	6,550	–	–	6,550	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	10,516	–	–	10,516	–	–	–	–
Margin money and settlement assets	8,533	–	–	8,533	–	–	–	–
Financial investments	–	5,117	–	5,117	–	–	–	–
Other assets	1,531	–	–	1,531	21	–	–	21
Loan assets	73,336	–	–	73,336	511	–	–	511
Due from other related body corporate entities	1,549	–	–	1,549	1	–	–	1
Loans to associates and joint ventures	8	–	–	8	1	–	–	1
Undrawn credit commitments and financial guarantees <sup>(4)</sup>	–	–	7,474	7,474	–	–	6	6
<b>Total</b>	<b>102,023</b>	<b>5,117</b>	<b>7,474</b>	<b>114,614</b>	<b>534</b>	<b>–</b>	<b>6</b>	<b>540</b>

(1) Gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

(2) Other represents contract assets and undrawn credit commitments and financial guarantees.

(3) Consists of short-term, fully collateralised or high quality liquid assets with minimal expected and historical losses. In the current year, and on a prospective basis, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio have been assessed to be measured at FVOCI and are hence subject to ECL.

(4) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 11

### Expected credit losses continued

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT <sup>(1)</sup>			Total exposure	ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT		Other \$m	Total ECL allowance \$m
	Amortised cost \$m	FVOCI			Amortised cost \$m	FVOCI		
COMPANY 2020								
Cash and bank balances <sup>(3)</sup>	6,037	–	–	6,037	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	5,534	22,543	–	28,077	–	–	–	–
Margin money and settlement assets	9,709	–	–	9,709	28	–	–	28
Financial investments	–	7,240	–	7,240	–	10	–	10
Other assets	1,281	–	–	1,281	49	–	–	49
Loan assets	15,937	49,164	–	65,101	371	36	–	407
Due from other related body corporate entities	4,254	–	–	4,254	–	–	–	–
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Due from subsidiaries	21,093	–	–	21,093	22	–	–	22
Undrawn credit commitments and financial guarantees <sup>(4)</sup>	–	–	4,377	4,377	–	–	9	9
<b>Total</b>	<b>63,850</b>	<b>78,947</b>	<b>4,377</b>	<b>147,174</b>	<b>474</b>	<b>46</b>	<b>9</b>	<b>529</b>
COMPANY 2019								
Cash and bank balances <sup>(3)</sup>	5,233	–	–	5,233	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	9,983	–	–	9,983	–	–	–	–
Margin money and settlement assets	6,496	–	–	6,496	–	–	–	–
Financial investments	–	5,030	–	5,030	–	–	–	–
Other assets	1,295	–	–	1,295	4	–	–	4
Loan assets	15,458	37,720	–	53,178	270	46	–	316
Due from other related body corporate entities	1,022	–	–	1,022	–	–	–	–
Loans to associates and joint ventures	5	–	–	5	–	–	–	–
Due from subsidiaries	21,374	–	–	21,374	31	–	–	31
Undrawn credit commitments and financial guarantees <sup>(4)</sup>	–	–	6,961	6,961	–	–	5	5
<b>Total</b>	<b>60,866</b>	<b>42,750</b>	<b>6,961</b>	<b>110,577</b>	<b>305</b>	<b>46</b>	<b>5</b>	<b>356</b>

(1) Gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

(2) Other represents contract assets and undrawn credit commitments and financial guarantees.

(3) Consists of short-term, fully collateralised or high quality liquid assets with minimal expected and historical losses. In the current year, and on a prospective basis, certain reverse repurchase agreements held within the Consolidated Entity's liquid asset portfolio have been assessed to be measured at FVOCI and are hence subject to ECL.

(4) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

## Note 11

### Expected credit losses continued

The table below represents the reconciliation from the opening balance to the closing balance of ECL allowances:

	Margin money and settlement assets \$m	Financial investments \$m	Other assets \$m	Loan assets \$m	Due from related body corporate entities \$m	Loans to associates and joint ventures \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
<b>CONSOLIDATED</b>								
Balance as at 1 Apr 2018	–	–	38	504	1	1	12	556
Impairment charge/(reversal) (Note 2)	–	–	10	137	–	–	(2)	145
Amounts written off, previously provided for	–	–	(11)	(115)	–	–	–	(126)
Disposals during the financial year	–	–	(16)	(17)	–	–	–	(33)
Foreign exchange, reclassifications and other movements	–	–	–	2	–	–	(4)	(2)
<b>Balance as at 31 Mar 2019</b>	<b>–</b>	<b>–</b>	<b>21</b>	<b>511</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>540</b>
Impairment charge (Note 2)	<b>66</b>	<b>10</b>	<b>59</b>	<b>325</b>	<b>–</b>	<b>–</b>	<b>3</b>	<b>463</b>
Amounts written off, previously provided for	–	–	(5)	(150)	–	–	–	(155)
Foreign exchange, reclassifications and other movements	–	–	(2)	2	–	3	1	4
<b>Balance as at 31 Mar 2020</b>	<b>66</b>	<b>10</b>	<b>73</b>	<b>688</b>	<b>1</b>	<b>4</b>	<b>10</b>	<b>852</b>

	Margin money and settlement assets \$m	Financial investments \$m	Other assets \$m	Loan assets \$m	Due from subsidiaries \$m	Loans to associates and joint ventures \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
<b>COMPANY</b>								
Balance as at 1 Apr 2018	–	–	13	315	38	–	10	376
Impairment (reversal)/charge (Note 2)	–	6	(15)	69	(6)	–	(3)	51
Amounts written off, previously provided for	–	(6)	–	(60)	–	–	–	(66)
Disposals during the financial year	–	–	–	(8)	–	–	–	(8)
Foreign exchange, reclassifications and other movements	–	–	6	–	(1)	–	(2)	3
<b>Balance as at 31 Mar 2019</b>	<b>–</b>	<b>–</b>	<b>4</b>	<b>316</b>	<b>31</b>	<b>–</b>	<b>5</b>	<b>356</b>
Impairment (reversal)/charge (Note 2)	<b>28</b>	<b>10</b>	<b>45</b>	<b>148</b>	<b>(9)</b>	<b>–</b>	<b>3</b>	<b>225</b>
Amounts written off, previously provided for	–	–	–	(59)	–	–	–	(59)
Foreign exchange, reclassifications and other movements	–	–	–	2	–	4	1	7
<b>Balance as at 31 Mar 2020</b>	<b>28</b>	<b>10</b>	<b>49</b>	<b>407</b>	<b>22</b>	<b>4</b>	<b>9</b>	<b>529</b>

The \$312 million increase in ECL provision in the Consolidated Entity and \$173 million increase in the Company during the year was predominately driven by an impairment charge of \$463 million in the Consolidated Entity and \$225 million in the Company, reflecting counterparties whose business models have been impacted by COVID-19 and subsequent material market moves, and portfolio impairments for counterparties who have experienced a deterioration in relative credit quality in combination with a general increased loss expectation throughout the portfolio as a result of a deterioration in the global macroeconomic environment. This impairment charge was partially offset by loans, and their associated impairment provisions, being written off or restructured.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 11

### 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.

#### ECL on loan assets

	LIFETIME ECL			
	Stage I 12 month ECL \$m	Stage II Not credit impaired \$m	Stage III Credit impaired \$m	Total ECL Allowance \$m
<b>CONSOLIDATED</b>				
Balance as at 1 Apr 2018	144	202	158	504
Transfers during the period	48	(45)	(3)	–
Impairment (reversal)/charge (Note 2)	(46)	19	164	137
Amounts written off, previously provided for	–	–	(115)	(115)
Disposal during the financial year (Note 39)	(11)	(5)	(1)	(17)
Foreign exchange, reclassifications and other movements	–	2	–	2
<b>Balance as at 31 Mar 2019</b>	<b>135</b>	<b>173</b>	<b>203</b>	<b>511</b>
Transfers during the period	<b>31</b>	<b>(17)</b>	<b>(14)</b>	<b>–</b>
Impairment charge (Note 2)	<b>3</b>	<b>130</b>	<b>192</b>	<b>325</b>
Amounts written off, previously provided for	<b>–</b>	<b>–</b>	<b>(150)</b>	<b>(150)</b>
Foreign exchange, reclassifications and other movements	<b>4</b>	<b>2</b>	<b>(4)</b>	<b>2</b>
<b>Balance as at 31 Mar 2020</b>	<b>173</b>	<b>288</b>	<b>227</b>	<b>688</b>
<b>COMPANY</b>				
Balance as at 1 Apr 2018	82	129	104	315
Transfers during the period	40	(43)	3	–
Impairment (reversal)/charge (Note 2)	(35)	38	66	69
Amounts written off, previously provided for	–	–	(60)	(60)
Disposal during the financial year (Note 39)	(2)	(6)	–	(8)
Foreign exchange, reclassifications and other movements	–	–	–	–
<b>Balance as at 31 Mar 2019</b>	<b>85</b>	<b>118</b>	<b>113</b>	<b>316</b>
Transfers during the period	<b>24</b>	<b>(18)</b>	<b>(6)</b>	<b>–</b>
Impairment charge (Note 2)	<b>3</b>	<b>72</b>	<b>73</b>	<b>148</b>
Amounts written off, previously provided for	<b>–</b>	<b>–</b>	<b>(59)</b>	<b>(59)</b>
Foreign exchange, reclassifications and other movements	<b>2</b>	<b>(3)</b>	<b>3</b>	<b>2</b>
<b>Balance as at 31 Mar 2020</b>	<b>114</b>	<b>169</b>	<b>124</b>	<b>407</b>



	2020			2019		
	Cost \$m	Accumulated depreciation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated depreciation and impairment \$m	Carrying value \$m
<b>Note 12</b>						
<b>Property, plant and equipment and right-of-use assets</b>						
	<b>CONSOLIDATED</b>					
<b>Assets for own use</b>						
Land and buildings	136	–	136	85	–	85
Furniture, fittings and leasehold improvements	42	(29)	13	41	(26)	15
Equipment	26	(19)	7	25	(14)	11
Infrastructure assets	1	–	1	–	–	–
<b>Total assets for own use</b>	<b>205</b>	<b>(48)</b>	<b>157</b>	<b>151</b>	<b>(40)</b>	<b>111</b>
<b>Assets under operating lease</b>						
Meters	2,454	(910)	1,544	1,912	(664)	1,248
Telecommunications	1,139	(715)	424	1,588	(622)	966
Other	623	(187)	436	612	(199)	413
<b>Total assets under operating lease</b>	<b>4,216</b>	<b>(1,812)</b>	<b>2,404</b>	<b>4,112</b>	<b>(1,485)</b>	<b>2,627</b>
<b>Asset under right-of-use<sup>(1)</sup></b>						
Property	25	(5)	20	–	–	–
Commodity storage	32	(15)	17	–	–	–
<b>Total assets under right-of-use</b>	<b>57</b>	<b>(20)</b>	<b>37</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total property, plant and equipment and right-of-use assets</b>	<b>4,478</b>	<b>(1,880)</b>	<b>2,598</b>	<b>4,263</b>	<b>(1,525)</b>	<b>2,738</b>
	<b>COMPANY</b>					
<b>Assets for own use</b>						
Land and buildings	133	–	133	82	–	82
Furniture, fittings and leasehold improvements	19	(12)	7	18	(10)	8
Equipment	16	(11)	5	14	(9)	5
<b>Total assets for own use</b>	<b>168</b>	<b>(23)</b>	<b>145</b>	<b>114</b>	<b>(19)</b>	<b>95</b>
<b>Assets under operating lease</b>						
Telecommunications	1,117	(704)	413	1,568	(619)	949
Other	357	(96)	261	362	(89)	273
<b>Total assets under operating lease</b>	<b>1,474</b>	<b>(800)</b>	<b>674</b>	<b>1,930</b>	<b>(708)</b>	<b>1,222</b>
<b>Total property, plant and equipment and right-of-use assets</b>	<b>1,642</b>	<b>(823)</b>	<b>819</b>	<b>2,044</b>	<b>(727)</b>	<b>1,317</b>

Of the above amounts, \$434 million (2019: \$306 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$295 million (2019: \$286 million) by the company.

(1) Represents operating leases recognised in the statements of financial position following the adoption of AASB 16. As permitted by AASB 16, the Consolidated Entity has not restated the comparable financial reporting period. Refer to Note 1 Summary of significant accounting policies(i)(a) for the impact on initial adoption of AASB 16.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 12

### 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 \$m	Infrastructure assets \$m	Total \$m
<b>Assets for own use</b>					
Balance as at 1 Apr 2018	2	16	10	521	549
Acquisitions/additions	75	7	6	57	145
Disposals	–	(4)	–	(572)	(576)
Reclassification and other adjustments	8	–	–	(11)	(3)
Foreign exchange movements	–	–	–	11	11
Depreciation expense (Note 2)	–	(4)	(5)	(6)	(15)
<b>Balance as at 31 Mar 2019</b>	<b>85</b>	<b>15</b>	<b>11</b>	<b>–</b>	<b>111</b>
Acquisitions/additions	<b>51</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>57</b>
Disposals	<b>–</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>(1)</b>
Reclassification and other adjustments	<b>–</b>	<b>–</b>	<b>(3)</b>	<b>–</b>	<b>(3)</b>
Foreign exchange movements	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>1</b>
Depreciation expense (Note 2)	<b>–</b>	<b>(4)</b>	<b>(4)</b>	<b>–</b>	<b>(8)</b>
<b>Balance as at 31 Mar 2020</b>	<b>136</b>	<b>13</b>	<b>7</b>	<b>1</b>	<b>157</b>

	Aviation \$m	Meters \$m	Telecommunication \$m	Rail cars \$m	Other \$m	Total \$m
<b>Assets under operating lease</b>						
Balance as at 1 Apr 18	7,501	1,088	708	686	542	10,525
Acquisitions	33	415	1,105	–	64	1,617
Disposals <sup>(1)</sup>	(7,711)	(31)	(272)	(645)	(120)	(8,779)
Reclassification and other adjustments	–	(46)	–	–	(8)	(54)
Impairments	–	–	(4)	–	–	(4)
Foreign exchange movements	515	6	–	(20)	10	511
Depreciation expense <sup>(1)</sup> (Note 2)	(338)	(184)	(571)	(21)	(75)	(1,189)
<b>Balance as at 31 Mar 2019<sup>(1)</sup></b>	<b>–</b>	<b>1,248</b>	<b>966</b>	<b>–</b>	<b>413</b>	<b>2,627</b>
Acquisitions	<b>–</b>	<b>421</b>	<b>348</b>	<b>–</b>	<b>105</b>	<b>874</b>
Disposals	<b>–</b>	<b>–</b>	<b>(330)</b>	<b>–</b>	<b>(25)</b>	<b>(355)</b>
Reclassification and other adjustments	<b>–</b>	<b>(51)</b>	<b>–</b>	<b>–</b>	<b>(19)</b>	<b>(70)</b>
Impairments	<b>–</b>	<b>–</b>	<b>(11)</b>	<b>–</b>	<b>–</b>	<b>(11)</b>
Foreign exchange movements	<b>–</b>	<b>142</b>	<b>1</b>	<b>–</b>	<b>22</b>	<b>165</b>
Depreciation expense (Note 2)	<b>–</b>	<b>(216)</b>	<b>(550)</b>	<b>–</b>	<b>(60)</b>	<b>(826)</b>
<b>Balance as at 31 Mar 2020</b>	<b>–</b>	<b>1,544</b>	<b>424</b>	<b>–</b>	<b>436</b>	<b>2,404</b>

(1) Includes \$8,162 million of disposal and \$359 million depreciation expense with respect to discontinued operations (refer to Note 39 *Discontinued operations*).

## Note 12

### 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
<b>Assets for own use</b>				
Balance as at 1 Apr 2018	–	8	6	14
Acquisitions/additions	74	2	3	79
Reclassification and other adjustments	8	–	–	8
Depreciation expense (Note 2)	–	(2)	(4)	(6)
<b>Balance as at 31 Mar 2019</b>	82	8	5	95
Acquisitions/additions	<b>51</b>	<b>2</b>	<b>3</b>	<b>56</b>
Depreciation expense (Note 2)	<b>–</b>	<b>(3)</b>	<b>(3)</b>	<b>(6)</b>
<b>Balance as at 31 Mar 2020</b>	<b>133</b>	<b>7</b>	<b>5</b>	<b>145</b>

	Meters \$m	Telecommunication \$m	Others \$m	Total \$m
<b>Assets under operating lease</b>				
Balance as at 1 Apr 2018	29	708	376	1,113
Acquisitions/additions	5	1,084	2	1,091
Disposals	(31)	(272)	(73)	(376)
Reclassification and other adjustments	–	–	(8)	(8)
Impairments	–	(4)	–	(4)
Foreign exchange movements	–	–	1	1
Depreciation expense (Note 2)	(3)	(567)	(25)	(595)
<b>Balance as at 31 Mar 2019</b>	–	949	273	1,222
Acquisitions/additions	<b>–</b>	<b>345</b>	<b>9</b>	<b>354</b>
Disposals	<b>–</b>	<b>(328)</b>	<b>(6)</b>	<b>(334)</b>
Impairment	<b>–</b>	<b>(11)</b>	<b>–</b>	<b>(11)</b>
Depreciation expense (Note 2)	<b>–</b>	<b>(542)</b>	<b>(15)</b>	<b>(557)</b>
<b>Balance as at 31 Mar 2020</b>	<b>–</b>	<b>413</b>	<b>261</b>	<b>674</b>

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 12

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

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

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Assets under operating lease</b>				
Within one year	306	644	250	598
Between one and two years	75	241	32	214
Between two and three years	46	41	21	23
Between three and four years	28	29	21	21
Between four and five years	21	22	21	21
Later than five years	38	59	38	59
<b>Total future minimum lease payments receivable</b>	<b>514</b>	<b>1,036</b>	<b>383</b>	<b>936</b>

## Note 13

### Interests in associates and joint ventures

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Equity investments with no provisions for impairment	149	115	41	37
Equity investments with provisions for impairment				
Gross carrying value	253	240	5	28
Less: provisions for impairment	(153)	(146)	(5)	(25)
Equity investments with provisions for impairment	100	94	–	3
Total equity investments in associates and joint ventures	249	209	41	40
Loans to associates and joint ventures	6	11	5	8
Less: credit impairment charges	(4)	(1)	(4)	–
Total loans to associates and joint venture	2	10	1	8
<b>Total interests in associates and joint ventures<sup>(1),(2),(3)</sup></b>	<b>251</b>	<b>219</b>	<b>42</b>	<b>48</b>

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

(1) Includes \$250 million (2019: \$142 million) relating to interests in associates and \$1 million (2019: \$77 million) relating to interests in joint ventures held by the Consolidated Entity, and \$41 million (2019: \$38 million) relating to interests in associates and \$1 million (2019: \$10 million) relating to interests in joint ventures held by the Company.

(2) Financial statements of associates and joint ventures have various reporting dates which have been adjusted to align with the Consolidated Entity's reporting date.

(3) There are no associates or joint ventures that are individually material to the Consolidated Entity or the Company.

	2020			2019		
	Cost \$m	Accumulated amortisation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated amortisation and impairment \$m	Carrying value \$m
<b>Note 14</b>						
<b>Intangible assets</b>						
	<b>CONSOLIDATED</b>					
Goodwill	115	(40)	75	101	(33)	68
Other identifiable intangible assets	367	(257)	110	375	(266)	109
<b>Total intangible assets</b>	<b>482</b>	<b>(297)</b>	<b>185</b>	<b>476</b>	<b>(299)</b>	<b>177</b>
	<b>COMPANY</b>					
Other identifiable intangible assets	302	(224)	78	285	(204)	81
<b>Total intangible assets</b>	<b>302</b>	<b>(224)</b>	<b>78</b>	<b>285</b>	<b>(204)</b>	<b>81</b>

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

No material impairment charge was recognised in relation to goodwill. For certain assets, a value-in-use model was used that incorporated significant inputs for cash flow projections for up to five years, long-term terminal growth rates ranging from 2% to 3% and pre-tax discount rates ranging from 15% to 17%. The values assigned to significant inputs represent the Consolidated Entity's assessment of future trends in the relevant cash generating unit and have been based on historical data from both external and internal sources. For certain other assets a fair value model was used based on external valuations that concluded that no impairment was required to be recognised.

The movement in Consolidated Entity's intangible assets at their net carrying value:

	CONSOLIDATED		COMPANY		
	Goodwill \$m	Other identifiable intangible assets \$m	Total \$m	Other identifiable intangible assets \$m	Total \$m
Balance as at 1 Apr 2018	67	147	214	91	91
Acquisitions	–	6	6	6	6
Disposals, reclassifications and other adjustments	(1)	(1)	(2)	–	–
Impairment	(1)	(8)	(9)	–	–
Amortisation <sup>(1)</sup>	–	(22)	(22)	(16)	(16)
Foreign exchange movements	3	(13)	(10)	–	–
<b>Balance as at 31 Mar 2019</b>	<b>68</b>	<b>109</b>	<b>177</b>	<b>81</b>	<b>81</b>
Acquisitions	–	19	19	16	16
Disposals, reclassifications and other adjustments	–	1	1	–	–
Amortisation <sup>(1)</sup>	–	(20)	(20)	(16)	(16)
Foreign exchange movements	7	1	8	(3)	(3)
<b>Balance as at 31 Mar 2020</b>	<b>75</b>	<b>110</b>	<b>185</b>	<b>78</b>	<b>78</b>

(1) The balance contains amortisation of \$Nil (2019: \$3 million) which is presented under Net trading income and balance under Other operating expenses.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

	COMPANY	
	2020 \$m	2019 \$m
<b>Note 15</b>		
<b>Investments in subsidiaries</b>		
Investments at cost with no provisions for impairment	4,702	4,199
Investments at cost with provisions for impairment	1,475	1,592
Less: provisions for impairment <sup>(1)</sup>	(585)	(625)
Investments with provisions for impairment <sup>(1)</sup>	890	967
<b>Total investments in subsidiaries</b>	<b>5,592</b>	<b>5,166</b>

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

The material subsidiaries of the Company, based on contribution to the Consolidated Entity's profit after income tax, the size of the investment made by the Company or the nature of activities conducted by the subsidiary, are:

- Macquarie Meters 3 (UK) Limited (United Kingdom)
- Macquarie Energy LLC (United States)
- Macquarie Corporate and Asset Finance 2 Limited (United Kingdom)
- Macquarie Equipment Funding Limited (Ireland)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Group Treasury Funding Pty Limited (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Emerging Markets Asian Trading Pte. Limited (Singapore)
- Macquarie Inc. (United States)
- Macquarie Futures USA LLC (United States)
- Macquarie Equipment Finance Designated Activity Company (Ireland)
- Macquarie International Finance Limited (Australia)
- Macquarie Life Limited (Australia)
- Macquarie Bank Europe Designated Activity Company (Ireland)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Physical Metals (USA) Inc. (United Kingdom)
- Macquarie Equities Limited (Australia)
- Macquarie Finance Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Corporate and Asset Finance 1 Limited (United Kingdom)
- Macquarie Energy Canada Limited (Canada)
- Boston Australia Pty Limited (Australia)

The country of incorporation has been stated in brackets.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all material subsidiaries is 100%.

All material subsidiaries have a 31 March reporting date.

In accordance with ASIC instruments 15-0518, 16-0119, 18-0476 and 08-00792 the Consolidated Entity has been granted relief under section 340 of the *Corporations Act 2001* (Cth) from synchronising the year-end of the following consolidated subsidiaries to 31 March:

- Macquarie Leasing (China) Co Limited
- Macquarie Energy Mexico, S. de R.L. de C.V.

(1) During the financial year the Company performed an impairment assessment for investment in its subsidiaries based on impairment triggers and a reversal was recorded in the current and previous financial year. The impairment assessment considered the future profitability of the subsidiaries in the current economic environment. The recoverable value, which has been determined as the higher of value-in-use and fair value less costs to sell, is based on the subsidiary's maintainable earnings, growth rate, price earnings' multiple and discount rate. The recoverable value based on fair value is classified as Level 3 in the fair value hierarchy (as defined in Note 35 *Fair value of financial assets and financial liabilities*).

**Note 16****Deferred tax assets/(liabilities)**

The balance comprises temporary differences attributable to:

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Other assets and liabilities <sup>(1)</sup>	516	440	316	294
Tax losses	80	101	32	47
Property, plant and equipment	16	26	13	22
Intangible assets	84	82	72	76
Financial investments and interests in associates and joint ventures	38	32	22	32
Loan assets and derivatives	17	34	54	45
Operating and finance lease assets	1	–	1	–
Set-off of deferred tax liabilities	(232)	(274)	(40)	(98)
<b>Net deferred tax assets</b>	<b>520</b>	<b>441</b>	<b>470</b>	<b>418</b>
Operating and finance lease assets	(231)	(263)	–	(98)
Loan and derivative assets	(37)	(14)	(60)	–
Other assets and liabilities <sup>(1)</sup>	(26)	(126)	(1)	(46)
Financial investments and interests in associates and joint ventures	(2)	(5)	–	–
Intangible assets	(5)	–	–	–
Set-off of deferred tax assets	232	274	40	98
<b>Net deferred tax liabilities</b>	<b>(69)</b>	<b>(134)</b>	<b>(21)</b>	<b>(46)</b>

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 \$113 million (2019: \$82 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe that the realisation of the tax assets is probable. Included in this amount are gross losses of \$2 million (2019: \$Nil) that will expire within 2 years; \$20 million (2019: \$Nil) that will expire in 2–5 years; \$Nil million (2019: \$Nil) that will expire in 5–10 years and \$128 million (2019: \$245 million) that will expire in 10–20 years. \$509 million (2019: \$440 million) of gross losses do not expire and can be carried forward indefinitely.

**Note 17****Trading liabilities**

## Equity securities

Listed	5,358	6,537	5,370	7,155
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## Debt Securities

Foreign government securities	–	20	–	20
Corporate loans and securities	2	–	2	–

## Commodities

	3	–	23	–
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<b>Total trading liabilities</b>	<b>5,363</b>	<b>6,557</b>	<b>5,395</b>	<b>7,175</b>
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(1) The movement in other assets and liabilities primarily relates to AASB Interpretation 23, refer to Note 1(a)(ii).

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 18

### Margin money and settlement liabilities

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Margin money	13,871	7,301	12,271	6,831
Security settlements	3,200	2,789	3,123	2,819
Commodity settlements	1,981	2,132	1,268	1,060
<b>Total margin money and settlement liabilities<sup>(1)</sup></b>	<b>19,052</b>	<b>12,222</b>	<b>16,662</b>	<b>10,710</b>

## Note 19

### Deposits

Interest bearing deposits				
Call	48,231	40,431	48,202	40,344
Term	12,338	11,794	12,314	11,794
Non-interest bearing deposits	6,684	3,895	6,670	3,895
<b>Total deposits</b>	<b>67,253</b>	<b>56,120</b>	<b>67,186</b>	<b>56,033</b>

## Note 20

### Other liabilities

Accrued charges, employment-related liabilities and provisions <sup>(2)</sup>	1,188	1,172	920	890
Creditors	812	1,195	507	818
Life investment linked contracts and other unitholder liabilities	307	377	–	–
Commodity-related payables	314	403	259	253
Income tax payable	262	105	77	32
Other	63	44	11	83
<b>Total other liabilities</b>	<b>2,946</b>	<b>3,296</b>	<b>1,774</b>	<b>2,076</b>

(1) During the year, the Consolidated Entity undertook a review of client monies and concluded that certain client-related margin money and settlement balances did not meet the definition of an asset under the conceptual framework and therefore should not be presented in the statements of financial position as at 31 March 2020. Previous year balances were represented to conform to the current year presentation. Refer to Note 1(i) *Changes to the Consolidated Entity's statements of financial position and statement of cash flows* for further detail.

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



## Note 21

### Debt issued

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Bonds, negotiable certificates of deposit and commercial paper <sup>(1)</sup>	44,088	31,353	31,319	24,280
Structured notes <sup>(2)</sup>	2,834	3,434	2,916	3,434
<b>Total debt issued<sup>(3),(4)</sup></b>	<b>46,922</b>	<b>34,787</b>	<b>34,235</b>	<b>27,714</b>

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

### Reconciliation of debt issued by major currency

(In Australian dollar equivalent)

Australian dollar	20,023	9,686	7,393	2,894
United States dollar	19,009	18,083	18,911	17,840
Euro	4,906	4,003	4,906	3,966
Swiss franc	1,260	1,058	1,260	1,058
Great British pound	1,028	783	1,028	783
Japanese yen	214	580	213	580
Norwegian krone	164	164	164	164
Korean won	123	113	123	113
Chinese renminbi	120	169	120	168
Hong Kong dollar	61	148	61	148
Other	14	–	56	–
<b>Total debt issued</b>	<b>46,922</b>	<b>34,787</b>	<b>34,235</b>	<b>27,714</b>

(1) The Consolidated Entity includes \$13,665 million (2019: \$7,855 million) payable to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security.

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

(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued which are measured at DFVTPL (refer to Note 34 *Measurement categories of financial instruments*) for the Consolidated Entity is \$3,333 million (2019: \$4,131 million). This amount is based on the final notional amount rather than the fair value.

(4) The Consolidated Entity includes a cumulative fair value gain of \$103 million (31 March 2019: \$31 million) gain due to changes in own credit risk on DFVTPL debt securities recognised directly in retained earnings through OCI.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 22

### Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

The Consolidated Entity's capital management strategy uses both internal and external measures of capital. Internally, the Consolidated Entity has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify the 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, and
- risk-adjusted performance measurement.

The Consolidated Entity is subject to minimum capital requirements externally imposed by 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 (ICAAP) 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 (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

Regulatory capital requirements are measured for the Company and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Banking 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 (SE's) 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 (RWA) 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 year included Macquarie Additional Capital Securities, Macquarie Bank Capital Notes (repaid on 24 March 2020), 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.

In light of significantly changed market conditions, on 13 March 2020, MBL announced the withdrawal of its offer of \$500 million of Macquarie Bank Capital Notes 2 (BCN2).

## Note 23

### Loan capital

#### Subordinated debt

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

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

Contract feature	Macquarie Bank Capital Notes	Macquarie Additional Capital Securities
<b>Code</b>	BCN	MACS
<b>Issuer</b>	Macquarie Bank Limited	Macquarie Bank Limited
<b>Par Value</b>	\$100	–
<b>Currency</b>	AUD	USD
<b>Carrying value at reporting date</b>	\$Nil <sup>(1)</sup>	USD 750 million/(\$1,373 million)
<b>Accounting measurement basis</b>	Financial liability at amortised cost	Financial liability at amortised cost
<b>Issued date</b>	8 October 2014	8 March 2017
<b>Interest rate</b>	180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits	6.125% per annum
<b>Interest payment frequency</b>	Semi-annually in arrears	Semi-annually in arrears
<b>Interest payment</b>	Discretionary, non-cumulative	Discretionary, non-cumulative
<b>Dividend stopper</b>	Yes, MBL only	Yes, MBL only
<b>Outstanding notes at reporting date</b>	Nil <sup>(1)</sup>	n/a <sup>(2)</sup>
<b>Maturity</b>	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual, redeemable subject to APRA's written approval, and at the discretion of MBL in limited circumstances
<b>Convertible into ordinary shares</b>	Yes	Yes
<b>Convertible into issuer shares</b>	MGL	MGL
<b>Mandatory conversion date</b>	24 March 2023	n/a
<b>Maximum number of shares on conversion</b>	n/a <sup>(1)</sup>	56,947,286
<b>Optional exchange dates</b>	<ul style="list-style-type: none"> <li>– 24 March 2020</li> <li>– 24 September 2020</li> <li>– 24 March 2021</li> <li>– earlier in specified circumstances at the discretion of MBL subject to APRA approval</li> </ul>	n/a
<b>Other exchange events</b>	<ul style="list-style-type: none"> <li>– Acquisition date (where a party acquires control of MBL or MGL)</li> <li>– where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)</li> <li>– where MBL's common equity Tier 1 Capital ratio falls below 5.125%</li> </ul>	<ul style="list-style-type: none"> <li>– Acquisition date (where a party acquires control of MBL or MGL)</li> <li>– where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)</li> <li>– where MBL's common equity Tier 1 Capital ratio falls below 5.125%</li> </ul>
<b>Capital Treatment</b>	Additional tier 1 capital	Additional tier 1 capital

(1) On 24 March 2020, MBL redeemed the BCN. Nil BCN were exchanged during the period before their redemption.

(2) As at 31 March 2020, the USD 750 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.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 23

### Loan capital *continued*

The Consolidated Entity has also issued subordinated debt denominated in Euros and United States dollars which is eligible Tier 2 capital under APRA's capital standards (including Transitional Basel II rules).

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Original contractual maturity of Loan capital:				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	92	81	92	81
Subordinate debt instruments with fixed repayment obligations:				
21 September 2020	826	746	826	746
7 April 2021	1,386	1,191	1,386	1,191
10 June 2025	1,333	1,056	1,333	1,056
Instruments with a conditional repayment obligation:				
BCN	–	429	–	429
MACS	1,373	1,062	1,373	1,062
	5,010	4,565	5,010	4,565
Less: directly attributable issue costs	(13)	(15)	(13)	(15)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,997</b>	<b>4,550</b>	<b>4,997</b>	<b>4,550</b>

### Reconciliation of loan capital by major currency:

(In Australian dollar equivalent):

United States dollar	4,158	3,366	4,158	3,366
Euro	852	769	852	769
Australian dollar	–	430	–	430
	5,010	4,565	5,010	4,565
Less: directly attributable issue costs	(13)	(15)	(13)	(15)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,997</b>	<b>4,550</b>	<b>4,997</b>	<b>4,550</b>

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.

(1) Includes fair value hedge accounting adjustments as disclosed in Note 32 *Hedge accounting*.

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Note 24</b>				
<b>Contributed equity</b>				
Ordinary share capital	8,288	7,288	8,288	7,288
Equity contribution from ultimate parent entity	220	219	110	106
Macquarie Income Securities	391	391	391	391
<b>Total contributed equity</b>	<b>8,899</b>	<b>7,898</b>	<b>8,789</b>	<b>7,785</b>

	CONSOLIDATED AND COMPANY			
	2020 Number of shares	2019 Number of shares	2020 \$m	2019 \$m
<b>(i) Ordinary share capital<sup>(1)</sup></b>				
Opening balance of fully paid ordinary shares	589,276,303	589,276,303	7,288	9,328
Issue of shares to parent entity <sup>(2)</sup> on 23 March 2020 at \$22.18 per share	45,085,663	–	1,000	–
Return of capital to parent entity <sup>(3)</sup>	–	–	–	(2,040)
<b>Closing balance of fully paid ordinary shares</b>	<b>634,361,966</b>	<b>589,276,303</b>	<b>8,288</b>	<b>7,288</b>

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>(ii) Equity contribution from ultimate parent entity</b>				
Balance at the beginning of the financial year	219	209	106	102
Additional paid up capital	1	10	4	4
<b>Balance at the end of the financial year</b>	<b>220</b>	<b>219</b>	<b>110</b>	<b>106</b>

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*.

**(iii) Macquarie Income Securities**

4,000,000 Macquarie Income Securities of \$100 each	400	400	400	400
Less transaction costs for original placement	(9)	(9)	(9)	(9)
<b>Total Macquarie Income Securities</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>

The MIS were redeemable (in whole or in part) at the Company's discretion. At 31 March 2020, they were presented as equity in accordance with AASB 132 *Financial Instruments: Presentation*. Interest was paid quarterly at a floating rate of BBSW plus 1.7% per annum (31 March 2019: 1.7% per annum). Payment of interest to holders was subject to certain conditions, including the profitability of the Company. Distributions on the MIS have been presented in Note 5 *Dividends and distributions paid or provided for*.

The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020. Following the redemption, the Consolidated Entity recognised a \$391 million reduction in contributed equity, reflecting the \$400 million MIS redemption paid in cash and \$9 million reattribution of transaction costs incurred on the original placement within contributed equity to a share capital redemption reserve. Following the redemption, the Company recognised a \$391 million reduction in contributed equity, \$400 million reduction in other assets and \$9 million reattribution of transaction costs within contributed equity to a share capital redemption reserve.

(1) Ordinary shares have no par value.

(2) Macquarie B.H. Pty Limited.

(3) During the previous year, the Consolidated Entity returned capital of \$2,040 million to Macquarie B.H. Pty Limited following the disposal of the CAF Principal Finance and CAF Transportation Finance business (the businesses). Refer to Note 39 *Discontinued operations* for further information.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Note 25</b>				
<b>Reserves, retained earnings and non-controlling interests</b>				
<b>(i) Reserves</b>				
<b>Foreign currency translation reserve and net investment hedge reserve</b>				
Balance at the beginning of the financial year	631	492	(28)	(15)
Exchange differences on translation of foreign operations, net of hedge accounting and tax	566	299	13	(13)
Transferred to income statement on disposal of foreign operations, net of tax <sup>(1)</sup>	–	(160)	–	–
<b>Balance at the end of the financial year</b>	<b>1,197</b>	<b>631</b>	<b>(15)</b>	<b>(28)</b>
<b>FVOCI reserve</b>				
Balance at the beginning of the financial year	7	16	23	22
Revaluation movement for the year, net of tax	(46)	(8)	(11)	4
Changes in ECL allowance, net of tax	6	(1)	–	(3)
<b>Balance at the end of the financial year</b>	<b>(33)</b>	<b>7</b>	<b>12</b>	<b>23</b>
<b>Cash flow hedge reserve</b>				
Balance at the beginning of the financial year	(113)	(24)	(33)	1
Revaluation movement for the financial year, net of tax	(88)	(72)	(24)	(47)
Transferred to income statement on realisation, net of tax <sup>(2)</sup>	44	(17)	12	13
<b>Balance at the end of the financial year</b>	<b>(157)</b>	<b>(113)</b>	<b>(45)</b>	<b>(33)</b>
<b>Cost of hedging reserve<sup>(3)</sup></b>				
Balance at the beginning of the financial year	(5)	(5)	(5)	(5)
Revaluation movement for the financial year, net of tax	(5)	–	(5)	–
<b>Balance at the end of the financial year</b>	<b>(10)</b>	<b>(5)</b>	<b>(10)</b>	<b>(5)</b>
<b>Share of reserves of interest in associates and joint ventures</b>				
Balance at the beginning of the financial year	(4)	(1)	–	–
Share of other comprehensive losses of associates and joint ventures during the year, net of tax	(2)	(3)	–	–
<b>Balance at the end of the financial year</b>	<b>(6)</b>	<b>(4)</b>	<b>–</b>	<b>–</b>
<b>Total reserves at the end of the financial year</b>	<b>991</b>	<b>516</b>	<b>(58)</b>	<b>(43)</b>

(1) For movements related to discontinued operations, refer to Note 39 *Discontinued operations*.

(2) Includes a \$12 million loss (2019: \$Nil) related to a previously designated hedge relationship for which the hedged future cash flows are no longer expected to occur.

(3) Relates to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.

CONSOLIDATED		COMPANY	
2020	2019	2020	2019
\$m	\$m	\$m	\$m

## Note 25

### Reserves, retained earnings and non-controlling interests continued

#### (ii) Retained earnings

Balance at the beginning of the financial year	2,824	2,545	1,393	1,504
Profit attributable to the ordinary equity holder of MBL	1,473	2,037	637	1,631
Distributions paid or provided for on Macquarie Income Securities (Note 5)	(12)	(15)	–	–
Dividends paid on ordinary share capital (Note 5)	–	(1,748)	–	(1,748)
Gain/(loss) on change in non-controlling ownership interest	1	(1)	–	–
Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax	50	6	50	6
<b>Balance at the end of the financial year</b>	<b>4,336</b>	<b>2,824</b>	<b>2,080</b>	<b>1,393</b>

#### (iii) Non-controlling interests<sup>(1)</sup>

Share capital and partnership interests	47	48	–	–
Reserve	4	4	–	–
Accumulated losses	(50)	(50)	–	–
<b>Total non-controlling interests</b>	<b>1</b>	<b>2</b>	<b>–</b>	<b>–</b>

(1) Non-controlling interests represents equity in subsidiaries that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 26

### Notes to the statements of cash flows

As explained in Note 1(i) *Basis of preparation*, the Consolidated Entity has revised the balances included in the determination of cash and cash equivalents. The review concluded the following for the Consolidated Entity for the year ended 31 March 2019:

- certain reverse repurchase agreements held for liquidity management purposes of \$11,731 million (31 March 2018: \$11,703 million) have now been included as part of cash and cash equivalents
- certain trading assets of \$783 million (31 March 2018: \$611 million), margin money balances of \$2,805 million (31 March 2018: \$1,805 million) and funds received from clients which are segregated from the Consolidated Entity's own funds of \$3,212 million (31 March 2018: \$3,341 million)<sup>(1)</sup> have been excluded from the determination of cash and cash equivalents as these balances are not available to meet the Consolidated Entity's short term cash commitments. (Refer to Note 1(xxviii) *Cash and cash equivalents*)
- certain liquid financial investments with a residual maturity of three months or less at the balance sheet date but whose maturity exceeded three months at the date of acquisition of \$1,027 million (31 March 2018: \$1,017 million) were excluded from cash and cash equivalents, and
- the effect of exchange rate movements reducing cash and cash equivalents has been disclosed separately in the statement of cash flows.

As a result of these changes, cash flows from operating activities of the Consolidated Entity decreased by \$792 million and cash flows from investing activities of the Consolidated Entity decreased by \$10 million for the year ended 31 March 2019.

This revision had no impact on the Consolidated Entity's statements of financial position, income statement or reserves.

The revision of balances included in cash and cash equivalents also impacted the Company as at 31 March 2019, as follows:

- certain reverse repurchase agreements held for liquidity management purposes of \$11,350 million (31 March 2018: \$11,500 million) have now been included as part of cash and cash equivalents
- certain trading assets of \$80 million (31 March 2018: \$222 million), margin money balances of \$1,225 million (31 March 2018: \$1,773 million) and funds received from clients which are segregated from the Consolidated Entity's own funds of \$2,469 million (31 March 2018: \$2,854 million)<sup>(2)</sup> have been excluded from the determination of cash and cash equivalents as these balances are not available to meet the Consolidated Entity's short term cash commitments. (Refer to Note 1(xxviii) *Cash and cash equivalents*)
- certain liquid financial investments with a residual maturity of three months or less at the balance sheet date but whose maturity exceeded three months at the date of acquisition of \$1,027 million (31 March 2018: \$1,017 million) were excluded from cash and cash equivalents, and
- the effect of exchange rate movements reducing cash and cash equivalents has been disclosed separately in the statement of cash flows.

As a result of these changes, cash flows from operating activities of the Company increased by \$1,148 million and cash flows from investing activities of the Company decreased by \$10 million for the year ended 31 March 2019. This revision had no impact on the Company's statements of financial position, income statement or reserves.

CONSOLIDATED		COMPANY	
2020	2019	2020	2019
\$m	\$m	\$m	\$m

### Reconciliation of cash and cash equivalents

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

Cash and bank balances <sup>(1),(2)</sup>	5,308	4,477	4,558	3,910
Financial investments <sup>(3)</sup>	513	535	513	535
Cash collateral on securities borrowed and reverse repurchase agreements	21,469	11,731	21,121	11,350
<b>Cash and cash equivalents at the end of the financial year</b>	<b>27,290</b>	<b>16,743</b>	<b>26,192</b>	<b>15,795</b>

(1) Amounts excluded from cash and cash equivalents but presented in the statements of financial position as cash and bank balances primarily relates to \$2,257 million (31 March 2019: \$2,068 million) (for the Company at 31 March 2020: \$1,283 million, 31 March 2019: \$1,325 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and thus not available to meet the Consolidated Entity's short-term cash commitments.

(2) Cash and bank balances includes \$271 million (31 March 2019: \$244 million) (for the Company at 31 March 2020: \$80 million, 31 March 2019: \$110 million) of restricted balances, including balances held by consolidated structured entities 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 restricted.

(3) Certain balances included in the Consolidated Entity's Funded Balance Sheet as cash and liquid assets are not presented as cash and cash equivalents of the Consolidated Entity in accordance with AASB 107 *Statement of Cash Flows*. The most significant of these differences include \$7,167 million (31 March 2019: \$4,139 million) of balances which have a contractual maturity of more than three months from the date of acquisition and \$4,579 million (31 March 2019: \$4,235 million) of Commonwealth and foreign government securities. In addition, cash and liquid assets per the Consolidated Entity's Funded Balance Sheet is reduced for any repurchase liabilities, whereas cash and cash equivalents is not. This gives rise to a further difference of \$3,912 million (31 March 2019: \$803 million).



	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Note 26</b>				
<b>Notes to the statements of cash flows continued</b>				
<b>Reconciliation of profit after income tax to net cash flows generated from/(utilised in) operating activities</b>				
Profit after income tax	1,473	2,041	637	1,631
Adjustments to profit after income tax:				
Depreciation and amortisation	853	1,226	579	618
Unrealised foreign exchange and fair value movement on financial assets and liabilities	807	427	933	1,238
Expected credit losses and impairment charges	472	247	190	38
Investment income and gain on sale of operating lease assets and other non-financial assets	(235)	(453)	(310)	(45)
Profit from discontinued operations	(164)	(507)	(164)	(236)
Share of net (profits)/losses of associates and joint ventures	(27)	(28)	–	–
Changes in assets and liabilities:				
Change in carrying values of associates due to dividends received	2	21	–	(4)
Change in interest, fees and commissions receivable/payable	(112)	40	(137)	52
Change in tax balances	247	209	263	74
Change in debtors, prepayments, accrued charges and creditors	(279)	430	(304)	(406)
Change in net trading assets and liabilities and net derivative financial instruments <sup>(1)</sup>	343	(3,069)	(1,244)	(2,704)
Change in other assets and liabilities	(466)	215	(177)	318
Change in loan assets and balances with related body corporates	(13,802)	(2,926)	(5,730)	1,904
Change in operating lease assets	(516)	(961)	(25)	(736)
Change in deposits	10,916	7,910	10,939	7,771
Change in borrowings	1,516	1,158	1,276	(1,411)
Change in debt issued	8,573	(9,690)	2,935	(7,763)
<b>Net cash flows generated from/(utilised in) operating activities</b>	<b>9,601</b>	<b>(3,710)</b>	<b>9,661</b>	<b>339</b>
<b>(i) Reconciliation of loan capital:</b>				
Opening balance as at 1 Apr 2019	4,550	4,256	4,550	4,256
Cash flows:				
Redemption	(429)	–	(429)	–
Non-cash changes:				
Fair value hedge adjustment	270	51	270	51
Foreign currency translation	604	240	604	240
Other	2	3	2	3
<b>Closing balance as at 31 Mar 2020</b>	<b>4,997</b>	<b>4,550</b>	<b>4,997</b>	<b>4,550</b>

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

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## 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, from the provision of banking and other financial services, provision of management and administration services, facilities and accommodation and the provision of guarantees, restructure of businesses, repayment of capital and distribution of dividends.

Transactions between the Company and its subsidiaries and with other related body corporate entities principally arise from the provision of banking and other financial services, the granting of funding arrangements and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees.

During the year, a new Master Loan Agreement (the MLA) replaced the Omnibus Loan and Deposit Agreement (the Omnibus), which specifies the key terms for funding and related arrangements between various related body corporate entities which are under the common control of MGL. The MLA terms include tenor, pricing, settlement and offsetting terms for entities within the group. Substantially all entities which were a party to the Omnibus have acceded to the MLA.

The MLA excludes derivatives, repurchase agreements, broker settlements and stock lending-related balances. These together with certain bespoke lending arrangements have been presented on a gross basis as at 31 March 2020 and is not comparable with the previous year wherein they have been offset with other balances under the Omnibus.

Consistent with the Omnibus, relationships with an entity which is not a party to the MLA have been presented on gross basis.

### Ultimate and immediate parent entities

The Consolidated Entity's and Company's ultimate parent entity is MGL. The Consolidated Entity's and Company's 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 1(vii) *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, in the statements of financial position.

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

	CONSOLIDATED		COMPANY	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Interest income received/receivable	1,503	1,427	1,369	1,427
Interest expense paid/payable	(1,589)	(65,677)	(1,323)	(61,476)
Fee and commission income	1,556	1,829	644	750

The following balances with the ultimate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Amounts receivable <sup>(1)</sup>	604,590	172,931	527,810	136,038
Amounts payable	(459,281)	(87,652)	(435,250)	(79,187)

The following balances with the immediate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Dividend payable (Note 5)	–	(560,000)	–	(560,000)

(1) As described in Note 1(xxiv) *Performance based remuneration*, the amounts receivable by the Consolidated Entity and the Company include \$127,797 thousand (2019: \$124,681 thousand) and \$72,738 thousand (2019: \$88,201 thousand) respectively for amounts paid in advance for MEREP awards offered to its employees' net of share-based payment expense.

## Note 27

### Related party information continued

#### Subsidiaries

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms.

All transactions undertaken with subsidiaries are eliminated in the consolidated financial statements except for transactions between the Consolidated Entity's continuing and discontinuing operations as disclosed in Note 39 *Discontinued operations*. 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.

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.

A list of material subsidiaries is set out in Note 15 *Investments in subsidiaries*.

During the previous year, as part of an internal restructure by MGL (refer to Note 39 *Discontinued operations*), the company transferred CAF's Principal Finance and Transportation Finance businesses to Macquarie Financial Holdings Pty Limited (MFHPL) and its subsidiaries (entities under common control). Transactions between the company and its subsidiaries preceding the date of their disposal are included in this section.

During the financial year, the following amounts of income/(expense) resulted from transactions with subsidiaries during the financial year:

	COMPANY	
	2020 \$'000	2019 \$'000
Interest income <sup>(1)</sup>	734,280	782,337
Interest expense	(454,782)	(414,907)
Fee and commission income	220,974	281,676
Other operating expenses	(42,275)	(60,118)
Dividends and distributions <sup>(2)</sup>	131,137	284,741
Management fees, group service charges and cost recoveries <sup>(3)</sup>	329,524	344,560
Brokerage, commission and trading-related expenses	(142,762)	(171,333)
Other expenses	(6,623)	(7,785)

The following balances with subsidiaries were outstanding as at the end of the financial year:

Amounts receivable	27,039,802	22,079,195
Amounts payable <sup>(4)</sup>	(18,248,934)	(9,893,982)
Guarantees <sup>(5)</sup>	(1,069,879)	(1,027,801)
Letter of credit	(78,363)	(304,151)

(1) 31 March 2019 balance includes \$18,558 thousand interest income from the subsidiaries forming part of its discontinued operations.

(2) During the previous year, the company received dividends of \$714,361 thousand from subsidiaries that formed part of its discontinued operations.

(3) 31 March 2019 includes \$21,856 thousand of management fees, service charges and cost recoveries from the subsidiaries forming part of its discontinued operations.

(4) The Company enters into repurchase transactions and pledges collateral to its subsidiary Macquarie Bank International Ltd for managing regulatory exposures in relation to over-the-counter derivatives. As at 31 March 2020, the collateral placed was \$875,835 thousand (2019: \$445,863 thousand).

(5) Includes transactions where the company has contractually guaranteed the performance and other obligations of its subsidiaries.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 27

### Related party information continued

#### Other related parties

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.

During the financial year, the following amounts of income/(expense) resulted from transactions with other related body corporate entities during the financial year:

	CONSOLIDATED		COMPANY	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Interest income	14,318	194,976	12,753	120,427
Interest expense	(293,391)	(378,267)	(244,793)	(298,457)
Rental income	22,855	18,608	22,855	18,608
Fee and commission expense	(19,406)	(56,332)	(115,697)	(107,261)
Other operating expenses	(1,673,378)	(1,486,213)	(1,239,243)	(1,131,579)
Gain on sale of the businesses <sup>(1)</sup>	342,869	506,656	287,512	235,657
Other income/(expense)	7,570	(113,364)	7,593	(1,852)

The following balances with other related body corporate entities were outstanding at the reporting date:

	CONSOLIDATED		COMPANY	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Amounts receivable	4,673,525	1,375,069	4,577,322	885,962
Amounts payable <sup>(2)</sup>	(21,655,062)	(16,706,452)	(21,577,514)	(15,026,813)
Performance related contingents <sup>(3)</sup>	(763,382)	(820,921)	(763,382)	(820,921)
Undrawn credit facilities and securities underwriting <sup>(4)</sup>	–	(2,395,068)	–	(2,395,068)
Letter of credit	(233,709)	(151,879)	(233,709)	(151,879)

Guarantees of \$3,457,568 thousand (2019: \$1,201,695 thousand) were received from MFHPL by the Company for certain exposures of the Company with MFHPL, its subsidiaries and the Company's own subsidiaries. MFHPL has placed cash collateral of a similar amount with the Company as per the terms of the guarantee arrangement included in the amounts payable balance above.

(1) Includes \$102,173 thousand (2019: \$506,656 thousand) gain on sale of CAF's Principal Finance and Transportation Finance businesses to MFHPL and \$240,696 thousand gain on sale of Macquarie Specialised Investment Solutions (MSIS) fiduciary businesses to Macquarie Asset Management Holdings Pty Limited (MAMHPL) for the Consolidated Entity.

(2) Current year includes \$3,500,496 thousand repurchase agreements under new liquidity arrangement with MFHPL and Macquarie Capital (Europe) Limited (MCEL) wherein the Company has re-pledged off balance sheet collateral amounting to \$3,196,180 thousand.

(3) Includes performance related contingent liability to the ultimate parent provided in favour of a related party for which collateral of a similar amount has been received.

(4) Previous year includes undrawn credit facilities granted to MFHPL which was cancelled in the current year.

## 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	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Interest income	–	1,962	–	215
Fee and commission expense	(7,014)	(40,769)	(7,698)	(48,437)
Other income	29,794	799	31,888	3,809
Brokerage and commission expense	(10,500)	(8,354)	(10,500)	(8,354)

Dividends and distributions of \$2,597 thousand (2019: \$21,535 thousand) were received from the Consolidated Entity's associates and joint ventures. Under the equity method of accounting, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 13 *Interests in associates and joint ventures*):

	CONSOLIDATED		COMPANY	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Amounts receivable	–	13,294	–	8,959
Amounts payable	–	(3,862)	–	(3,862)
Undrawn commitment <sup>(1)</sup>	–	(16,174)	–	(62,549)

(1) Undrawn commitments are included in Note 30 *Contingent liabilities and commitments*.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

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## 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 2020 and 31 March 2019, unless indicated otherwise:

#### Executive Voting Directors

S.R. Wikramanayake	Macquarie Group CEO (appointed as an Executive Voting Director of MBL on 28 August 2018)
M.J. Reemst	Macquarie Bank CEO

#### Non-Executive Directors

P.H. Warne	Chairman
G.R. Banks AO	
J.R. Broadbent AC	(appointed effective 5 November 2018)
G.M. Cairns	
P.M. Coffey	(appointed effective 28 August 2018)
M.J. Coleman	
D.J. Grady AM	
M.J. Hawker AM	
G.R. Stevens AC <sup>(1)</sup>	
N.M. Wakefield Evans	

#### Former Non-Executive Director

P.A. Cross	(retired effective 26 July 2018)
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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 past two financial years ended 31 March 2020 and 31 March 2019, unless otherwise indicated.

#### Current Executives<sup>(2)</sup>

A.H. Harvey	CFO, Head of FMG
N. O'Kane <sup>(3)</sup>	Head of CGM
N. Sorbara	COO, Head of COG
P.C. Upfold	CRO, Head of RMG
G.C. Ward	Deputy Managing Director and Head of BFS

#### Former Executives

N.W. Moore	Former Macquarie Group CEO (ceased to be a member of the Executive Committee on 28 August 2018)
B.A. Brazil	Former Co-Head of CAF (ceased to be a member of the Executive Committee on 30 November 2018)
A.J. Downe	Former Head of CGM (ceased to be a member of the Executive Committee on 31 March 2019)
G.A. Farrell	Former Co-Head of CAF (ceased to be a member of the Executive Committee on 1 September 2019)

The remuneration arrangements for all of the persons listed above are described on pages 33 to 51 of the Remuneration Report, contained in the Directors' Report.

(1) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.

(2) Except where indicated otherwise, all of the Executives, as well as the CEO were members of the Executive Committee as at 8 May 2020.

(3) Mr O'Kane commenced as Head of Commodities and Global Markets effective 1 April 2019. He was previously head of Commodity Markets and Finance in CGM.

## 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 <sup>(1)</sup>	Other benefits	Total short term employee benefits	Restricted profit share including earnings on restricted profit share <sup>(2)</sup>	Equity awards including shares <sup>(3)</sup>	PSUs <sup>(4)</sup>	Total remuneration
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Executive remuneration</b>								
<b>2020</b>	<b>3,790,881</b>	–	–	<b>3,790,881</b>	<b>8,713,979</b>	<b>27,153,374</b>	<b>9,117,494</b>	<b>48,775,728</b>
2019	5,635,488	33,345,490	–	38,980,978	9,444,048	43,366,193	16,077,868	107,869,087
<b>Non-Executive remuneration</b>								
<b>2020</b>	<b>969,000</b>	–	12,000	<b>981,000</b>	–	–	–	<b>981,000</b>
2019	901,722	–	–	901,722	–	–	–	901,722

#### 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:

	Opening balance at 1 April <sup>(5)</sup>	Net additions during the year	Interest charged	Repayments during the year	Write-downs	Closing balance at 31 March <sup>(6)</sup>
Total for key management personnel and their related parties	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2020</b>	<b>1,309</b>	<b>10,122</b>	<b>109</b>	<b>(71)</b>	–	<b>11,469</b>
2019	464	825	33	(47)	–	1,275

Loans and other financial instrument transactions were made by the Consolidated Entity in the ordinary course of business with related parties.

(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 Note 1(xxiv) *Performance based remuneration*.

(4) The current year amortisation for PSUs calculated as described in Note 1(xxiv) *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) Offset accounts against loan balances has now been excluded resulting in a difference of \$34 thousand with the opening balance.

(6) Number of persons included in the aggregate as at 31 March 2020: 5 (31 March 2019: 3).

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## 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	
	2020	2019
RSUs on issue at the beginning of the financial year	3,789,442	5,662,386
Granted during the financial year	1,255,720	1,199,782
Forfeited during the financial year	(27,367)	(118,612)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(1,429,019)	(1,786,852)
Net transfers to related body corporate entities	(67,693)	(1,167,262)
RSUs on issue at the end of the financial year	3,521,083	3,789,442
RSUs vested and not withdrawn from the MEREP at the end of the financial year	–	–

The weighted average fair value of the RSU awards granted during the financial year was \$126.99 (2019: \$121.95).

##### 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 Company's shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights with respect to any underlying MGL ordinary shares.

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

	NUMBER OF DSU AWARDS	
	2020	2019
DSUs on issue at the beginning of the financial year	865,164	1,313,047
Granted during the financial year	318,796	342,138
Forfeited during the financial year	(44,253)	(12,133)
Exercised during the financial year	(149,722)	(295,630)
Transfers to related body corporate entities	(177,496)	(482,258)
DSUs on issue at the end of the financial year	812,489	865,164
DSUs exercisable at the end of the financial year	289,474	187,326

The weighted average fair value of the DSU awards granted during the financial year was \$115.97 (2019: \$110.42).



## 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	
	2020	2019
PSUs on issue at the beginning of the financial year	366,296	454,228
Granted during the financial year	65,310	85,749
Forfeited during the financial year	(14,081)	–
Exercised during the financial year	(126,168)	(152,580)
Net transfers to related body corporate entities	–	(21,101)
PSUs on issue at the end of the financial year	291,357	366,296
PSUs exercisable at the end of the financial year	–	–

The weighted average fair value of the PSU awards granted during the financial year was \$98.99 (2019: \$102.06).

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie 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, depending on level (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 the Macquarie Bank entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## 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 <sup>rd</sup> in the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> year following the year of grant <sup>(1)</sup>
Retained DPS Awards	Executive Committee members and Designated Executive Directors	1/5 <sup>th</sup> in the 3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup> , 6 <sup>th</sup> and 7 <sup>th</sup> year following the year of grant <sup>(2)</sup>
Retained DPS Awards	All other Executive Directors	1/3 <sup>rd</sup> in the 3 <sup>rd</sup> , 4 <sup>th</sup> and 5 <sup>th</sup> year following the year of grant <sup>(2)</sup>
PSU Awards granted in relation to 2012 to 2019	Executive Committee members	50% 3 <sup>rd</sup> and 4 <sup>th</sup> years following the year of grant <sup>(3)</sup>
PSU Awards granted in relation to 2020 and following years	Executive Committee members	100% in the 4 <sup>th</sup> year following the year of grant <sup>(3)</sup>
Commission Awards	Below Executive Director	1/3 <sup>rd</sup> in the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> year following the year of grant <sup>(1)</sup>
New Hire Awards	All Director-level staff	1/3 <sup>rd</sup> on each first day of a staff trading window on or after the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> anniversaries of the date of allocation

In limited cases, the application form for awards may set out a different vesting period, in which case that period will be the vesting period for the award. For example, staff in jurisdictions outside Australia may have a different vesting period due to local regulatory requirements.

For Retained Profit Share awards representing 2019 retention, the allocation price was the weighted average price of the shares acquired for the 2019 purchase period, which was 13 May 2019 to 24 June 2019. That price was calculated to be \$122.37 (2018 retention: \$113.76).

#### 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.

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 (three to four years) 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., JPMorgan 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 (three to four years).	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.

## Note 29

### Employee equity participation continued

#### PSUs 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 recently available year-end financial results. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in no benefit to Executive Committee members.

#### Assumptions used to determine fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value<sup>(1)</sup> 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 2019. 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: 0.78% per annum
- expected vesting dates of PSUs: 1 July 2022 and 1 July 2023
- dividend yield: 4.96% per annum.

While RSUs, DSUs and PSUs (for Executive Committee members) for the FY2020 will be granted during FY2021, the Consolidated Entity begins recognising an expense for these awards (based on an initial estimate) from 1 April 2019. The expense is estimated using the price of MGL ordinary shares as at 31 March 2020 and the number of equity instruments expected to vest.

For PSUs, the estimate also incorporates an interest rate to maturity of 0.52% per annum, expected vesting date of PSUs of 1 July 2024, and a dividend yield of 4.77% 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 2020, compensation expense relating to the MEREP totalled \$191,519 thousand (2019: \$143,283 thousand).

#### Other arrangements

There are certain arrangements with employees which take the form of a share-based payment arrangement but which are held outside the MEREP. Whilst the employees do not have a legal or beneficial interest in the underlying shares however, the arrangements have the same economic benefits as those held in MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2020 was \$Nil (2019: \$3 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 2019. A total of 752 (2019: 870) staff participated in this offer. On 4 December 2019, the participants were each allocated 7 (2019: 8) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$136.37 (2019: \$114.36), resulting in a total of 5,264 (2019: 6,960) 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 2020, compensation expense relating to the ESP totalled \$710 thousand (2019: \$797 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.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Note 30</b>				
<b>Contingent liabilities and commitments</b>				
<b>Contingent liabilities exist in respect of:</b>				
Letters of credit	1,206	1,221	1,254	1,241
Performance-related contingent liabilities <sup>(1)</sup>	1,076	1,112	1,075	1,122
Indemnities	336	389	336	389
Guarantees	144	114	1,214	1,140
Total contingent liabilities <sup>(2)</sup>	2,762	2,836	3,879	3,892
<b>Commitments exist in respect of:</b>				
Undrawn credit facilities and securities commitments <sup>(3),(4),(5)</sup>	4,665	7,300	4,173	6,816
Other asset developments	891	1,026	891	1,004
Total commitments	5,556	8,326	5,064	7,820
<b>Total contingent liabilities and commitments</b>	<b>8,318</b>	<b>11,162</b>	<b>8,943</b>	<b>11,712</b>

The Consolidated Entity operates in a number of regulated markets and is subject to regular regulatory reviews and inquiries. From time to time these may result in litigation, fines or other regulatory enforcement actions. As at the reporting date there are no matters of this nature for which the Consolidated Entity expects to result in a material economic outflow of resources.

Actual and potential claims and proceedings may arise in the conduct of the Consolidated Entity's business with clients and customers, revenue authorities, employees, and other stakeholders with whom the Consolidated Entity interacts. The Consolidated Entity recognises provisions for matters where an economic outflow of resources as a result of events occurring prior to the reporting date is probable and can be reliably measured. Provisions are calculated on a probability weighted basis utilising information that is known as at the reporting date for a range of possible scenarios. Provisions for these matters are included within provision for current income tax (income tax matters) and other liabilities (other matters). In some circumstances the Consolidated Entity may be reimbursed for the loss. A receivable is only recognised if its recovery is virtually certain. As at the reporting date the Consolidated Entity and the Company consider the probability of there being a material adverse effect in respect of litigation or claims that have not been provided for to be remote.

(1) Includes \$763 million (31 March 2019: \$821 million) in favour of a related party for which collateral of a similar amount has been received.

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

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

(4) Previous year includes a \$2,395 million credit facility granted to a related body corporate Entity.

(5) Includes \$944 million (31 March 2019: \$1,038 million) for certain contractually irrevocable mortgage related facilities which have been reassessed during the prior period.

## Note 31

### Structured entities

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

#### Securitisations

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

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

#### Asset-backed financing

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

#### Consolidated structured entities

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

SEs are consolidated when they meet the criteria described in Note 1(ii) *Principles of consolidation*.

#### Interests held in unconsolidated structured entities

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

- creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)
- acts as an underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs
- transfers assets and does not have any other interest deemed to be significant in the SEs transfers assets and does not have any other interest deemed to be significant in the SE. Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to interest, management fees, servicing fees, dividends and gains or losses from revaluing financial instruments.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## 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 2020		CONSOLIDATED 2019	
	Securitisations \$m	Asset-backed financing \$m	Securitisations \$m	Asset-backed financing \$m
<b>Carrying value of assets</b>				
Trading assets	547	–	368	72
Derivative assets	551	–	163	–
Financial investments <sup>(1)</sup>	2,056	–	1,734	2
Loan assets	501	2,769	536	603
Total carrying value of assets <sup>(2)</sup>	3,655	2,769	2,801	677
<b>Maximum exposure to loss<sup>(3)</sup></b>				
Debt, equity and derivatives held	3,655	2,769	2,801	677
Undrawn commitments	–	–	–	–
Total maximum exposure to loss	3,655	2,769	2,801	677

The Consolidated Entity's exposure in subordinated securitisation entities includes trading and non-traded positions that are typically managed under market risk 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 so have not been presented. The Consolidated Entity's exposure in subordinated asset backed financing entities is included in loan assets and the total size of the unconsolidated SEs including securitisation is \$6,649 million (2019: \$3,575 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

(1) Securitisations includes \$1,645 million (2019: \$1,248 million) of investments that are managed by the Consolidated Entity under the liquid assets' holding policy described in Note 33.2 *Liquidity risk*.

(2) Total carrying value of assets includes \$1,615 million (2019: \$741 million) in subordinated interests, of which \$182 million (2019: \$182 million) is included in securitisation activities and \$1,433 million (2019: \$559 million) included in asset backed financing activities. Of the subordinated interests, the maximum loss borne by others whose interest rank lower is \$110 million (2019: \$10 million).

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

## Note 32

### Hedge accounting

#### Hedging strategy

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

#### Hedging instruments

Detail on hedging instruments, the nature of hedged risks, as well as the notional and the carrying amount of derivative financial instruments and, in the case of net investment hedges, the notional of foreign denominated debt issued, for each type of hedge relationship, is shown in the respective sections. The maturity profile for the hedging instruments' notional amounts are reported based on their contractual maturity. Where a cross currency swap has been dual designated in both a cash flow and a fair value hedge, the notional may be 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 or, in the case of net investment hedge relationships, the change in the carrying amount of foreign denominated debt issued attributable to the change in exchange rates exceeds, in absolute terms, that of the hedge 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 trading income in the income statement.

#### IBOR reform

The Consolidated Entity designates hedging relationships where the hedged item and/or hedging instrument reference IBOR. These rates are in the process of being transitioned to alternative reference rates (ARRs) as described in Note 1 *Summary of significant accounting policies*. The Consolidated Entity mainly holds derivatives referencing USD and GBP LIBOR in hedging relationships that are impacted by the reform. The notional amounts of interest rate hedges designated in hedge accounting relationships represent the extent of the risk exposure managed by the Consolidated Entity that are impacted by IBOR reform per the table below:

CONSOLIDATED 2020						
NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM <sup>(1)</sup>						
	USD \$m	GBP \$m	Other \$m	Total \$m	Other not affected by reform <sup>(2)</sup> \$m	Total notional <sup>(3)</sup> \$m
Cash flow hedges	1,201	1,969	1,225	4,395	6,713	11,108
Fair value hedges	12,471	–	1,429	13,900	14,458	28,358

COMPANY 2020						
NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM <sup>(1)</sup>						
	USD \$m	GBP \$m	Other \$m	Total \$m	Other not affected by reform <sup>(2)</sup> \$m	Total notional <sup>(3)</sup> \$m
Cash flow hedges	1,067	2,579	1,225	4,871	4,564	9,435
Fair value hedges	12,337	–	1,429	13,766	2,932	16,698

(1) The hedge relationships disclosed as impacted by IBOR reform includes all those referencing USD and GBP LIBOR at the reporting date and includes relationships that are expected to expire before mandatory transition to ARRs.

(2) The Consolidated Entity has exposure to rates such as BBSW and EURIBOR that are not subject to mandatory replacement and therefore do not make use of relief (as described in Note 1).

(3) Where a cross currency swap references more than one rate, the risk exposure has been shown twice to reflect the absolute risk exposure to different reference rates. For all other hedge accounting disclosures, the notional has been shown once. To reconcile this notional to other hedge accounting disclosures an amount of \$5,049 million and \$4,018 million would need to be deducted for the Consolidated Entity and the Company respectively. The notional disclosures shown elsewhere in this note include hedges of commodity price, which are not shown in the total notional disclosed above.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 32

### Hedge accounting *continued*

#### Cash flows 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. There are no amounts remaining in the cash flow hedge reserve for hedge relationships that have ceased (2019: \$1 million and \$Nil for the Consolidated Entity and the Company respectively). This amount will be transferred to the income statement as a loss 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
<b>Derivative assets</b>		<b>CONSOLIDATED 2020</b>				
Cross currency swaps	Foreign exchange	12	935	2,212	1,353	4,512
<b>Derivative liabilities</b>						
Cross currency swaps	Foreign exchange	–	–	537	–	537
Interest rate swaps	Interest rate	(43)	(141)	198	995	1,009
<b>Derivative assets</b>		<b>CONSOLIDATED 2019</b>				
Cross currency swaps	Foreign exchange	1	818	1,637	1,417	3,873
<b>Derivative liabilities</b>						
Cross currency swaps	Foreign exchange	–	–	318	163	481
Cross currency swaps	Interest rate and foreign exchange	–	126	–	–	126
Interest rate swaps	Interest rate	(28)	219	328	1,319	1,838

		CONSOLIDATED CARRYING AMOUNT			
		2020		2019	
Instrument type	Risk category	Asset \$m	Liability \$m	Asset \$m	Liability \$m
Cross currency swaps	Foreign exchange	697	38	285	41
Cross currency swaps	Interest rate and foreign exchange	–	–	–	8
Interest rate swaps	Interest rate	–	164	–	107



**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
<b>Derivative assets</b>		<b>COMPANY 2020</b>				
Cross currency swaps	Foreign exchange	(22)	(62)	2,212	1,353	3,481
Interest rate swaps	Interest rate	(24)	(68)	(9)	740	639
<b>Derivative liabilities</b>						
Cross currency swaps	Foreign exchange	–	–	537	–	537
Interest rate swaps	Interest rate	(47)	(152)	(35)	995	761
<b>Derivative assets</b>		<b>COMPANY 2019</b>				
Cross currency swaps	Foreign exchange	(48)	720	719	1,417	2,808
Interest rate swaps	Interest rate	(44)	(132)	(19)	747	552
<b>Derivative liabilities</b>						
Cross currency swaps	Foreign exchange	–	–	318	163	481
Interest rate swaps	Interest rate	(33)	165	(17)	1,319	1,434
		<b>COMPANY CARRYING AMOUNT</b>				
		2020		2019		
Instrument type	Risk category	Asset \$m	Liability \$m	Asset \$m	Liability \$m	
Cross currency swaps	Foreign exchange	538	38	267	41	
Interest rate swaps	Interest rate	131	142	79	84	

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## 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, in absolute terms, exceeds that of the hedged item.

		CONSOLIDATED					
Hedging instruments	Risk category	GAIN/(LOSS) ON HEDGING INSTRUMENT		(LOSS)/GAIN ON HEDGED ITEM		HEDGE INEFFECTIVENESS (LOSS)/GAIN	
		2020 \$m	2019 \$m	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Cross currency swaps	Foreign exchange	18	(3)	(19)	8	(1)	5
Cross currency swaps	Interest rate and foreign exchange	–	1	–	(1)	–	–
Interest rate swaps	Interest rate	(103)	(44)	107	52	4	8
<b>Total</b>		<b>(85)</b>	<b>(46)</b>	<b>88</b>	<b>59</b>	<b>3</b>	<b>13</b>

		COMPANY					
Hedging instruments	Risk category	GAIN/(LOSS) ON HEDGING INSTRUMENT		(LOSS)/GAIN ON HEDGED ITEM		HEDGE INEFFECTIVENESS (LOSS)/GAIN	
		2020 \$m	2019 \$m	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Cross currency swaps	Foreign exchange	11	(3)	(13)	7	(2)	4
Interest rate swaps	Interest rate	(17)	(23)	21	25	4	2
<b>Total</b>		<b>(6)</b>	<b>(26)</b>	<b>8</b>	<b>32</b>	<b>2</b>	<b>6</b>

#### Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments that have been designated in cash flow hedges that are in place at the balance date.

		CONSOLIDATED		COMPANY	
Hedging instruments	Currency/currency pair	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Interest rate swaps	AUD	4.00 to 4.99%	2.03 to 4.99%	n/a	2.03 to 2.42%
	GBP	1.54 to 2.13%	1.30 to 2.13%	1.54 to 2.17%	1.30 to 2.13%
Cross currency swaps	USD/CHF	0.93	0.92 to 0.93	0.93	0.92 to 0.93
	AUD/EUR	0.62 to 0.68	0.64 to 0.69	0.62 to 0.68	0.68 to 0.69
	AUD/USD	0.76	0.76 to 0.78	n/a	0.78

## 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 denominated borrowings. Refer to Note 33.3 *Financial Risk Management: Non-traded market risk* for further information on the Consolidated Entity's risk management strategy.

In order to reflect the Consolidated Entity's risk management strategy, hedge accounting is applied resulting in changes in the derivatives and foreign denominated borrowings being 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 is recognised in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

		CONSOLIDATED CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Foreign exchange contracts	Foreign exchange	241	75	1	11
Foreign denominated issued debt	Foreign exchange	–	–	6,665	5,398

		CONSOLIDATED NOTIONAL			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Foreign exchange contracts <sup>(1)</sup>	Foreign exchange	3,653	2,554	112	1,140
Foreign denominated issued debt	Foreign exchange	–	–	7,481	5,448

		COMPANY CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Foreign exchange contracts	Foreign exchange	151	39	1	8
Foreign denominated issued debt	Foreign exchange	–	–	3,621	3,010

		COMPANY NOTIONAL AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Foreign exchange contracts <sup>(1)</sup>	Foreign exchange	2,334	1,043	103	1,311
Foreign denominated issued debt	Foreign exchange	–	–	4,424	2,988

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 \$11,246 million (2019: \$9,142 million) and Company of \$6,861 million (2019: \$5,342 million) represents the notional of both the derivative hedging instrument and the debt issued and hence exceeds the \$7,242 million (2019: \$5,708 million) and \$4,274 million (2019: \$3,307 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 change in either the fair value of the derivative or the carrying amount of foreign denominated debt issued attributable to the change in exchange rates exceeds that of the hedged item in absolute terms. There was no ineffectiveness recognised in the income statement by the Consolidated Entity or Company in the current year (2019: \$1 million gain for the Consolidated Entity, \$Nil for the Company).

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

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## 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 net fair value is recognised as ineffectiveness in 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 which are primarily 1 month, 3 month or 6 month USD LIBOR, GBP LIBOR, AUD BBSW, EUR EURIBOR and JPY LIBOR.

#### 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
<b>Derivative assets</b>		<b>CONSOLIDATED 2020</b>				
Cross currency swaps	Interest rate	34	997	1,382	605	3,018
Interest rate swaps	Interest rate	–	3,340	6,595	4,398	14,333
Physical forward with basis swap	Commodity price	4	15	4	–	23
<b>Derivative liabilities</b>						
Interest rate swaps	Interest rate	645	3,328	7,035	–	11,008
<b>Derivative assets</b>		<b>CONSOLIDATED 2019</b>				
Cross currency swaps	Interest rate	–	867	1,815	696	3,378
Interest rate swaps	Interest rate	1,409	418	2,815	3,311	7,953
<b>Derivative liabilities</b>						
Cross currency swaps	Interest rate	45	83	111	–	239
Interest rate swaps	Interest rate	289	2,038	10,650	1,050	14,027
Physical forward with basis swap	Commodity price	28	45	29	–	102
		CONSOLIDATED CARRYING AMOUNT				
		2020		2019		
Instrument type	Risk category	Asset \$m	Liability \$m	Asset \$m	Liability \$m	
Cross currency swaps	Interest rate	106	–	65	1	
Interest rate swaps	Interest rate	798	313	150	258	
Physical forward with basis swap	Commodity price	7	–	–	57	

**Note 32****Hedge accounting continued****Hedging instruments continued**

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
		\$m	\$m	\$m	\$m	\$m
Derivative assets		COMPANY 2020				
Cross currency swaps	Interest rate	–	–	1,382	605	1,987
Interest rate swaps	Interest rate	–	3,340	6,640	4,472	14,452
Derivative liabilities						
Interest rate swaps	Interest rate	–	93	167	–	260
Derivative assets		COMPANY 2019				
Cross currency swaps	Interest rate	–	867	1,025	696	2,588
Interest rate swaps	Interest rate	–	316	2,854	2,887	6,057
Derivative liabilities						
Cross currency swaps	Interest rate	45	83	111	–	239
Interest rate swaps	Interest rate	–	839	2,437	1,050	4,326

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 \$341 million (2019: \$Nil). These balances change periodically, which results in periodic rebalancing of the hedge designations.

Instrument type	Risk category	COMPANY CARRYING AMOUNT			
		2020		2019	
		Asset \$m	Liability \$m	Asset \$m	Liability \$m
Cross currency swaps	Interest rate	103	–	63	1
Interest rate swaps	Interest rate	807	14	143	69
Foreign currency denominated issued debt	Foreign exchange	–	343	–	–

**Hedged item**

The fair value hedge adjustment shown as follows is amortised to the income statement on an effective yield basis. 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 position for hedged items that have ceased to be adjusted for hedging gains and losses is \$9 million loss (2019: \$7 million gain) for the Consolidated Entity and \$5 million gain (2019: \$16 million gain) for the Company. These amounts will be amortised to the income statement on an effective interest rate basis.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 32

### Hedge accounting continued

#### Hedged item continued

	CONSOLIDATED 2020		CONSOLIDATED 2019	
	Carrying amount <sup>(1)</sup> \$m	Fair value hedge adjustment \$m	Carrying amount <sup>(1)</sup> \$m	Fair value hedge adjustment \$m
<b>Assets</b>				
Financial investments	104	4	104	4
Loan assets	10,646	191	12,063	105
Non-financial contracts	2	2	55	55
<b>Liabilities</b>				
Debt issued	13,210	(462)	11,306	(38)
Loan capital	4,920	(318)	4,041	(48)

	COMPANY 2020		COMPANY 2019	
	Carrying amount <sup>(1)</sup> \$m	Fair value hedge adjustment \$m	Carrying amount <sup>(1)</sup> \$m	Fair value hedge adjustment \$m
<b>Assets</b>				
Financial investments	104	4	104	4
Loan assets	162	2	499	11
Investment in subsidiaries	341	32	–	–
<b>Liabilities</b>				
Debt issued	12,298	(461)	8,443	(31)
Loan capital	4,920	(318)	4,041	(48)

#### 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		(LOSS)/GAIN ON HEDGED ITEM		HEDGE INEFFECTIVENESS (LOSS)/GAIN	
		2020 \$m	2019 \$m	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Cross currency swaps	Interest rate	43	55	(45)	(58)	(2)	(3)
Interest rate swaps	Interest rate	598	56	(557)	(56)	41	–
Physical forward with basis swap	Commodity price	64	(57)	(53)	55	11	(2)
<b>Total</b>		<b>705</b>	<b>54</b>	<b>(655)</b>	<b>(59)</b>	<b>50</b>	<b>(5)</b>

		COMPANY					
Hedging instrument	Risk category	(LOSS)/GAIN ON HEDGING INSTRUMENT		(LOSS)/GAIN ON HEDGED ITEM		HEDGE INEFFECTIVENESS (LOSS)/GAIN	
		2020 \$m	2019 \$m	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Cross currency swaps	Interest rate	709	47	(707)	(50)	2	(3)
Interest rate swaps	Interest rate	(1)	137	3	(155)	2	(18)
Foreign currency denominated issued debt	Foreign exchange	(32)	–	32	–	–	–
<b>Total</b>		<b>676</b>	<b>184</b>	<b>(672)</b>	<b>(205)</b>	<b>4</b>	<b>(21)</b>

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

## Note 33

### Financial risk management

#### Risk Management Group (RMG)

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

The primary responsibility for risk management lies with the business. An important part of the role of all staff throughout 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.

During the current reporting period the Consolidated Entity's credit risk management framework remained consistent with that of the prior period.

#### 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 consequent loss is either the amount of the loan or financial obligation not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

#### Credit risk assessment and approval

Exercise of credit authority within the Consolidated Entity is undertaken under authority delegated by the MGL and MBL Boards directly. Credit risk assessment includes a comprehensive review of the creditworthiness of the counterparty and related entities, key risk and mitigants, and that the downside risk is properly understood and acceptable.

After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year or more frequently if required. Retail credit exposures are monitored by the business units and overseen by RMG Credit on a portfolio basis.

All credit exposures are monitored regularly against limits. Credit exposures for loan assets are reported at amortised cost or fair value. Derivative exposures are measured using high confidence potential future underlying asset prices.

To mitigate credit risk, where appropriate, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit and the purchase of credit default swaps).

#### Ratings and reviews

Refer to Note 11 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

#### Wholesale rating

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

Credit grading	Internal rating	External equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Non-Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

#### 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 distribution of risk in the portfolio. 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.

# Notes to the financial statements

For the financial year ended 31 March 2020 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<sup>(1)</sup> of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I <sup>(2)</sup> \$m	Stage II <sup>(2)</sup> \$m	Stage III <sup>(2)</sup> \$m	Total \$m
<b>Investment grade</b>	<b>CONSOLIDATED 2020</b>			
Cash and bank balances	7,783	–	–	7,783
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	28,498	–	–	28,498
Margin money and settlement assets	9,515	–	–	9,515
Financial investments	7,196	–	–	7,196
Other assets	861	–	–	861
Loan assets	46,862	416	–	47,278
Due from related body corporate entities	2,948	–	–	2,948
Undrawn credit commitments and financial guarantees	2,197	–	–	2,197
<b>Total investment grade</b>	<b>105,860</b>	<b>416</b>	<b>–</b>	<b>106,276</b>
<b>Non-investment Grade</b>				
Cash and bank balances	64	–	–	64
Cash collateral on securities borrowed and reverse repurchase agreements	1,253	–	–	1,253
Margin money and settlement assets	1,988	104	–	2,092
Financial investments	60	–	–	60
Other assets	503	18	–	521
Loan assets	26,470	13,234	–	39,704
Due from related body corporate entities	1,399	–	–	1,399
Undrawn credit commitments and financial guarantees	2,613	59	–	2,672
<b>Total non-investment grade</b>	<b>34,350</b>	<b>13,415</b>	<b>–</b>	<b>47,765</b>
<b>Default</b>				
Margin money and settlement assets	–	–	87	87
Other assets	–	–	72	72
Loan assets	–	–	1,176	1,176
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees	–	–	16	16
<b>Total default</b>	<b>–</b>	<b>–</b>	<b>1,356</b>	<b>1,356</b>
<b>Total</b>	<b>140,210</b>	<b>13,831</b>	<b>1,356</b>	<b>155,397</b>
<b>Financial assets by ECL stage</b>				
Cash and bank balances	7,847	–	–	7,847
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	29,751	–	–	29,751
Margin money and settlement assets	11,503	104	87	11,694
Financial investments	7,256	–	–	7,256
Other assets	1,364	18	72	1,454
Loan assets	73,332	13,650	1,176	88,158
Due from related body corporate entities	4,347	–	–	4,347
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees	4,810	59	16	4,885
<b>Total financial assets by ECL stage</b>	<b>140,210</b>	<b>13,831</b>	<b>1,356</b>	<b>155,397</b>

- (1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
- (2) For definitions of stage I, II and III, refer to Note 11 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
- (3) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.



## Note 33

### Financial risk management continued

#### Note 33.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount<sup>(1)</sup> of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company.

	Stage I <sup>(2)</sup> \$m	Stage II <sup>(2)</sup> \$m	Stage III <sup>(2)</sup> \$m	Total \$m
<b>COMPANY 2020</b>				
<b>Investment grade</b>				
Cash and bank balances	6,018	–	–	6,018
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	27,743	–	–	27,743
Margin money and settlement assets	8,287	–	–	8,287
Financial investments	7,180	–	–	7,180
Other assets	374	–	–	374
Loan assets	39,002	391	–	39,393
Due from related body corporate entities	2,875	–	–	2,875
Due from subsidiaries	21,093	–	–	21,093
Undrawn credit commitments and financial guarantees	2,025	–	–	2,025
<b>Total investment grade</b>	<b>114,597</b>	<b>391</b>	<b>–</b>	<b>114,988</b>
<b>Non-investment grade</b>				
Cash and bank balances	19	–	–	19
Cash collateral on securities borrowed and reverse repurchase agreements	334	–	–	334
Margin money and settlement assets	1,311	68	–	1,379
Financial investments	60	–	–	60
Other assets	837	3	–	840
Loan assets	15,857	9,079	–	24,936
Due from subsidiaries	1,379	–	–	1,379
Undrawn credit commitments and financial guarantees	2,280	59	–	2,339
<b>Total non-investment grade</b>	<b>22,077</b>	<b>9,209</b>	<b>–</b>	<b>31,286</b>
<b>Default</b>				
Margin money and settlement assets	–	–	43	43
Other assets	–	–	67	67
Loan assets	–	–	772	772
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees	–	–	13	13
<b>Default total</b>	<b>–</b>	<b>–</b>	<b>900</b>	<b>900</b>
<b>Total</b>	<b>136,674</b>	<b>9,600</b>	<b>900</b>	<b>147,174</b>
<b>Financial assets by ECL stage</b>				
Cash and bank balances	6,037	–	–	6,037
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	28,077	–	–	28,077
Margin money and settlement assets	9,598	68	43	9,709
Financial investments	7,240	–	–	7,240
Other assets	1,211	3	67	1,281
Loan assets	54,859	9,470	772	65,101
Due from related body corporate entities	4,254	–	–	4,254
Due from subsidiaries	21,093	–	–	21,093
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees	4,305	59	13	4,377
<b>Total financial assets by ECL stage</b>	<b>136,674</b>	<b>9,600</b>	<b>900</b>	<b>147,174</b>

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

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

(3) During the year, certain reverse repurchase agreements held within the Company's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

# Notes to the financial statements

For the financial year ended 31 March 2020 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 \$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 <sup>(1)</sup> \$m		
CONSOLIDATED 2020								
Home loans <sup>(2)</sup>	39,805	15,852	55,657	253	167	420	449	56,106
Asset financing	1,845	14,305	16,150	729	103	832	303	16,453
Corporate, commercial and other lending	3,201	9,414	12,615	60	75	135	424	13,039
Investment lending	2,427	133	2,560	–	–	–	–	2,560
<b>Total<sup>(1),(3)</sup></b>	<b>47,278</b>	<b>39,704</b>	<b>86,982</b>	<b>1,042</b>	<b>345</b>	<b>1,387</b>	<b>1,176</b>	<b>88,158</b>
COMPANY 2020								
Home loans <sup>(2)</sup>	37,256	15,170	52,426	253	158	411	427	52,853
Asset financing	193	2,201	2,394	101	19	120	83	2,477
Corporate, commercial and other lending	1,647	7,565	9,212	60	75	135	262	9,474
Investment lending	297	–	297	–	–	–	–	297
<b>Total<sup>(1),(3)</sup></b>	<b>39,393</b>	<b>24,936</b>	<b>64,329</b>	<b>414</b>	<b>252</b>	<b>666</b>	<b>772</b>	<b>65,101</b>

(1) Loan assets of \$177 million in the Consolidated Entity and \$38 million in the Company, for which borrowers have been meeting their repayment obligations until recently and have applied for payment deferrals as a result of COVID-19, are not considered past due by the Consolidated Entity and the Company.

(2) Includes \$14,263 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another \$35,837 million home loans where the Consolidated Entity has bought risk protection from a panel of investment grade companies via an excess of loss structure.

(3) The credit quality is based on the counterparty's credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

## 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<sup>(1)</sup> of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I <sup>(2)</sup> \$m	Stage II <sup>(2)</sup> \$m	Stage III <sup>(2)</sup> \$m	Total \$m
<b>Investment grade</b>				CONSOLIDATED 2019
Cash and bank balances	6,418	–	–	6,418
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	8,622	–	–	8,622
Margin money and settlement assets	5,604	–	–	5,604
Financial investments	4,930	–	–	4,930
Other assets	834	–	–	834
Loan assets	34,084	398	–	34,482
Due from related body corporate entities	1,302	–	–	1,302
Loans to associates and joint ventures	3	–	–	3
Undrawn credit commitments and financial guarantees	4,942	–	–	4,942
<b>Total investment grade</b>	<b>66,739</b>	<b>398</b>	<b>–</b>	<b>67,137</b>
<b>Non-investment grade</b>				
Cash and bank balances	132	–	–	132
Cash collateral on securities borrowed and reverse repurchase agreements	1,894	–	–	1,894
Margin money and settlement assets	2,754	160	–	2,914
Financial investments	65	–	–	65
Other assets	685	9	–	694
Loan assets	27,054	10,456	–	37,510
Due from related body corporate entities	247	–	–	247
Loans to associates and joint ventures	4	–	–	4
Undrawn credit commitments and financial guarantees	2,432	79	–	2,511
<b>Total non-investment grade</b>	<b>35,267</b>	<b>10,704</b>	<b>–</b>	<b>45,971</b>
<b>Default</b>				
Margin money and settlement assets	–	–	15	15
Financial investments	–	–	122	122
Other assets	–	–	3	3
Loan assets	–	–	1,344	1,344
Loans to associates and joint ventures	–	–	1	1
Undrawn credit commitments and financial guarantees	–	–	21	21
<b>Total default</b>	<b>–</b>	<b>–</b>	<b>1,506</b>	<b>1,506</b>
<b>Total</b>	<b>102,006</b>	<b>11,102</b>	<b>1,506</b>	<b>114,614</b>
<b>Financial assets by ECL stage</b>				
Cash and bank balances	6,550	–	–	6,550
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	10,516	–	–	10,516
Margin money and settlement assets	8,358	160	15	8,533
Financial investments	4,995	–	122	5,117
Other assets	1,519	9	3	1,531
Loan assets	61,138	10,854	1,344	73,336
Due from related body corporate entities	1,549	–	–	1,549
Loans to associates and joint ventures	7	–	1	8
Undrawn credit commitments and financial guarantees	7,374	79	21	7,474
<b>Total financial assets by ECL stage</b>	<b>102,006</b>	<b>11,102</b>	<b>1,506</b>	<b>114,614</b>

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

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

(3) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 33

### Financial risk management continued

#### Note 33.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount<sup>(1)</sup> of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company.

	Stage I <sup>(2)</sup> \$m	Stage II <sup>(2)</sup> \$m	Stage III <sup>(2)</sup> \$m	Total \$m
<b>Investment Grade</b>				COMPANY 2019
Cash and bank balances	5,122	–	–	5,122
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	8,621	–	–	8,621
Margin money and settlement assets	4,379	–	–	4,379
Financial investments	4,845	–	–	4,845
Other assets	806	–	–	806
Loan assets	29,065	373	–	29,438
Due from related body corporate entities	795	–	–	795
Due from subsidiaries	21,374	–	–	21,374
Loans to associates and joint ventures	4	–	–	4
Undrawn credit commitments and financial guarantees	4,862	–	–	4,862
<b>Total investment grade</b>	<b>79,873</b>	<b>373</b>	<b>–</b>	<b>80,246</b>
<b>Non-investment grade</b>				
Cash and bank balances	111	–	–	111
Cash collateral on securities borrowed and reverse repurchase agreements	1,362	–	–	1,362
Margin money and settlement assets	1,962	154	–	2,116
Financial investments	63	–	–	63
Other assets	485	3	–	488
Loan assets	14,180	8,872	–	23,052
Due from related body corporate entities	227	–	–	227
Loans to associates and joint ventures	1	–	–	1
Undrawn credit commitments and financial guarantees	2,063	34	–	2,097
<b>Total non-investment grade</b>	<b>20,454</b>	<b>9,063</b>	<b>–</b>	<b>29,517</b>
<b>Default</b>				
Margin money and settlement assets	–	–	1	1
Financial investments	–	–	122	122
Other assets	–	–	1	1
Loan assets	–	–	688	688
Loans to associates and joint ventures	–	–	–	–
Undrawn credit commitments and financial guarantees	–	–	2	2
<b>Default total</b>	<b>–</b>	<b>–</b>	<b>814</b>	<b>814</b>
<b>Total</b>	<b>100,327</b>	<b>9,436</b>	<b>814</b>	<b>110,577</b>
<b>Financial assets by ECL stage</b>				
Cash and bank balances	5,233	–	–	5,233
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	9,983	–	–	9,983
Margin money and settlement assets	6,341	154	1	6,496
Financial investments	4,908	–	122	5,030
Other assets	1,291	3	1	1,295
Loan assets	43,245	9,245	688	53,178
Due from related body corporate entities	1,022	–	–	1,022
Due from subsidiaries	21,374	–	–	21,374
Loans to associates and joint ventures	5	–	–	5
Undrawn credit commitments and financial guarantees	6,925	34	2	6,961
<b>Total financial assets by ECL stage</b>	<b>100,327</b>	<b>9,436</b>	<b>814</b>	<b>110,577</b>

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

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

(3) During the year, certain reverse repurchase agreements held within the Company's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

**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:

	OF WHICH PAST DUE						Default \$m	Total \$m
	Investment grade \$m	Non-investment grade \$m	Total other than default \$m	Up to 30 days \$m	31 to <90 days \$m	Total past due but not default \$m		
CONSOLIDATED 2019								
Home loans <sup>(1)</sup>	26,678	14,938	41,616	438	233	671	349	41,965
Asset financing	3,003	14,671	17,674	745	93	838	551	18,225
Corporate, commercial and other lending	3,322	7,738	11,060	113	42	155	444	11,504
Investment lending	1,479	163	1,642	–	–	–	–	1,642
<b>Total<sup>(2)</sup></b>	<b>34,482</b>	<b>37,510</b>	<b>71,992</b>	<b>1,296</b>	<b>368</b>	<b>1,664</b>	<b>1,344</b>	<b>73,336</b>
COMPANY 2019								
Home loans <sup>(1)</sup>	25,850	14,689	40,539	420	221	641	349	40,888
Asset financing	1,238	2,123	3,361	110	16	126	71	3,432
Corporate, commercial and other lending	2,342	6,114	8,456	113	42	155	268	8,724
Investment lending	8	126	134	–	–	–	–	134
<b>Total<sup>(2)</sup></b>	<b>29,438</b>	<b>23,052</b>	<b>52,490</b>	<b>643</b>	<b>279</b>	<b>922</b>	<b>688</b>	<b>53,178</b>

(1) Includes \$16,457 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another \$35,837 million (2019: \$18,802 million) home loans where the Consolidated Entity has bought risk protection from a panel of investment grade companies via an excess of loss structure.

(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 2020 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 locations and counterparty type of the Consolidated Entity's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup> \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets <sup>(2)</sup> \$m	Due from related body corporate entities <sup>(3)</sup> \$m	Loans to associates and joint ventures \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
<b>CONSOLIDATED 2020</b>										
<b>Australia</b>										
Governments	–	–	186	–	6	109	–	–	–	301
Financial institutions	2,017	2,146	4,007	1,539	88	2,539	1,324	–	272	13,932
Other	–	–	990	1,026	196	75,802	–	4	3,341	81,359
Total Australia	2,017	2,146	5,183	2,565	290	78,450	1,324	4	3,613	95,592
<b>Asia Pacific</b>										
Governments	–	–	–	316	–	–	–	–	–	316
Financial institutions	856	3,231	558	711	–	–	1,010	–	2	6,368
Other	–	–	–	826	438	524	20	1	70	1,879
Total Asia Pacific	856	3,231	558	1,853	438	524	1,030	1	72	8,563
<b>Europe, Middle East and Africa</b>										
Governments	668	–	–	–	151	10	–	–	58	887
Financial institutions	779	13,854	1,259	1,512	27	493	736	–	30	18,690
Other	–	–	–	2,679	361	2,593	–	–	202	5,835
Total Europe, Middle East and Africa	1,447	13,854	1,259	4,191	539	3,096	736	–	290	25,412
<b>Americas</b>										
Governments	–	–	–	23	–	17	–	–	4	44
Financial institutions	3,527	10,520	256	1,612	7	4,381	1,257	–	84	21,644
Other	–	–	–	1,450	180	1,690	–	–	822	4,142
Total Americas	3,527	10,520	256	3,085	187	6,088	1,257	–	910	25,830
<b>Total gross credit risk<sup>(4)</sup></b>	<b>7,847</b>	<b>29,751</b>	<b>7,256</b>	<b>11,694</b>	<b>1,454</b>	<b>88,158</b>	<b>4,347</b>	<b>5</b>	<b>4,885</b>	<b>155,397</b>

(1) During the year, certain reverse repurchase agreements held within the Company's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(2) Loan assets in the Australia region includes home loans of \$56,106 million, Asset financing of \$14,813 million, Corporate, commercial and other lending of \$7,361 million and Investment lending of \$170 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. Previous year has been reclassified to conform to the current year presentation.

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

**Note 33****Financial risk management continued****Note 33.1 Credit risk continued****Credit risk concentration**

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup> \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets <sup>(2)</sup> \$m	Due from related body corporate entities <sup>(3)</sup> \$m	Due from subsidiaries <sup>(3)</sup> \$m	Loans to associates and joint ventures \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
<b>COMPANY 2020</b>											
<b>Australia</b>											
Governments	–	–	187	–	5	50	–	–	–	–	242
Financial institutions	1,823	2,079	3,994	1,524	68	2,316	1,296	8,199	–	266	21,565
Other	–	–	990	815	541	59,406	–	7,612	4	3,069	72,437
<b>Total Australia</b>	<b>1,823</b>	<b>2,079</b>	<b>5,171</b>	<b>2,339</b>	<b>614</b>	<b>61,772</b>	<b>1,296</b>	<b>15,811</b>	<b>4</b>	<b>3,335</b>	<b>94,244</b>
<b>Asia Pacific</b>											
Governments	–	–	–	316	–	–	–	–	–	–	316
Financial institutions	615	3,231	558	591	–	–	977	678	–	2	6,652
Other	–	–	–	749	434	347	12	17	1	68	1,628
<b>Total Asia Pacific</b>	<b>615</b>	<b>3,231</b>	<b>558</b>	<b>1,656</b>	<b>434</b>	<b>347</b>	<b>989</b>	<b>695</b>	<b>1</b>	<b>70</b>	<b>8,596</b>
<b>Europe, Middle East and Africa</b>											
Governments	668	–	–	–	–	–	–	–	–	58	726
Financial institutions	627	13,393	1,258	1,508	24	329	734	948	–	23	18,844
Other	–	–	–	2,629	125	1,176	–	2,857	–	161	6,948
<b>Total Europe, Middle East and Africa</b>	<b>1,295</b>	<b>13,393</b>	<b>1,258</b>	<b>4,137</b>	<b>149</b>	<b>1,505</b>	<b>734</b>	<b>3,805</b>	<b>–</b>	<b>242</b>	<b>26,518</b>
<b>Americas</b>											
Governments	–	–	–	–	–	17	–	–	–	4	21
Financial institutions	2,304	9,374	253	1,201	7	318	1,235	782	–	3	15,477
Other	–	–	–	376	77	1,142	–	–	–	723	2,317
<b>Total Americas</b>	<b>2,304</b>	<b>9,374</b>	<b>253</b>	<b>1,577</b>	<b>84</b>	<b>1,477</b>	<b>1,235</b>	<b>1,577</b>	<b>–</b>	<b>730</b>	<b>17,816</b>
<b>Total gross credit risk<sup>(4)</sup></b>	<b>6,037</b>	<b>28,077</b>	<b>7,240</b>	<b>9,709</b>	<b>1,281</b>	<b>65,101</b>	<b>4,254</b>	<b>21,093</b>	<b>5</b>	<b>4,377</b>	<b>147,174</b>

(1) During the year, certain reverse repurchase agreements held within the Company's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(2) Loan assets in the Australia region includes home loans of \$52,853 million, Asset financing of \$2,460 million, Corporate, commercial and other lending of \$6,459 million.

(3) 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. Previous year has been reclassified to conform to the current year presentation.

(4) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL.

# Notes to the financial statements

For the financial year ended 31 March 2020 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 since they are measured at fair value through the income statement. Financial assets that are subject to risks other than credit risk, such as equity investments and commodities have been excluded from the table below.

	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup>	Trading assets	Derivative assets	Financial investments	Margin money and settlement assets	Held for sale and other assets	Loan assets	Due from related body corporate entities <sup>(2)</sup>	Loans to associates and joint ventures	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>CONSOLIDATED 2020</b>										
<b>Australia</b>										
Governments	–	4,613	165	–	–	–	–	–	–	4,778
Financial institutions	–	60	6,316	52	–	–	52	567	–	7,047
Other	–	–	1,996	–	3	17	–	–	–	2,016
Total Australia	–	4,673	8,477	52	3	17	52	567	–	13,841
<b>Asia Pacific</b>										
Governments	–	441	28	–	–	–	–	–	–	469
Financial institutions	822	106	578	55	–	–	–	110	–	1,671
Other	–	90	1,617	–	224	278	–	–	–	2,209
Total Asia Pacific	822	637	2,223	55	224	278	–	110	–	4,349
<b>Europe, Middle East and Africa</b>										
Governments	–	–	13	–	–	–	16	–	–	29
Financial institutions	1,782	48	13,004	–	–	–	–	8	–	14,842
Other	–	503	11,605	5	–	477	2	79	–	12,671
Total Europe, Middle East and Africa	1,782	551	24,622	5	–	477	18	87	–	27,542
<b>Americas</b>										
Governments	–	2,014	57	–	3	–	–	–	–	2,074
Financial institutions	5,353	17	6,901	–	12	–	76	40	–	12,399
Other	–	415	2,565	–	313	175	103	–	–	3,571
Total Americas	5,353	2,446	9,523	–	328	175	179	40	–	18,044
<b>Total gross credit risk</b>	<b>7,957</b>	<b>8,307</b>	<b>44,845</b>	<b>112</b>	<b>555</b>	<b>947</b>	<b>249</b>	<b>804</b>	<b>–</b>	<b>63,776</b>

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(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. Previous year has been reclassified to conform to the current year presentation.



## 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 assets that are subject to risks other than credit risk, such as equity investments and commodities have been excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup>	Trading assets	Derivative assets	Financial investments	Margin money and settlement assets	Other assets	Loan assets	Due from subsidiaries <sup>(2)</sup>	Due from related body corporate entities <sup>(2)</sup>	Loans to associates and joint ventures	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>COMPANY 2020</b>											
<b>Australia</b>											
Governments	–	4,613	165	–	–	–	–	–	–	–	4,778
Financial institutions	–	60	6,196	–	–	–	7	1,111	567	–	7,941
Other	–	–	1,995	–	3	17	–	246	–	–	2,261
Total Australia	–	4,673	8,356	–	3	17	7	1,357	567	–	14,980
<b>Asia Pacific</b>											
Governments	–	423	28	–	–	–	–	–	–	–	451
Financial institutions	822	23	567	55	–	–	–	160	83	–	1,710
Other	–	77	1,613	–	225	278	–	–	–	–	2,193
Total Asia Pacific	822	523	2,208	55	225	278	–	160	83	–	4,354
<b>Europe, Middle East and Africa</b>											
Governments	–	–	13	–	–	–	16	–	–	–	29
Financial institutions	1,782	48	12,847	–	–	–	–	2,017	8	–	16,702
Other	–	503	9,435	–	–	477	2	620	79	–	11,116
Total Europe, Middle East and Africa	1,782	551	22,295	–	–	477	18	2,637	87	–	27,847
<b>Americas</b>											
Governments	–	2,014	–	–	–	–	–	–	–	–	2,014
Financial institutions	5,353	16	6,955	–	–	–	84	1,815	40	–	14,263
Other	–	288	1,790	–	106	9	95	–	–	–	2,288
Total Americas	5,353	2,318	8,745	–	106	9	179	1,815	40	–	18,565
<b>Total gross credit risk</b>	<b>7,957</b>	<b>8,065</b>	<b>41,604</b>	<b>55</b>	<b>334</b>	<b>781</b>	<b>204</b>	<b>5,969</b>	<b>777</b>	<b>–</b>	<b>65,746</b>

(1) During the year, certain reverse repurchase agreements held within the Company's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(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. Previous year has been reclassified to conform to the current year presentation.

# Notes to the financial statements

For the financial year ended 31 March 2020 *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 locations and counterparty type of the Consolidated Entity's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup> \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets <sup>(2)</sup> \$m	Due from related body corporate entities <sup>(3)</sup> \$m	Loans to associates and joint ventures \$m	Undrawn credit commitment and financial guarantees \$m	Total \$m
CONSOLIDATED 2019										
<b>Australia</b>										
Governments	–	–	–	–	–	67	–	–	–	67
Financial institutions	1,811	2,522	3,398	1,077	151	2,243	288	1	363	11,854
Other	–	–	818	653	131	62,728	13	3	5,350	69,696
Total Australia	1,811	2,522	4,216	1,730	282	65,038	301	4	5,713	81,617
<b>Asia Pacific</b>										
Governments	–	–	–	256	–	–	–	–	–	256
Financial institutions	1,103	2,438	500	880	12	1	518	–	–	5,452
Other	–	–	–	642	480	649	44	1	177	1,993
Total Asia Pacific	1,103	2,438	500	1,778	492	650	562	1	177	7,701
<b>Europe, Middle East and Africa</b>										
Governments	550	–	–	143	152	3	–	–	34	882
Financial institutions	476	2,265	155	970	80	717	118	–	323	5,104
Other	–	–	–	1,161	372	2,193	83	3	538	4,350
Total Europe, Middle East and Africa	1,026	2,265	155	2,274	604	2,913	201	3	895	10,336
<b>Americas</b>										
Governments	–	–	–	28	1	12	–	–	6	47
Financial institutions	2,610	2,820	246	991	17	2,831	217	–	123	9,855
Other	–	471	–	1,732	135	1,891	268	–	560	5,058
Total Americas	2,610	3,291	246	2,751	153	4,735	485	–	689	14,960
<b>Total gross credit risk<sup>(4)</sup></b>	<b>6,550</b>	<b>10,516</b>	<b>5,117</b>	<b>8,533</b>	<b>1,531</b>	<b>73,336</b>	<b>1,549</b>	<b>8</b>	<b>7,474</b>	<b>114,614</b>

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(2) Loan assets in the Australia region includes home loans of \$41,965 million, Asset financing of \$16,228 million, Corporate, commercial and other lending, of \$6,635 million and Investment lending of \$210 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. Previous year has been reclassified to conform to the current year presentation.

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

## Note 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 locations 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. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup> \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets <sup>(2)</sup> \$m	Due from related body corporate entities <sup>(3)</sup> \$m	Due from subsidiaries <sup>(3)</sup> \$m	Loans to associates and joint ventures \$m	Undrawn credit commitment and financial guarantees \$m	Total \$m
COMPANY 2019											
<b>Australia</b>											
Governments	–	–	–	–	–	46	–	–	–	–	46
Financial institutions	1,675	2,522	3,334	1,061	131	2,085	188	13,384	–	2,624	27,004
Other	–	–	818	460	511	48,083	12	81	4	2,871	52,840
Total Australia	1,675	2,522	4,152	1,521	642	50,214	200	13,465	4	5,495	79,890
<b>Asia Pacific</b>											
Governments	–	–	–	256	–	–	–	–	–	–	256
Financial institutions	964	2,438	500	810	12	2	489	1,834	–	–	7,049
Other	–	–	–	564	475	416	39	48	1	85	1,628
Total Asia Pacific	964	2,438	500	1,630	487	418	528	1,882	1	85	8,933
<b>Europe, Middle East and Africa</b>											
Governments	–	–	–	143	–	–	–	–	–	–	143
Financial institutions	794	2,265	149	972	44	524	112	654	–	403	5,917
Other	–	–	–	1,071	80	943	36	3,997	–	78	6,205
Total Europe, Middle East and Africa	794	2,265	149	2,186	124	1,467	148	4,651	–	481	12,265
<b>Americas</b>											
Governments	–	–	–	–	–	12	–	–	–	6	18
Financial institutions	1,800	2,758	229	726	6	50	142	1,310	–	8	7,029
Other	–	–	–	433	36	1,017	4	66	–	886	2,442
Total Americas	1,800	2,758	229	1,159	42	1,079	146	1,376	–	900	9,489
<b>Total gross credit risk<sup>(4)</sup></b>	<b>5,233</b>	<b>9,983</b>	<b>5,030</b>	<b>6,496</b>	<b>1,295</b>	<b>53,178</b>	<b>1,022</b>	<b>21,374</b>	<b>5</b>	<b>6,961</b>	<b>110,577</b>

(1) During the year, certain reverse repurchase agreements held within the Company's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(2) Loan assets in the Australia region includes home loans of \$40,704 million, Asset financing of \$3,356 million, Corporate, commercial and other lending of \$6,020 million and Investment lending of \$134 million.

(3) 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. Previous year has been reclassified to conform to the current year presentation.

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

# Notes to the financial statements

For the financial year ended 31 March 2020 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 since they are measured at fair value through the income statement. 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.

	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup> \$m	Trading assets \$m	Derivative assets \$m	Financial investments \$m	Money margin and settlement assets \$m	Other assets \$m	Loan assets \$m	Loans to associates and joint ventures \$m	Total \$m
CONSOLIDATED 2019									
<b>Australia</b>									
Governments	–	3,541	18	–	–	–	–	–	3,559
Financial institutions	702	125	1,388	–	–	5	1	–	2,221
Other	–	–	1,244	–	–	–	140	3	1,387
Total Australia	702	3,666	2,650	–	–	5	141	3	7,167
<b>Asia Pacific</b>									
Governments	–	232	4	–	–	–	–	–	236
Financial institutions	522	599	184	80	–	–	–	–	1,385
Other	–	91	609	–	45	468	41	–	1,254
Total Asia Pacific	522	922	797	80	45	468	41	–	2,875
<b>Europe, Middle East and Africa</b>									
Governments	–	80	7	–	–	–	7	–	94
Financial institutions	5,464	255	3,297	–	–	–	2	–	9,018
Other	–	519	2,874	–	50	1,749	3	–	5,195
Total Europe, Middle East and Africa	5,464	854	6,178	–	50	1,749	12	–	14,307
<b>Americas</b>									
Governments	8	1,001	36	–	–	–	–	–	1,045
Financial institutions	12,459	16	2,346	–	166	–	47	–	15,034
Other	–	286	2,015	–	297	16	92	–	2,706
Total Americas	12,467	1,303	4,397	–	463	16	139	–	18,785
<b>Total gross credit risk</b>	<b>19,155</b>	<b>6,745</b>	<b>14,022</b>	<b>80</b>	<b>558</b>	<b>2,238</b>	<b>333</b>	<b>3</b>	<b>43,134</b>

(1) During the year, certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

## 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 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.

	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup>	Trading assets	Derivative assets	Financial investments	Margin money and settlement assets	Other assets	Loan assets	Due from subsidiaries <sup>(2)</sup>	Loans to associates and joint ventures	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
COMPANY 2019										
<b>Australia</b>										
Governments	–	4,243	18	–	–	–	–	–	–	4,261
Financial institutions	703	116	1,138	–	–	–	1	–	–	1,958
Other	–	–	1,243	–	–	–	141	736	3	2,123
Total Australia	703	4,359	2,399	–	–	–	142	736	3	8,342
<b>Asia Pacific</b>										
Governments	–	113	4	–	–	–	–	–	–	117
Financial institutions	522	233	178	80	–	–	–	–	–	1,013
Other	–	1	606	–	–	512	41	–	–	1,160
Total Asia Pacific	522	347	788	80	–	512	41	–	–	2,290
<b>Europe, Middle East and Africa</b>										
Governments	–	80	7	–	–	–	7	–	–	94
Financial institutions	5,265	254	3,250	–	–	–	–	–	–	8,769
Other	–	528	2,504	–	–	1,751	2	–	–	4,785
Total Europe, Middle East and Africa	5,265	862	5,761	–	–	1,751	9	–	–	13,648
<b>Americas</b>										
Governments	8	299	2	–	–	–	–	–	–	309
Financial institutions	12,276	13	2,308	–	–	–	162	–	–	14,759
Other	–	12	923	–	–	–	80	–	–	1,015
Total Americas	12,284	324	3,233	–	–	–	242	–	–	16,083
<b>Total gross credit risk</b>	<b>18,774</b>	<b>5,892</b>	<b>12,181</b>	<b>80</b>	<b>–</b>	<b>2,263</b>	<b>434</b>	<b>736</b>	<b>3</b>	<b>40,363</b>

(1) During the year, certain reverse repurchase agreements held within the Company's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(2) Due from subsidiaries have been presented as Financial institution and Others based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification. Previous year has been reclassified to conform to the current year presentation.

# Notes to the financial statements

For the financial year ended 31 March 2020 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 and is disclosed in Note 11 *Expected credit losses*.

##### Collateral and credit enhancements held

##### Cash collateral on securities borrowed and reverse repurchase agreements

The Consolidated Entity enters stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

The fair value of collateral held not recognised in the statements of financial position as at 31 March 2020 is \$38,070 million (2019: \$29,304 million). The Consolidated Entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is \$8,508 million (2019: \$7,448 million). For the company, the fair value of collateral held not recognised in the statements

of financial positions as at 31 March 2020 is \$36,511 million (2019: \$28,913 million). The Company is allowed to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is \$8,738 million (2019: \$7,448 million). The value attributed to collateral held is judgemental and is general subject to valuation movements. Macquarie may also incur additional selling costs when a defaulted position is closed out.

##### Loan assets

##### Home loans

Home loans are secured by fixed charges over a borrower's property. Prior to April 2017 the Consolidated Entity obtained LMI from an single rated counterparty, to cover a substantial portion of the home loan portfolio against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Since April 2017, the Consolidated Entity has purchased risk protection from a diversified panel of rated counterparties via an excess of loss structure. The Consolidated Entity is exposed to the first 100bps of loss on a pooled basis for each year of home loan origination volumes. Loss protection is in place for the next 200bps (2019: 300bps) (i.e. from 100bps to 300bps) (2019: from 100bps to 400bps), and any excess loss over 300bps is retained by the Consolidated Entity. Potential exposure to this structure is provisioned through the ECL allowance.

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the most recent valuation of home loan assets in response to variation in the loan request. Expected credit loss provisions disclosed in Note 11 include forward-looking assumptions for the value of the collateral in determining the ECL at the reporting date.

	AUSTRALIA		AUSTRALIA	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
	CONSOLIDATED		COMPANY	
Fully collateralised				
Loan to value ratio				
<= 25%	1,676	1,410	1,505	1,339
>25% and <= 50%	10,024	7,595	9,346	7,336
>50% and <= 70%	22,368	15,609	21,287	15,215
>70% and <= 80%	17,984	13,190	16,994	12,941
>80% and <= 90%	3,434	3,454	3,179	3,398
>90% and <= 100%	524	574	524	572
Partly collateralised	34	73	34	72
<b>Total home loans</b>	<b>56,044</b>	<b>41,905</b>	<b>52,869</b>	<b>40,873</b>

## Note 33

### Financial risk management continued

#### Note 33.1 Credit risk continued

##### Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Title to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of \$16,159 million (2019: \$17,985 million), the credit exposure after considering the depreciated value of collateral is \$7,358 million (2019: \$8,033 million). For the Company, of the asset finance portfolio of \$2,418 million (2019: \$3,361 million), the credit exposure after considering the depreciated value of collateral is \$970 million (2019: \$1,371 million).

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

##### Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. For the Consolidated Entity, of the term lending of \$12,957 million (2019: \$11,488 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$1,524 million (2019: \$2,089 million). For the Company, of the term lending of \$9,391 million (2019: \$8,822 million), the credit exposure after the estimated value of collateral and credit enhancements is \$1,257 million (2019: \$1,567 million).

##### Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral or holds security by way of a registered pledge over the underlying investment. For the Consolidated Entity and the company, the investment lending portfolio of \$2,559 million (2019: \$1,780 million) and \$297 million (2019: \$265 million) is fully collateralised. In the event of default realised collateral values may be lower than the value of collateral as at the reporting date.

##### Additional collateral

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.

The loan balance includes \$16,402 million (2019: \$10,753 million) which has been securitised by consolidated SPEs.

##### 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.

Exchange traded and OTC cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house except for the cases where it is trading through another clearing house member. The clearing house is responsible for managing the risk associated with the process on behalf of their members and providing a high level of confidence that adequate resources exist to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values as at 31 March 2020 of \$5,084 million (2019: \$802 million). The Company held exchange traded derivatives with positive replacement values as at 31 March 2020 of \$4,727 million (2019: \$699 million).

For OTC derivative contracts, the Consolidated Entity and Company often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements.

In the event of default, they require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Company also often execute a Credit Support Annex in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2020, the Consolidated Entity held OTC contracts with a positive replacement value of \$39,761 million (2019: \$13,220 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$24,154 million (2019: \$7,311 million) and margins held (excluding the impact of over-collateralisation) of \$5,744 million (2019: \$2,068 million).

As at 31 March 2020, the Company held OTC contracts with a positive replacement value of \$36,877 million (2019: \$11,482 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$23,464 million (2019: \$6,368 million) and margins held (excluding the impact of over-collateralisation) of \$5,583 million (2019: \$1,802 million).



# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 33

### Financial risk management *continued*

#### Note 33.1 Credit risk *continued*

##### Financial investments

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

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

##### Margin money and settlement assets

Security settlements of \$3,207 million (2019: \$3,203 million) in the Consolidated Entity and \$2,839 million (2019: \$2,811 million), in the Company are included in Margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). These assets are collateralised with the underlying equity securities or cash held by the Consolidated Entity until the date of settlement. The period between trade and settlement date is generally a small 2 to 3 day period.

##### Credit commitments

Undrawn facilities and lending commitments of \$2,256 million (2019: \$5,952 million) in the Consolidated Entity and \$2,130 million (2019: \$5,818 million) in the Company are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of \$4,665 million (2019: \$7,300 million) in the Consolidated Entity and \$4,173 million (2019: \$6,816 million) in the Company.

#### Note 33.2 Liquidity risk

##### Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Group Treasurer, Head of Balance Sheet Management 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 is consistent with the MGL policy.

Macquarie Bank's liquidity risk appetite is set 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 (ADI) 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 officer responsible for enacting the contingency management
- 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 Group's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding the invoking of the plan.

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

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the *Liquidity Contingency Plan* contains either a supplement or 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 current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by the ALCO and approved by the respective Boards.



## Note 33

### Financial risk management continued

#### Note 33.2 Liquidity risk continued

##### Scenario analysis

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

The scenarios are run over a number of timeframes and a range of conservative assumptions are used 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-specific crisis over a twelve month time frame. This scenario assumes no access to wholesale funding markets, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

##### Liquid asset holdings

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

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

##### Undrawn credit lines and facilities

The Consolidated Entity has \$236 million (March 2019: \$Nil) of available undrawn credit lines and facilities at 31 March 2020. Further, on 19 March 2020, the RBA announced that it was establishing a Term Funding Facility (TFF) that would offer authorised deposit taking institutions (ADI) three-year funding at a rate of 0.25% per annum in response to COVID-19. On 25 March 2020, APRA notified all ADIs that the TFF could be considered a committed funding facility and from 31 March 2020 may be included in an ADI's reporting of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The Consolidated Entity, which has an allowance of \$1,900 million, has not included the TFF in the available undrawn credit lines and facilities balance, quarterly average LCR and NSFR as at 31 March 2020.

##### Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. 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 for Macquarie Group as a whole. 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 at the balance sheet date. Repayments subject to notice are treated as if notice were given immediately. This does not reflect the behaviour expected cash flows indicated by the Consolidated Entity's deposit retention history since the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay.

# Notes to the financial statements

For the financial year ended 31 March 2020 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 2020							
Cash collateral on securities lent and repurchase agreements	2,322	1,021	1,082	221	–	–	2,324
Trading liabilities <sup>(1)</sup>	5,363	–	5,363	–	–	–	5,363
Margin money and settlement liabilities	19,052	13,872	5,180	–	–	–	19,052
Derivative liabilities (trading) <sup>(1)</sup>	37,307	–	37,307	–	–	–	37,307
Derivative liabilities (hedge accounting relationships) <sup>(2)</sup>	516						
Contractual amounts payable		–	51	320	784	58	1,213
Contractual amounts receivable		–	(1)	(9)	(559)	–	(569)
Deposits	67,253	54,840	8,865	3,436	150	11	67,302
Other liabilities <sup>(3)</sup>	1,314	358	248	668	31	11	1,316
Borrowings	3,047	120	876	559	1,534	–	3,089
Debt issued <sup>(4)</sup>	46,922	–	5,327	9,896	19,922	18,948	54,093
Due to other related body corporate entities <sup>(5)</sup>	22,104	5,124	12,608	1,056	3,389	–	22,177
Loan capital <sup>(6)</sup>	4,997	–	49	1,013	1,882	2,603	5,547
<b>Total</b>	<b>210,197</b>	<b>75,335</b>	<b>76,955</b>	<b>17,160</b>	<b>27,133</b>	<b>21,631</b>	<b>218,214</b>
Contingent liabilities		–	2,762	–	–	–	2,762
Commitments		582	1,618	243	2,176	937	5,556
<b>Total undiscounted contingent liabilities and commitments<sup>(7)</sup></b>		<b>582</b>	<b>4,380</b>	<b>243</b>	<b>2,176</b>	<b>937</b>	<b>8,318</b>

(1) Derivative liabilities (other than those designated in a hedge accounting relationship) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently settled in the short-term at fair value.

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Includes \$18,237 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.

(5) Application of the MLA in the current year resulted in a change in the tenors and offsetting requirements. The contractual cash outflows presented for the current year represent the revised gross payable amounts and maturities and are therefore not comparable with the previous year. Refer to Note 27 *Related party information*.

(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 23 *Loan capital*.

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

## Note 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 2019							
Cash collateral on securities lent and repurchase agreements	4,216	1,659	2,112	38	–	411	4,220
Trading liabilities <sup>(1)</sup>	6,557	–	6,557	–	–	–	6,557
Margin money and settlement liabilities	12,222	7,301	4,921	–	–	–	12,222
Derivative liabilities (trading) <sup>(1)</sup>	12,013	–	12,013	–	–	–	12,013
Derivative liabilities (hedge accounting relationships) <sup>(2)</sup>	510						
Contractual amounts payable		–	784	421	1,204	264	2,673
Contractual amounts receivable		–	(687)	(300)	(832)	(210)	(2,029)
Deposits	56,120	44,329	7,465	4,227	189	–	56,210
Other liabilities <sup>(3)</sup>	1,743	359	1,373	8	3	–	1,743
Borrowings	1,560	533	273	178	642	41	1,667
Debt issued <sup>(4)</sup>	34,787	–	9,319	8,755	10,431	9,888	38,393
Due to other related body corporate entities <sup>(5)</sup>	16,794	2,955	8,277	1,109	5,039	12	17,392
Loan capital <sup>(6)</sup>	4,550	–	129	700	2,466	2,368	5,663
<b>Total</b>	<b>151,072</b>	<b>57,136</b>	<b>52,536</b>	<b>15,136</b>	<b>19,142</b>	<b>12,774</b>	<b>156,724</b>
Contingent liabilities		–	2,836	–	–	–	2,836
Commitments		3,531	1,170	264	2,211	1,150	8,326
<b>Total undiscounted contingent liabilities and commitments<sup>(7)</sup></b>		<b>3,531</b>	<b>4,006</b>	<b>264</b>	<b>2,211</b>	<b>1,150</b>	<b>11,162</b>

(1) Derivative liabilities (other than those designated in a hedge accounting relationship) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Includes \$9,617 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.

(5) Application of the MLA in the current year resulted in a change in the tenors and offsetting requirements. The contractual cash outflows presented for the current year represent the revised gross payable amounts and maturities and are therefore not comparable with the previous year. Refer to Note 27 *Related party information*.

(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 23 *Loan capital*.

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

# Notes to the financial statements

For the financial year ended 31 March 2020 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 2020							
Cash collateral on securities lent and repurchase agreements	2,322	1,021	1,082	221	–	–	2,324
Trading liabilities <sup>(1)</sup>	5,395	–	5,395	–	–	–	5,395
Margin money and settlement liabilities	16,662	12,272	4,390	–	–	–	16,662
Derivative liabilities (trading) <sup>(1)</sup>	35,778	–	35,778	–	–	–	35,778
Derivative liabilities (hedge accounting relationships) <sup>(2)</sup>	195						
Contractual amounts payable		–	11	182	632	58	883
Contractual amounts receivable		–	(1)	(9)	(559)	–	(569)
Deposits	67,186	54,811	8,840	3,436	137	11	67,235
Other liabilities <sup>(3)</sup>	685	46	104	534	1	–	685
Borrowings	2,304	120	681	497	1,035	–	2,333
Debt issued	34,235	–	5,026	8,829	17,145	4,899	35,899
Due to subsidiaries <sup>(4)</sup>	18,249	4,088	6,816	275	204	6,866	18,249
Due to other related body corporate entities <sup>(4)</sup>	22,013	5,153	12,454	1,056	3,389	37	22,089
Loan capital <sup>(5)</sup>	4,997	–	49	1,013	1,882	2,603	5,547
<b>Total</b>	<b>210,021</b>	<b>77,511</b>	<b>80,625</b>	<b>16,034</b>	<b>23,866</b>	<b>14,474</b>	<b>212,510</b>
Contingent liabilities		–	3,879	–	–	–	3,879
Commitments		484	1,434	215	2,003	928	5,064
<b>Total undiscounted contingent liabilities and commitments<sup>(6)</sup></b>		<b>484</b>	<b>5,313</b>	<b>215</b>	<b>2,003</b>	<b>928</b>	<b>8,943</b>

(1) Derivative liabilities (other than those designated in a hedge accounting relationship) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Application of the MLA in the current year resulted in a change in the tenors and offsetting requirements. The contractual cash outflows presented for the current year represent the revised gross payable amounts and maturities and are therefore not comparable with the previous year. Refer to Note 27 *Related party information*.

(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 23 *Loan capital*.

(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' column 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 2019							
Cash collateral on securities lent and repurchase agreements	4,216	1,659	2,112	38	–	411	4,220
Trading liabilities <sup>(1)</sup>	7,175	–	7,175	–	–	–	7,175
Margin money and settlement liabilities	10,710	6,831	3,879	–	–	–	10,710
Derivative liabilities (trading) <sup>(1)</sup>	11,104	–	11,104	–	–	–	11,104
Derivative liabilities (hedge accounting relationships) <sup>(2)</sup>	226						
Contractual amounts payable		–	314	43	1,033	264	1,654
Contractual amounts receivable		–	(264)	(20)	(832)	(210)	(1,326)
Deposits	56,033	44,204	7,459	4,227	184	–	56,074
Other liabilities <sup>(3)</sup>	918	–	918	–	–	–	918
Borrowings	1,166	533	87	62	518	–	1,200
Debt issued	27,714	–	8,935	7,578	7,360	4,903	28,776
Due to subsidiaries <sup>(4)</sup>	9,894	6,191	1,154	–	–	2,900	10,245
Due to other related body corporate entities <sup>(4)</sup>	15,106	2,852	8,096	583	4,004	5	15,540
Loan capital <sup>(5)</sup>	4,550	–	129	700	2,466	2,368	5,663
<b>Total</b>	<b>148,812</b>	<b>62,270</b>	<b>51,098</b>	<b>13,211</b>	<b>14,733</b>	<b>10,641</b>	<b>151,953</b>
Contingent liabilities		–	3,892	–	–	–	3,892
Commitments		3,453	988	195	2,047	1,137	7,820
<b>Total undiscounted contingent liabilities and commitments<sup>(6)</sup></b>		<b>3,453</b>	<b>4,880</b>	<b>195</b>	<b>2,047</b>	<b>1,137</b>	<b>11,712</b>

(1) Derivative liabilities (other than those designated in a hedge accounting relationship) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Application of the MLA in the current year resulted in a change in the tenors and offsetting requirements. The contractual cash outflows presented for the current year represent the revised gross payable amounts and maturities and are therefore not comparable with the previous year. Refer to Note 27 *Related party information*.

(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 23 *Loan capital*.

(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' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

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## 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 (XVA):** Risk of actual valuation adjustments to derivative positions; specifically Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA).

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

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

RMG sets three complementary limit structures:

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

**Note 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 operate. The VaR shown in the table is based on a one-day holding period, being the mark-to-market that could be incurred over that period. The aggregated VaR is on a correlated basis.

	2020			2019		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
<b>CONSOLIDATED</b>						
Equities	7.68	11.34	3.37	5.29	8.60	2.59
Interest rates	2.33	3.03	1.58	2.69	3.35	2.17
Foreign exchange and bullion	1.82	4.33	0.82	2.07	5.06	1.04
Commodities <sup>(1)</sup>	16.07	25.46	11.31	23.39	56.89	13.76
Aggregate	18.12	27.62	13.19	23.29	55.08	13.75

	2020			2019		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
<b>COMPANY</b>						
Equities	7.65	11.15	3.32	5.69	8.51	2.71
Interest rates	2.31	3.02	1.61	2.68	3.34	2.11
Foreign exchange and bullion	2.66	6.61	0.82	5.07	11.85	1.54
Commodities <sup>(1)</sup>	11.23	16.71	7.68	8.61	12.96	5.96
Aggregate	13.99	18.83	8.58	11.33	16.09	8.72

(1) Includes commodity contracts.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

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## 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 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 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 in the income statement.

##### Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 1(xi) *Derivative instruments and hedging activities* and Note 32 *Hedge accounting*.



**Note 33****Financial risk management continued****Note 33.3 Market risk continued****Foreign currency risk**

The Consolidated Entity is active in various currencies globally. To manage the capital ratio volatility arising from these activities, Macquarie converts a portion of capital into foreign currencies. This net investment in foreign operations results in a sensitivity to movements in the Australian dollar rate against various foreign currencies. Those with the most impact on the sensitivity analysis are United States dollar, Great British pound and Canadian dollar, as shown below for 31 March.

	2020		2019	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
<b>CONSOLIDATED</b>				
United States dollar	<b>+10</b>	<b>(342)</b>	+10	(261)
Great British pound	<b>+10</b>	<b>(53)</b>	+10	(48)
Canadian dollar	<b>+10</b>	<b>(15)</b>	+10	(14)
Total		<b>(410)</b>		(323)
United States dollar	<b>-10</b>	<b>418</b>	-10	319
Great British pound	<b>-10</b>	<b>65</b>	-10	59
Canadian dollar	<b>-10</b>	<b>18</b>	-10	16
Total		<b>501</b>		394

**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 2020 continued

## Note 34

### Measurement categories of financial instruments

The following table contains information relating to the measurement categories of financial instruments, including commodities, of the Consolidated Entity. The descriptions of measurement categories are included in Note 1(viii) *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 35 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE						FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT		
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m	Amortised cost \$m	Non-financial instruments \$m	Statements of financial position total \$m	Fair value \$m	Amortised cost \$m
<b>Assets</b>	<b>CONSOLIDATED 2020</b>								
Cash and bank balances	-	-	-	-	7,847	-	7,847	-	7,847
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup>	-	-	7,957	23,064	6,687	-	37,708	31,021	6,687
Trading assets <sup>(2)</sup>	16,251	-	-	-	-	-	16,251	16,251	-
Margin money and settlement assets	-	-	555	-	11,628	-	12,183	555	11,628
Derivative assets <sup>(3)</sup>	44,845	-	-	-	-	-	44,845	44,845	-
Financial investments									
Equity	-	-	154	-	-	-	154	154	-
Debt	-	-	112	7,218	-	-	7,330	7,330	-
Other assets <sup>(4)</sup>	-	947	308	-	1,381	631	3,267	1,255	1,381
Loan assets <sup>(5)</sup>	-	83	166	-	87,470	-	87,719	249	87,690
Due from other related body corporate entities <sup>(6)</sup>	804	-	-	-	4,346	128	5,278	804	4,346
Property, plant and equipment and right-of-use assets	-	-	-	-	-	2,598	2,598	-	-
Interest in associates and joint ventures									
Equity interests	-	-	-	-	-	250	250	-	-
Loans to associates and joint ventures	-	-	-	-	1	-	1	-	1
Intangible assets	-	-	-	-	-	185	185	-	-
Deferred tax assets	-	-	-	-	-	520	520	-	-
<b>Total assets</b>	<b>61,900</b>	<b>1,030</b>	<b>9,252</b>	<b>30,282</b>	<b>119,360</b>	<b>4,312</b>	<b>226,136</b>	<b>102,464</b>	<b>119,580</b>
<b>Liabilities</b>									
Cash collateral on securities lent and repurchase agreements	-	1,292	-	-	1,030	-	2,322	1,292	1,030
Trading liabilities	5,363	-	-	-	-	-	5,363	5,363	-
Margin money and settlement liabilities	-	-	-	-	19,052	-	19,052	-	19,052
Derivative liabilities <sup>(3)</sup>	37,823	-	-	-	-	-	37,823	37,823	-
Deposits	-	-	-	-	67,253	-	67,253	-	67,324
Other liabilities <sup>(7),(8)</sup>	-	622	-	-	692	1,632	2,946	622	649
Borrowings	-	-	-	-	3,047	-	3,047	-	3,065
Due to other related body corporate entities <sup>(9)</sup>	1,811	3,500	-	-	16,793	11	22,115	5,311	16,793
Debt issued <sup>(5)</sup>	-	2,810	-	-	44,112	-	46,922	2,810	43,592
Deferred tax liabilities	-	-	-	-	-	69	69	-	-
Loan capital <sup>(5)</sup>	-	-	-	-	4,997	-	4,997	-	4,730
<b>Total liabilities</b>	<b>44,997</b>	<b>8,224</b>	<b>-</b>	<b>-</b>	<b>156,976</b>	<b>1,712</b>	<b>211,909</b>	<b>53,221</b>	<b>156,235</b>

(1) During the year certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(2) Includes commodities carried at fair value which are held for trading purposes.

(3) Derivatives designated in effective hedges are included as HFT. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(4) Non-financial assets primarily represents prepayments and tax receivables.

(5) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(6) Due from other related body corporate entities includes derivatives and trading positions classified as HFT and all other intercompany receivables are carried at amortised cost.

(7) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.

(8) Fair value of other liabilities excludes the fair value of lease liabilities.

(9) Due to related body corporate entities include derivatives and trading positions classified as HFT and internal repurchase transactions classified as DFVTPL. All other intercompany payables are carried at amortised cost.

## Note 34

### Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT						FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT		
	FAIR VALUE						Statements of financial position total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>									
Cash and bank balances	–	–	–	–	6,550	–	6,550	–	6,550
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	19,155	–	10,516	–	29,671	19,155	10,516
Trading assets <sup>(1)</sup>	16,277	–	–	–	–	–	16,277	16,277	–
Margin money and settlement assets	–	–	558	–	8,533	–	9,091	558	8,533
Derivative assets <sup>(2)</sup>	14,022	–	–	–	–	–	14,022	14,022	–
Financial investments									
Equity	–	–	260	–	–	–	260	260	–
Debt	–	–	80	5,130	–	–	5,210	5,210	–
Other assets <sup>(3)</sup>	–	2,297	323	–	1,510	507	4,637	2,620	1,510
Loan assets <sup>(4)</sup>	–	146	187	–	72,825	–	73,158	333	72,870
Due from other related body corporate entities	–	–	–	–	1,548	–	1,548	–	1,548
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,738	2,738	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	209	209	–	–
Loans to associates and joint ventures	–	–	3	–	7	–	10	3	7
Intangible assets	–	–	–	–	–	177	177	–	–
Deferred tax assets	–	–	–	–	–	441	441	–	–
<b>Total assets</b>	<b>30,299</b>	<b>2,443</b>	<b>20,566</b>	<b>5,130</b>	<b>101,489</b>	<b>4,072</b>	<b>163,999</b>	<b>58,438</b>	<b>101,534</b>
<b>Liabilities</b>									
Cash collateral on securities lent and repurchase agreements	–	1,740	–	–	2,476	–	4,216	1,740	2,476
Trading liabilities	6,557	–	–	–	–	–	6,557	6,557	–
Margin money and settlement liabilities	–	–	–	–	12,222	–	12,222	–	12,222
Derivative liabilities <sup>(2)</sup>	12,523	–	–	–	–	–	12,523	12,523	–
Deposits	–	–	–	–	56,120	–	56,120	–	56,177
Other liabilities <sup>(5)</sup>	–	780	–	–	963	1,553	3,296	780	963
Borrowings	–	–	–	–	1,560	–	1,560	–	1,572
Due to other related body corporate entities	–	–	–	–	16,794	–	16,794	–	16,794
Debt issued <sup>(4)</sup>	–	3,287	–	–	31,500	–	34,787	3,287	31,617
Deferred tax liabilities	–	–	–	–	–	134	134	–	–
Loan capital <sup>(4)</sup>	–	–	–	–	4,550	–	4,550	–	4,591
<b>Total liabilities</b>	<b>19,080</b>	<b>5,807</b>	<b>–</b>	<b>–</b>	<b>126,185</b>	<b>1,687</b>	<b>152,759</b>	<b>24,887</b>	<b>126,412</b>

(1) Includes commodities carried at fair value which are held for trading purposes.

(2) Derivatives designated in effective hedges are included as HFT. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(3) Non-financial assets primarily represents prepayments and tax receivables.

(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(5) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 34

### Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories of financial instruments, including commodities, of the Company. The descriptions of measurement categories are included in Note 1(viii) *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 35 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE					Non-financial instruments \$m	Statements of financial position total \$m	FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m	Amortised cost \$m			Fair value \$m	Amortised cost \$m
<b>Assets</b>									<b>COMPANY 2020</b>
Cash and bank balances	–	–	–	–	6,037	–	6,037	–	6,037
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup>	–	–	7,957	22,543	5,534	–	36,034	30,500	5,534
Trading assets <sup>(2)</sup>	14,499	–	–	–	–	–	14,499	14,499	–
Margin money and settlement assets	–	–	334	–	9,681	–	10,015	334	9,681
Derivative assets <sup>(3)</sup>	41,604	–	–	–	–	–	41,604	41,604	–
Financial investments									
Equity	–	–	109	–	–	–	109	109	–
Debt	–	–	55	7,202	–	–	7,257	7,257	–
Other assets <sup>(4)</sup>	–	781	–	–	1,232	253	2,266	781	1,232
Loan assets <sup>(5),(6)</sup>	–	83	120	49,206	15,566	–	64,975	49,410	15,692
Due from other related body corporate entities <sup>(7)</sup>	777	–	–	–	4,254	74	5,105	777	4,254
Due from subsidiaries <sup>(8)</sup>	5,179	–	790	–	21,071	–	27,040	5,969	21,071
Property, plant and equipment and right-of-use assets	–	–	–	–	–	819	819	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	41	41	–	–
Loans to associates and joint ventures	–	–	–	–	1	–	1	–	1
Intangible assets	–	–	–	–	–	78	78	–	–
Investment in subsidiaries	–	–	–	–	–	5,592	5,592	–	–
Deferred tax assets	–	–	–	–	–	470	470	–	–
<b>Total assets</b>	<b>62,059</b>	<b>864</b>	<b>9,365</b>	<b>78,951</b>	<b>63,376</b>	<b>7,327</b>	<b>221,942</b>	<b>151,240</b>	<b>63,502</b>
<b>Liabilities</b>									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,030	–	2,322	1,292	1,030
Trading liabilities	5,395	–	–	–	–	–	5,395	5,395	–
Margin money and settlement liabilities	–	–	–	–	16,662	–	16,662	–	16,662
Derivative liabilities <sup>(3)</sup>	35,973	–	–	–	–	–	35,973	35,973	–
Deposits	–	–	–	–	67,186	–	67,186	–	67,257
Other liabilities <sup>(9)</sup>	–	260	–	–	425	1,089	1,774	260	425
Borrowings	–	–	–	–	2,304	–	2,304	–	2,321
Due to other related body corporate entities <sup>(10)</sup>	1,811	3,500	–	–	16,702	–	22,013	5,311	16,702
Due to subsidiaries <sup>(10)</sup>	3,503	603	–	–	14,143	–	18,249	4,106	14,143
Debt issued <sup>(5)</sup>	–	2,892	–	–	31,343	–	34,235	2,892	30,958
Deferred tax liabilities	–	–	–	–	–	21	21	–	–
Loan capital <sup>(5)</sup>	–	–	–	–	4,997	–	4,997	–	4,730
<b>Total liabilities</b>	<b>46,682</b>	<b>8,547</b>	<b>–</b>	<b>–</b>	<b>154,792</b>	<b>1,110</b>	<b>211,131</b>	<b>55,229</b>	<b>154,228</b>

(1) During the year certain reverse repurchase agreements held within the Consolidated Entity's liquid assets portfolio were assessed to be managed in a hold to collect and sell business model and have been prospectively measured at FVOCI. The business model during the year ended 31 March 2019 resulted in FVTPL measurement.

(2) Includes commodities carried at fair value which are held for trading purposes.

(3) Derivatives designated in effective hedges are included as HFT. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(4) Non-financial assets primarily represents prepayments and tax receivables.

(5) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(6) Loan assets measured at FVOCI represents home 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.

(7) Due from other related body corporate entities includes derivatives and trading positions classified as held for trading and all other intercompany receivables are carried at amortised cost.

(8) Due from subsidiaries includes derivatives and trading positions classified as HFT and investment in loans to SEs classified as FVTPL. All other intercompany receivables are carried at amortised cost.

(9) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.

(10) Due to related body corporate entities and subsidiaries includes derivatives and trading positions classified as HFT and internal repurchase transactions classified as DFVTPL. All other intercompany payables are carried at amortised cost.

## Note 34

### Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT						FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT		
	FAIR VALUE						Statements of financial position total \$m	Fair value \$m	Amortised cost \$m
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m	Amortised cost \$m	Non-financial instruments \$m			
<b>Assets</b>									COMPANY 2019
Cash and bank balances	–	–	–	–	5,233	–	5,233	–	5,233
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	18,774	–	9,983	–	28,757	18,774	9,983
Trading assets <sup>(1)</sup>	13,960	–	–	–	–	–	13,960	13,960	–
Margin money and settlement assets	–	–	–	–	6,496	–	6,496	–	6,496
Derivative assets <sup>(2)</sup>	12,181	–	–	–	–	–	12,181	12,181	–
Financial investments									
Equity	–	–	191	–	–	–	191	191	–
Debt	–	–	80	5,044	–	–	5,124	5,124	–
Other assets <sup>(3)</sup>	–	2,217	46	–	1,291	203	3,757	2,263	1,242
Loan assets <sup>(4),(5)</sup>	–	146	289	37,698	15,188	–	53,321	38,133	15,283
Due from other related body corporate entities	–	–	–	–	1,022	–	1,022	–	1,022
Due from subsidiaries <sup>(6)</sup>	–	–	736	–	21,343	–	22,079	736	21,343
Property, plant and equipment and right-of-use assets	–	–	–	–	–	1,317	1,317	–	–
Interest in associates and joint ventures									
Equity interests	–	–	–	–	–	40	40	–	–
Loans to associates and joint ventures	–	–	3	–	5	–	8	3	5
Intangible assets	–	–	–	–	–	81	81	–	–
Investment in subsidiaries	–	–	–	–	–	5,166	5,166	–	–
Deferred tax assets	–	–	–	–	–	418	418	–	–
<b>Total assets</b>	26,141	2,363	20,119	42,742	60,561	7,225	159,151	91,365	60,607
<b>Liabilities</b>									
Cash collateral on securities lent and repurchase agreements	–	1,740	–	–	2,476	–	4,216	1,740	2,477
Trading liabilities	7,175	–	–	–	–	–	7,175	7,175	–
Margin money and settlement liabilities	–	–	–	–	10,710	–	10,710	–	10,710
Derivative liabilities <sup>(2)</sup>	11,330	–	–	–	–	–	11,330	11,330	–
Deposits	–	–	–	–	56,033	–	56,033	–	56,090
Other liabilities <sup>(7)</sup>	–	253	–	–	665	1,158	2,076	253	682
Borrowings	–	–	–	–	1,166	–	1,166	–	1,179
Due to other related body corporate entities	–	–	–	–	15,106	–	15,106	–	15,106
Due to subsidiaries	–	–	–	–	9,894	–	9,894	–	9,894
Debt issued <sup>(4)</sup>	–	3,287	–	–	24,427	–	27,714	3,287	24,586
Deferred tax liabilities	–	–	–	–	–	46	46	–	–
Loan capital <sup>(4)</sup>	–	–	–	–	4,550	–	4,550	–	4,591
<b>Total liabilities</b>	18,505	5,280	–	–	125,027	1,204	150,016	23,785	125,315

(1) Includes commodities carried at fair value which are held for trading purposes.

(2) Derivatives designated in effective hedges are included as HFT. Further detail regarding the carrying amount of hedging instruments is included in Note 32 *Hedge accounting*.

(3) Non-financial assets primarily represents prepayments and tax receivables.

(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.

(5) Loan assets measured at FVOCI represents home 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.

(6) Due from subsidiaries includes investment in loans to SEs classified as FVTPL. All other intercompany receivables are carried at amortised cost.

(7) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 35

### Fair value of financial assets and financial liabilities

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

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

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

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

<b>Level 1:</b>	unadjusted quoted prices in active markets for identical assets or liabilities
<b>Level 2:</b>	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)
<b>Level 3:</b>	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair Value Measurement* requires the use of the price within the bid-offer spread that is most representative of fair value.

Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all of the residual net exposure to market risks were closed, on 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 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 are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates 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, is determined with reference to changes in credit spreads as well as interest rates
- 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 debt issued 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 is approximated by their carrying amount as the balances are generally at variable rates.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments including balances with subsidiaries and other related body corporate entities measured at fair value:

- trading assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified at FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of market price and observable market inputs. Unrealised gains and losses on FVOCI assets, excluding impairment write-downs on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of variable rate loans classified at FVOCI in the Company approximates its amortised cost carrying value on the basis that the interest rates are reflective of market rates offered on similar loans
- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt

## Note 35

### Fair value of financial assets and financial liabilities continued

- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuation
- the Consolidated Entity has incorporated 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 MBL's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

To the extent possible, models use only observable market data (for example OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument such as volatility and correlation.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 35

### Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities measured at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>CONSOLIDATED 2020</b>				
<b>Assets</b>				
Cash and bank balances	7,847	–	–	7,847
Cash collateral on securities borrowed and reverse repurchase agreements	–	6,687	–	6,687
Margin money and settlement assets	6,912	4,701	15	11,628
Other assets	–	1,349	32	1,381
Loan assets	–	6,054	81,636	87,690
Due from other related body corporate entities <sup>(1)</sup>	–	–	4,346	4,346
Loans to associates and joint ventures	–	–	1	1
<b>Total assets</b>	<b>14,759</b>	<b>18,791</b>	<b>86,030</b>	<b>119,580</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	1,030	–	1,030
Margin money and settlement liabilities	14,072	4,980	–	19,052
Deposits	51,498	15,826	–	67,324
Other liabilities	–	649	–	649
Borrowings	119	2,847	99	3,065
Due to other related body corporate entities <sup>(1)</sup>	–	–	16,793	16,793
Debt issued	–	31,464	12,128	43,592
Loan capital	5	4,725	–	4,730
<b>Total liabilities</b>	<b>65,694</b>	<b>61,521</b>	<b>29,020</b>	<b>156,235</b>
<b>CONSOLIDATED 2019</b>				
<b>Assets</b>				
Cash and bank balances	6,550	–	–	6,550
Cash collateral on securities lent and reverse repurchase agreements	–	10,516	–	10,516
Margin money and settlement assets	3,182	5,351	–	8,533
Other assets	–	1,510	–	1,510
Loan assets	–	5,548	67,322	72,870
Due from other related body corporate entities <sup>(1)</sup>	–	1,548	–	1,548
Loans to associates and joint ventures	–	–	7	7
<b>Total assets</b>	<b>9,732</b>	<b>24,473</b>	<b>67,329</b>	<b>101,534</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	2,476	–	2,476
Margin money and settlement liabilities	7,543	4,679	–	12,222
Deposits	42,889	13,288	–	56,177
Other liabilities	–	963	–	963
Borrowings	532	831	209	1,572
Due to other related body corporate entities <sup>(1)</sup>	–	16,794	–	16,794
Debt issued	–	26,655	4,962	31,617
Loan capital	431	4,160	–	4,591
<b>Total liabilities</b>	<b>51,395</b>	<b>69,846</b>	<b>5,171</b>	<b>126,412</b>

(1) Balances with other related body corporate entities which are measured at amortised cost are repriced for changes in market interest rates or credit quality of the borrower. Accordingly, the fair value approximates the amortised cost. These are classified in the Level 3 of the fair value hierarchy by the Consolidated Entity and the Company since it uses valuation techniques for which significant inputs are based on unobservable market data.



## Note 35

### Fair value of financial assets and financial liabilities continued

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>COMPANY 2020</b>				
<b>Assets</b>				
Cash and bank balances	6,037	–	–	6,037
Cash collateral on securities borrowed and reverse repurchase agreements	–	5,534	–	5,534
Margin money and settlement assets	5,959	3,707	15	9,681
Other assets	–	1,218	14	1,232
Loan assets	–	3,516	12,176	15,692
Due from subsidiaries <sup>(1)</sup>	–	–	21,071	21,071
Due from other related body corporate entities <sup>(1)</sup>	–	–	4,254	4,254
Loans to associates and joint ventures	–	–	1	1
<b>Total assets</b>	<b>11,996</b>	<b>13,975</b>	<b>37,531</b>	<b>63,502</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	1,030	–	1,030
Margin money and settlement liabilities	12,396	4,266	–	16,662
Deposits	51,453	15,804	–	67,257
Other liabilities	–	425	–	425
Borrowings	119	2,196	6	2,321
Due to subsidiaries <sup>(1)</sup>	–	–	14,143	14,143
Due to other related body corporate entities <sup>(1)</sup>	–	–	16,702	16,702
Debt issued	–	30,958	–	30,958
Loan capital	5	4,725	–	4,730
<b>Total liabilities</b>	<b>63,973</b>	<b>59,404</b>	<b>30,851</b>	<b>154,228</b>
<b>COMPANY 2019</b>				
<b>Assets</b>				
Cash and bank balances	5,233	–	–	5,233
Cash collateral on securities borrowed and reverse repurchase agreements	–	9,983	–	9,983
Margin money and settlement assets	2,417	4,079	–	6,496
Other assets	–	1,242	–	1,242
Loan assets	–	3,123	12,160	15,283
Due from subsidiaries <sup>(1)</sup>	–	21,343	–	21,343
Due from other related body corporate entities <sup>(1)</sup>	–	1,022	–	1,022
Loans to associates and joint ventures	–	–	5	5
<b>Total assets</b>	<b>7,650</b>	<b>40,792</b>	<b>12,165</b>	<b>60,607</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	2,477	–	2,477
Margin money and settlement liabilities	6,935	3,775	–	10,710
Deposits	42,808	13,282	–	56,090
Other liabilities	–	682	–	682
Borrowings	532	647	–	1,179
Due to subsidiaries <sup>(1)</sup>	–	9,894	–	9,894
Due to other related body corporate entities <sup>(1)</sup>	–	15,106	–	15,106
Debt issued	–	24,586	–	24,586
Loan capital	431	4,160	–	4,591
<b>Total liabilities</b>	<b>50,706</b>	<b>74,609</b>	<b>–</b>	<b>125,315</b>

(1) Balances with subsidiaries and other related body corporate entities which are measured at amortised cost are repriced for changes in market interest rates or credit quality of the borrower. Accordingly, the fair value approximates the amortised cost. These are classified in the Level 3 of the fair value hierarchy by the Consolidated Entity and the Company since it uses valuation techniques for which significant inputs are based on unobservable market data.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 35

### Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments, including commodities, measured at fair value<sup>(1)</sup>:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>CONSOLIDATED 2020</b>				
<b>Assets</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	31,021	–	31,021
Trading assets <sup>(2)</sup>	10,334	5,607	310	16,251
Margin money and settlement assets	–	555	–	555
Derivative assets	958	43,066	821	44,845
Financial investments	493	6,464	527	7,484
Other assets	5	1,250	–	1,255
Loan assets	–	185	64	249
Due from other related body corporate entities <sup>(3)</sup>	–	804	–	804
<b>Total assets</b>	<b>11,790</b>	<b>88,952</b>	<b>1,722</b>	<b>102,464</b>
<b>Liabilities</b>				
Cash collateral on securities lent and reverse repurchase agreements	–	1,292	–	1,292
Trading liabilities	4,988	375	–	5,363
Derivative liabilities	1,040	36,420	363	37,823
Other liabilities	3	619	–	622
Due to other related body corporate entities <sup>(3)</sup>	–	5,311	–	5,311
Debt issued	–	2,810	–	2,810
<b>Total liabilities</b>	<b>6,031</b>	<b>46,827</b>	<b>363</b>	<b>53,221</b>
<b>CONSOLIDATED 2019</b>				
<b>Assets</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	19,155	–	19,155
Trading assets	11,659	4,446	172	16,277
Margin money and settlement assets	159	399	–	558
Derivative assets	240	13,236	546	14,022
Financial investments	281	4,613	576	5,470
Other assets	9	2,611	–	2,620
Loan assets	–	283	50	333
Loans to associates and joint ventures	–	–	3	3
<b>Total assets</b>	<b>12,348</b>	<b>44,743</b>	<b>1,347</b>	<b>58,438</b>
<b>Liabilities</b>				
Cash collateral on securities lent and reverse repurchase agreements	–	1,740	–	1,740
Trading liabilities	6,440	117	–	6,557
Derivative liabilities	320	11,885	318	12,523
Other liabilities	3	778	–	781
Debt issued	–	3,287	–	3,287
<b>Total liabilities</b>	<b>6,763</b>	<b>17,807</b>	<b>318</b>	<b>24,888</b>

(1) The fair value of non-financial assets and liabilities, where applicable is disclosed under the respective notes.

(2) Includes commodities measured at fair value which are held for trading purposes.

(3) Includes balances with related body corporates, for details refer to Note 34 *Measurement categories of financial instruments*.

## Note 35

### Fair value of financial assets and financial liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>COMPANY 2020</b>				
<b>Assets</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	30,500	–	30,500
Trading assets <sup>(1)</sup>	10,618	3,648	233	14,499
Margin money and settlement assets	–	334	–	334
Derivative assets	946	40,219	439	41,604
Financial investments	491	6,394	481	7,366
Other assets	–	781	–	781
Loan assets	–	150	49,260	49,410
Due from other related body corporate entities <sup>(2)</sup>	–	777	–	777
Due from subsidiaries <sup>(2)</sup>	–	5,041	928	5,969
<b>Total assets</b>	<b>12,055</b>	<b>87,844</b>	<b>51,341</b>	<b>151,240</b>
<b>Liabilities</b>				
Cash collateral on securities lent and reverse repurchase agreements	–	1,292	–	1,292
Trading liabilities	4,923	472	–	5,395
Derivative liabilities	990	34,748	235	35,973
Other liabilities	–	260	–	260
Due to other related body corporate entities <sup>(2)</sup>	–	5,311	–	5,311
Due to subsidiaries <sup>(2)</sup>	–	3,583	523	4,106
Debt issued	–	2,892	–	2,892
<b>Total liabilities</b>	<b>5,913</b>	<b>48,558</b>	<b>758</b>	<b>55,229</b>
<b>COMPANY 2019</b>				
<b>Assets</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	18,774	–	18,774
Trading assets	11,346	2,485	129	13,960
Derivative assets	234	11,615	332	12,181
Financial investments	279	4,514	522	5,315
Other assets	–	2,263	–	2,263
Loan assets	–	389	37,744	38,133
Due from subsidiaries	–	–	736	736
Loans to associates and joint ventures	–	–	3	3
<b>Total assets</b>	<b>11,859</b>	<b>40,040</b>	<b>39,466</b>	<b>91,365</b>
<b>Liabilities</b>				
Cash collateral on securities lent and reverse repurchase agreements	–	1,740	–	1,740
Trading liabilities	7,043	132	–	7,175
Derivative liabilities	192	10,977	161	11,330
Other liabilities	–	253	–	253
Debt issued	–	3,287	–	3,287
<b>Total liabilities</b>	<b>7,235</b>	<b>16,389</b>	<b>161</b>	<b>23,785</b>

Fair value of non-financial asset and liabilities, where applicable, is disclosed under respective notes in the financial statements.

During the current year, the Consolidated Entity and the Company reclassified \$2,601 million (31 March 2019: \$3,029 million) representing certain bonds and bank bills (financial investments) from Level 1 to Level 2 following a reassessment of valuation inputs. Comparative information has been updated to conform to the current year presentation.

(1) Includes commodities measured at fair value which are held for trading purposes.

(2) Includes balances with related body corporates and subsidiaries, for details refer to Note 34 *Measurement categories of financial instruments*.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 35

### Fair value of financial assets and financial liabilities continued

#### Reconciliation of balances in Level 3 of the fair value hierarchy

The following table summarises the movements in Level 3 of the fair value hierarchy for the financial instruments measured at fair value.

	Trading assets \$m	Financial investments \$m	Other assets \$m	Loan assets \$m	Loans to associates and joint ventures \$m	Other liabilities \$m	Debt issued \$m	Derivative financial instruments (net replacement value <sup>(1)</sup> ) \$m	Total \$m
CONSOLIDATED 2019									
Balance as at 1 Apr 18	170	139	2	72	3	(1)	(6)	270	649
Purchases, originations, issuances and other additions	40	402	–	6	–	–	–	26	474
Sales, settlements and repayments	(38)	(39)	(2)	(28)	–	1	6	(48)	(148)
Transfers into Level 3	8	60	–	–	–	–	–	12	80
Transfers out of Level 3	–	–	–	–	–	–	–	(13)	(13)
Fair value movements recognised in the income statement <sup>(2)</sup>	(8)	17	–	–	–	–	–	(45)	(36)
Fair value movements recognised in OCI <sup>(2)</sup>	–	(3)	–	–	–	–	–	–	(3)
<b>Balance as at 31 Mar 19</b>	<b>172</b>	<b>576</b>	<b>–</b>	<b>50</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>228</b>	<b>1,029</b>
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(2)</sup>	6	(3)	–	–	–	–	–	(45)	(42)
CONSOLIDATED 2020									
Balance as at 1 Apr 19	172	576	–	50	3	–	–	228	1,029
Purchases, originations, issuances and other additions	117	177	3	5	–	–	–	219	521
Sales, settlements and repayments	(18)	(198)	–	–	(3)	–	–	(110)	(329)
Transfers into Level 3 <sup>(3)</sup>	44	36	–	–	–	–	–	14	94
Transfer out of Level 3 <sup>(3)</sup>	(16)	(58)	(3)	–	–	–	–	(2)	(79)
Fair value movements recognised in the income statement <sup>(2)</sup>	11	2	–	9	–	–	–	109	131
Fair value movements recognised in OCI <sup>(2)</sup>	–	(8)	–	–	–	–	–	–	(8)
<b>Balance as at 31 Mar 20</b>	<b>310</b>	<b>527</b>	<b>–</b>	<b>64</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>458</b>	<b>1,359</b>
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(2)</sup>	11	(1)	–	9	–	–	–	109	128

(1) The derivative financial instruments in the table above are presented on a net basis. On a gross basis derivative assets are \$821 million (2019: \$546 million) and derivative liabilities are \$363 million (2019: \$318 million).

(2) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are categorised as Levels 1 or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 or 2.

(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.

**Note 35****Fair value of financial assets and financial 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 <sup>(1)</sup> \$m	Loans to associates and joint ventures \$m	Debt issued \$m	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
COMPANY 2019								
Balance as at 1 Apr 18	130	102	31,642	865	3	(6)	147	32,883
Purchases, originations, issuances and other additions	40	370	11,271	74	–	–	57	11,812
Sales, settlements and repayments	(38)	(32)	(5,147)	(200)	–	6	(29)	(5,440)
Transfers into Level 3 <sup>(3)</sup>	9	67	–	–	–	–	(4)	72
Transfers out of Level 3 <sup>(3)</sup>	–	–	–	–	–	–	17	17
Fair value movements recognised in the income statement <sup>(4)</sup>	(12)	18	(22)	(3)	–	–	(17)	(36)
Fair value movements recognised in OCI <sup>(4)</sup>	–	(3)	–	–	–	–	–	(3)
<b>Balance as at 31 Mar 19</b>	<b>129</b>	<b>522</b>	<b>37,744</b>	<b>736</b>	<b>3</b>	<b>–</b>	<b>171</b>	<b>39,305</b>
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(4)</sup>	(7)	(3)	(22)	(3)	–	–	(17)	(52)
COMPANY 2020								
Balance as at 1 Apr 19	129	522	37,744	736	3	–	171	39,305
Purchases, originations, issuances and other additions	102	169	21,670	145	–	–	129	22,215
Sales, settlements and repayments	(18)	(185)	(10,227)	(470)	(3)	–	(93)	(10,996)
Transfers into Level 3 <sup>(3)</sup>	38	36	–	–	–	–	8	82
Transfer out of Level 3 <sup>(3)</sup>	(14)	(58)	–	–	–	–	1	(71)
Fair value movements recognised in OCI <sup>(4)</sup>	(4)	5	10	(6)	–	–	(12)	(7)
Fair value movements recognised in OCI <sup>(4)</sup>	–	(8)	63	–	–	–	–	55
<b>Balance as at 31 Mar 20</b>	<b>233</b>	<b>481</b>	<b>49,260</b>	<b>405</b>	<b>–</b>	<b>–</b>	<b>204</b>	<b>50,583</b>
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(4)</sup>	(4)	5	72	(6)	–	–	(12)	55

(1) The the balance due from/to subsidiaries in the table above is presented on a net basis. On a gross basis, due from subsidiaries are \$928 million (2019: \$736 million) and due to subsidiaries are \$523 million (2019: \$Nil).

(2) The derivative financial instruments in the table above are presented on a net basis. On a gross basis, derivative assets are \$439 million (2019: \$332 million) and derivative liabilities are \$235 million (2019: \$161 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) The Company employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 or 2. The realised and unrealised gains and losses of assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 or 2.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 35

### Fair value of financial assets and financial liabilities continued

#### Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Company did not have significant transfers between Level 1 and Level 2. Certain comparatives have been updated to conform to current period presentation.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year.

#### Unrecognised gains

For financial instruments measured at FVTPL, 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 observable markets data. Where such alternative evidence exists, the Consolidated Entity recognises profit or loss immediately when the financial instrument is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in the income statement over the life of the transaction or when the inputs become observable.

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

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Balance at the beginning of the financial year	183	178	152	144
Deferral on new transactions	95	69	93	54
Amounts recognised in the income statement during the financial year	(110)	(64)	(91)	(46)
<b>Balance at the end of the financial year</b>	<b>168</b>	<b>183</b>	<b>154</b>	<b>152</b>

#### Sensitivity analysis of valuations using unobservable inputs

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

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	OCI \$m	Profit or loss \$m	OCI \$m
<b>CONSOLIDATED 2020</b>				
<b>Product type</b>				
Equity and equity-linked products	7	–	(20)	–
Commodities	162	–	(129)	–
Interest rate and other products	16	–	(19)	–
<b>Total</b>	<b>185</b>	<b>–</b>	<b>(168)</b>	<b>–</b>
<b>CONSOLIDATED 2019</b>				
<b>Product type</b>				
Equity and equity-linked products	7	–	(11)	–
Commodities	99	–	(106)	–
Interest rate and other products	12	–	(11)	–
<b>Total</b>	<b>118</b>	<b>–</b>	<b>(128)</b>	<b>–</b>

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

**Note 35****Fair value of financial assets and financial liabilities continued**

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	OCI <sup>(1)</sup> \$m	Profit or loss \$m	OCI \$m
<b>COMPANY 2020</b>				
<b>Product type</b>				
Equity and equity-linked products	5	–	(18)	–
Commodities	101	–	(93)	–
Interest rate and other products	17	3	(19)	(3)
<b>Total</b>	<b>123</b>	<b>3</b>	<b>(130)</b>	<b>(3)</b>
<b>COMPANY 2019</b>				
<b>Product type</b>				
Equity and equity-linked products	4	–	(8)	–
Commodities	47	–	(58)	–
Interest rate and other products	3	–	(3)	–
<b>Total</b>	<b>54</b>	<b>–</b>	<b>(69)</b>	<b>–</b>

(1) Excludes Level 3 intercompany balances presented as due to/due from subsidiaries as fair value changes to alternate assumptions are not significant.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 35

### Fair value of financial assets and financial liabilities continued

#### Significant unobservable inputs

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

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS	
					Minimum value	Maximum value
CONSOLIDATED 2020						
Equity and equity-linked products	281	–	Market comparability	Price in %	5.0%	11.0%
Commodities	955	363	Pricing model	Commodity margin curves	(130.0)	325.0
			Pricing model	Correlation	(55%)	100.0%
			Pricing model	Volatility and related variables	0%	293.4%
Interest rate and other products	486	–	Pricing model	Correlation	(36%)	100.0%
			Pricing Model	Model parameter	0.0%	52.3%
Total	1,722	363				
CONSOLIDATED 2019						
Equity and equity-linked products	82	–	Market comparability	Price in %	5.0%	11.0%
Commodities	546	318	Pricing model	Volatility	0.0%	133.0%
			Pricing model	Margin curve	(75)	300.0
			Pricing model	Correlation	(45%)	300%
Interest rate and other products	719		Discounted cash flows	Discount rate	7.0%	10.0%
			Pricing model	Correlation	0.0%	100.0%
Total	1,347	318				

#### Correlation

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

#### Volatility

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

Correlations and volatilities are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, and data from consensus pricing.

#### Inputs for unlisted equity securities

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

#### Inputs for interest rate products

Loans are generally valued using discount rates. Significant unobservable inputs may include interest rates and credit spreads of counterparties, and original issue discounts on primary debt issuances.



## Note 36

### Offsetting of financial assets and financial liabilities

The Consolidated Entity and the Company presented financial assets and financial liabilities on a net basis in the statements of financial position when they meet the criteria described in Note 1(viii) *Financial instruments: Offsetting of financial instruments*. The following tables provide information on the impact of offsetting that has occurred 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 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.

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENTS OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statements of financial position total \$m
CONSOLIDATED 2020								
Cash collateral on securities borrowed and reverse repurchase agreements	37,309	(944)	36,365	(351)	(35,269)	745	1,343	37,708
Margin money and settlement assets	5,434	(4,282)	1,152	–	–	1,152	11,031	12,183
Derivative assets	59,263	(16,901)	42,362	(24,154)	(10,512)	7,696	2,483	44,845
Due from other related body corporate entities	780	(553)	227	(81)	–	146	5,051	5,278
<b>Total assets</b>	<b>102,786</b>	<b>(22,680)</b>	<b>80,106</b>	<b>(24,586)</b>	<b>(45,781)</b>	<b>9,739</b>	<b>19,908</b>	<b>100,014</b>
Cash collateral on securities lent and repurchase agreements	(2,851)	944	(1,907)	351	1,433	(123)	(415)	(2,322)
Margin money and settlement liabilities	(5,431)	4,282	(1,149)	–	–	(1,149)	(17,903)	(19,052)
Derivative liabilities	(53,274)	16,901	(36,373)	24,154	7,930	(4,289)	(1,450)	(37,823)
Due to other related body corporate entities	(10,736)	553	(10,183)	81	–	(10,102)	(11,932)	(22,115)
<b>Total liabilities</b>	<b>(72,292)</b>	<b>22,680</b>	<b>(49,612)</b>	<b>24,586</b>	<b>9,363</b>	<b>(15,663)</b>	<b>(31,700)</b>	<b>(81,312)</b>

In the Consolidated Entity's statements of financial position netting of due from/to other related body corporate entities is governed by the MLA which establishes the standard terms and incorporates rights of set-off. Refer to Note 27 *Related party information* for further details.

(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) Financial Instruments recognised in the statements of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 36

### Offsetting financial assets and financial liabilities *continued*

#### AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS

	SUBJECT TO OFFSETTING IN THE STATEMENTS OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>		Net amount	Amounts not subject to enforceable netting arrangements	Statements of financial position total
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m			
CONSOLIDATED 2019								
Cash collateral on securities borrowed and reverse repurchase agreements	29,831	(682)	29,149	(576)	(28,376)	197	522	29,671
Margin money and settlement assets	4,063	(3,130)	933	(14)	–	919	8,158	9,091
Derivative assets	20,512	(7,183)	13,329	(7,311)	(2,870)	3,148	693	14,022
Due from other related body corporate entities	10,182	(8,898)	1,284	–	–	1,284	264	1,548
<b>Total assets</b>	<b>64,588</b>	<b>(19,893)</b>	<b>44,695</b>	<b>(7,901)</b>	<b>(31,246)</b>	<b>5,548</b>	<b>9,637</b>	<b>54,332</b>
Cash collateral on securities lent and repurchase agreements	(4,458)	682	(3,776)	576	3,173	(27)	(440)	(4,216)
Margin money and settlement liabilities	(4,042)	3,130	(912)	14	–	(898)	(11,310)	(12,222)
Derivative liabilities	(19,514)	7,183	(12,331)	7,311	1,596	(3,424)	(192)	(12,523)
Due to other related body corporate entities	(25,476)	8,898	(16,578)	–	–	(16,578)	(216)	(16,794)
<b>Total liabilities</b>	<b>(53,490)</b>	<b>19,893</b>	<b>(33,597)</b>	<b>7,901</b>	<b>4,769</b>	<b>(20,927)</b>	<b>(12,158)</b>	<b>(45,755)</b>

(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) Financial Instruments recognised in the statements of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

## Note 36

### Offsetting financial assets and financial liabilities continued

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENTS OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statements of financial position total \$m
COMPANY 2020								
Cash collateral on securities borrowed and reverse repurchase agreements	36,788	(944)	35,844	(351)	(34,748)	745	190	36,034
Margin money and settlement assets	4,334	–	4,334	–	–	4,334	5,681	10,015
Derivative assets	55,888	(15,919)	39,969	(23,464)	(9,994)	6,511	1,635	41,604
Due from subsidiaries	26,052	(8,073)	17,979	(994)	–	16,985	9,061	27,040
Due from other related body corporate entities	716	(553)	163	(81)	–	82	4,942	5,105
<b>Total assets</b>	<b>123,778</b>	<b>(25,489)</b>	<b>98,289</b>	<b>(24,890)</b>	<b>(44,742)</b>	<b>28,657</b>	<b>21,509</b>	<b>119,798</b>
Cash collateral on securities lent and repurchase agreements	(2,851)	944	(1,907)	351	1,433	(123)	(415)	(2,322)
Margin money and settlement liabilities	(4,414)	3,751	(663)	–	–	(663)	(15,999)	(16,662)
Derivative liabilities	(50,551)	15,919	(34,632)	23,464	7,541	(3,627)	(1,341)	(35,973)
Due to subsidiaries	(11,753)	8,073	(3,680)	994	–	(2,686)	(14,569)	(18,249)
Due to other related body corporate entities	(10,680)	553	(10,127)	81	–	(10,046)	(11,886)	(22,013)
<b>Total liabilities</b>	<b>(80,249)</b>	<b>29,240</b>	<b>(51,009)</b>	<b>24,890</b>	<b>8,974</b>	<b>(17,145)</b>	<b>(44,210)</b>	<b>(95,219)</b>

In the Consolidated Entity's statements of financial position netting of due from/to other related body corporate entities is governed by the MLA which establishes the standard terms and incorporates rights of set-off. Refer to Note 27 *Related party information* for further details.

(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) Financial Instruments recognised in the statements of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

## Note 36

### Offsetting financial assets and financial liabilities *continued*

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS						Amounts not subject to enforceable netting arrangements \$m	Statements of financial position total \$m
	SUBJECT TO OFFSETTING IN THE STATEMENTS OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m	Net amount \$m		
COMPANY 2019								
Cash collateral on securities borrowed and reverse repurchase agreements	29,439	(682)	28,757	(576)	(27,987)	194	–	28,757
Margin money and settlement assets	2,692	(1,945)	747	–	–	747	5,749	6,496
Derivative assets	17,868	(6,257)	11,611	(6,369)	(2,500)	2,742	570	12,181
Due from subsidiaries	46,564	(24,873)	21,691	–	–	21,691	388	22,079
Due from other related body corporate entities	8,827	(8,014)	813	–	–	813	209	1,022
<b>Total assets</b>	105,390	(41,771)	63,619	(6,945)	(30,487)	26,187	6,916	70,535
Cash collateral on securities lent and repurchase agreements	(4,458)	682	(3,776)	576	3,173	(27)	(440)	(4,216)
Margin money and settlement liabilities	(2,622)	1,945	(677)	–	–	(677)	(10,033)	(10,710)
Derivative liabilities	(16,998)	6,257	(10,741)	6,369	1,390	(2,982)	(589)	(11,330)
Due to subsidiaries	(31,430)	24,873	(6,557)	–	–	(6,557)	(3,337)	(9,894)
Due to other related body corporate entities	(22,922)	8,014	(14,908)	–	–	(14,908)	(198)	(15,106)
<b>Total liabilities</b>	(78,430)	41,771	(36,659)	6,945	4,563	(25,151)	(14,597)	(51,256)

(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) Financial Instruments recognised in the statements of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

**Note 37****Pledged assets and transfers of financial assets****Pledged assets**

Assets pledged as security for liabilities include the following:

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

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

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>On balance sheet balances:</b>				
Cash and bank balances	139	22	124	–
Trading assets <sup>(1)</sup>	1,197	1,421	1,197	1,421
Financial investments	267	188	267	188
Other assets	27	17	–	–
Loan assets	16,669	11,039	16,402	10,753
Due from subsidiaries <sup>(2)</sup>	–	–	531	531
Property, plant and equipment and right-of-use assets	86	79	6	32
<b>Off balance sheet balances:</b>				
Reverse repurchase and cash collateral transactions <sup>(3)</sup>	8,508	7,448	8,738	7,448
<b>Total pledged assets</b>	<b>26,893</b>	<b>20,214</b>	<b>27,265</b>	<b>20,373</b>

(1) For trading securities, the transferee has the right to sell or re-pledge the entire value of securities received.

(2) Includes fair value of SE securitised bonds pledged against repurchase agreement liability.

(3) The Consolidated Entity and the Company re-pledged \$5,312 million (2019: \$7,448 million) to external clients and \$3,196 million (2019: \$Nil) to related body corporates out of total collaterals received against reverse repurchase and cash collateral agreements. Additionally, the Company re-pledged \$230 million (2019: \$Nil) to its subsidiaries.

The total collateral received by the Consolidated Entity and the Company amounts to \$38,070 million (2019: \$29,304 million) and \$36,511 million (2019: \$28,913 million) respectively (refer to Note 33.1 *Credit risk*).

# Notes to the financial statements

For the financial year ended 31 March 2020 *continued*

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## Note 37

### Pledged assets and transfers of financial assets *continued*

#### Pledged assets *continued*

##### Transfers of financial assets

The Consolidated Entity or Company may enter into transactions in the normal course of business that transfer risks and rewards of financial assets recognised in the Consolidated Entity or Company's statements of financial position to other entities. Depending on the criteria discussed in Note 1(viii) *Financial instruments* the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of its continuing involvement.

##### Transferred financial assets that are derecognised

When financial assets are derecognised, 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 Consolidated Entity does not have any material transfers of financial assets where the Consolidated Entity retained a continuing involvement in the transferred asset. The Company has continuing involvement in certain securitised mortgage assets transferred to SEs, being interest rate basis swaps that effectively transfer the mortgage interest back to the Company. The continuing involvement asset amounts to \$421 million (2019: \$Nil) with a corresponding liability of \$348 million (2019: \$Nil), of which the maximum exposure to loss is \$73 million (2019: \$Nil).

The Company also has continuing involvement through debt notes amounting to \$99 million (2019: \$132 million) with no corresponding liability in the books and maximum exposure to loss amounting to \$99 million (2019: \$132 million).

##### 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 2020 and 31 March 2019. The following transactions typically result in the transferred assets continuing to be recognised in full.

##### Repurchase and securities lending agreements

Securities 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. In certain arrangements, the securities transferred cannot otherwise be pledged or sold by the transferee, however the assets may be substituted if the collateral is maintained.

##### Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity and Company do not have legal rights to these assets but have full economic exposure to them. The transferred financial 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 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 an obligation to receive cash from the lessee and pay them to external funder.

## Note 37

### Pledged assets and Transfers of financial assets continued

			FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS		
	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	Fair value of transferred assets \$m	Fair value of associated liabilities \$m	Net fair value \$m
CONSOLIDATED 2020					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	743	(773)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	267	(245)	–	–	–
Other financial assets not derecognised:					
Cash and bank balances <sup>(1)</sup>	124	–	–	–	–
Trading assets <sup>(1)</sup>	454	–	–	–	–
Loan assets	267	(266)	268	(266)	2
<b>Total financial assets not derecognised</b>	<b>1,855</b>	<b>(1,284)</b>	<b>268</b>	<b>(266)</b>	<b>2</b>
CONSOLIDATED 2019					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	1,397	(1,375)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Trading assets	24	(24)	–	–	–
Financial investments	188	(178)	–	–	–
Other financial assets not derecognised:					
Loan assets	286	(307)	290	(307)	(17)
<b>Total financial assets not derecognised</b>	<b>1,895</b>	<b>(1,884)</b>	<b>290</b>	<b>(307)</b>	<b>(17)</b>

(1) Includes gold placed as initial margin for trading activities.

# Notes to the financial statements

For the financial year ended 31 March 2020 continued

## Note 37

### Pledged assets and Transfers of financial assets continued

			FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS		
	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	Fair value of transferred assets \$m	Fair value of associated liabilities \$m	Net fair value \$m
COMPANY 2020					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	743	(773)	–	–	–
Due from subsidiaries <sup>(1)</sup>	531	(411)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	267	(245)	–	–	–
Financial assets not derecognised due to securitisation:					
Loan assets <sup>(2)</sup>	9,411	(9,411)	9,461	(9,270)	191
Other financial assets not derecognised					
Cash and bank balance <sup>(3)</sup>	124	–	–	–	–
Trading assets <sup>(3)</sup>	454	–	–	–	–
<b>Total financial assets not derecognised</b>	<b>11,530</b>	<b>(10,840)</b>	<b>9,461</b>	<b>(9,270)</b>	<b>191</b>
COMPANY 2019					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	1,397	(1,375)	–	–	–
Due from subsidiaries <sup>(1)</sup>	531	(411)			
Financial assets not derecognised due to total return/asset swaps:					
Trading assets	24	(24)	–	–	–
Financial investments	188	(178)	–	–	–
Financial assets not derecognised due to securitisation:					
Loan assets <sup>(2)</sup>	5,289	(5,289)	5,289	(5,290)	(1)
<b>Total financial assets not derecognised</b>	<b>7,429</b>	<b>(7,277)</b>	<b>5,289</b>	<b>(5,290)</b>	<b>(1)</b>

(1) Includes fair value of SE's securitised bonds pledged against repurchase agreement liabilities.

(2) Excludes \$23,506 million (2019: \$20,825 million) of securitised assets where the Company holds all of the instruments issued by the SEs.

(3) Includes gold placed as initial margin for trading activities.



**Note 38****Audit and other services provided by PricewaterhouseCoopers (PwC)**

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

	CONSOLIDATED		COMPANY	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>PwC – Australia</b>				
Audit of the Group and controlled entities	9,443	10,607	7,549	8,481
Other assurance services <sup>(1)</sup>	3,329	2,335	951	713
Advisory services	210	213	–	–
Taxation	274	125	–	–
Total non-audit services	3,813	2,673	951	713
<b>Total remuneration paid to PwC Australia</b>	<b>13,256</b>	<b>13,280</b>	<b>8,500</b>	<b>9,194</b>
<b>Network firms of PwC Australia</b>				
Audit of the Group and controlled entities	8,037	8,577	2,804	2,497
Other assurance services <sup>(1)</sup>	160	512	–	–
Advisory services	84	–	–	–
Taxation	511	1,434	–	–
Total non-audit services	755	1,946	–	–
<b>Total remuneration paid to network firms of PwC Australia</b>	<b>8,792</b>	<b>10,523</b>	<b>2,804</b>	<b>2,497</b>
Total audit services remuneration paid to PwC	17,480	19,184	10,353	10,978
Total non-audit services remuneration paid to PwC	4,568	4,619	951	713
<b>Total remuneration paid to PwC (Note 2)</b>	<b>22,048</b>	<b>23,803</b>	<b>11,304</b>	<b>11,691</b>

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) 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 regulatory compliance, accounting advice, comfort letters on debt issuance programs, certifications, due diligence and reviews of controls and other agreed upon procedures. These assurance services would typically be performed by the auditor of the Consolidated Entity.

# Notes to the Financial Statements

For the financial year ended 31 March 2020 *continued*

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## Note 39

### Discontinued operations

#### (i) Description

On 10 December 2018, the Consolidated Entity disposed of its CAF Principal Finance and Transportation Finance businesses (the businesses) to a related group entity, MFHPL, that is fully owned by MGL and its subsidiaries, resulting in a pre-tax gain of \$507 million.

CAF Principal Finance provides flexible primary financing solutions and engages in secondary market investing across the capital structure. CAF Transportation Finance involves the financing of aircraft, rotorcraft and rail assets. Prior to the disposal date the businesses were reported as part of the CAF Operating Segment in the prior year.

The Consolidated Entity utilised the sale proceeds to repay capital of \$2,040 million and pay a dividend of \$264 million to its holding company – Macquarie B.H. Pty Limited during the year ended 31 March 2019.

The gain on disposal and the financial results of the businesses were disclosed as profit from discontinued operations in the income statement.

The agreement for the sale of the Transportation Finance business to MFHPL in the prior year required an adjustment to be paid to the Company, if:

- a binding third-party sale agreement of certain transferred assets was entered into within 18 months of 10 December 2018, being the original transfer effective date, and
- a premium to the amount paid by MFHPL under the original transfer is paid by the third-party to MFHPL.

The adjustment amount to be paid to the Company is determined based on the third-party sale price to the extent it reflects what reasonably would have been expected to have been paid by a third-party had it acquired the relevant assets on the original transfer effective date. In February 2020, a sale and purchase agreement was signed by MFHPL with a third party for the sale of certain assets and for which the Company has recognised a sales adjustment receivable from MFHPL at a fair value of \$102 million. This gain is presented as part of its discontinued operations. The actual adjustment will be determined and paid subsequent to the completion of the third-party sale transaction in accordance with the contractual provisions of the original sales agreement.

As part of the original sales agreement, MFHPL agreed to transfer to the Company any benefit that arose on the remeasurement of certain tax balances within 18 months of the original transfer date. Accordingly, the Company recorded a \$62 million tax benefit at 31 March 2020.

## Note 39

### Discontinued operations continued

#### (ii) Income statement

The financial results of the businesses including the impacts of the sale transaction are presented below:

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
<b>Operating profit from discontinued operations before income tax</b>				
Net operating lease income <sup>(1)</sup>	–	459	–	–
Net interest (expense)/income <sup>(2)</sup>	–	(3)	–	125
Fee and commission income <sup>(3)</sup>	–	–	–	80
Net trading expense	–	(8)	–	(16)
Other operating income and charges <sup>(4),(5)</sup>	–	435	–	1,006
Gain on disposal	102	507	102	236
<b>Net operating income</b>	<b>102</b>	<b>1,390</b>	<b>102</b>	<b>1,431</b>
Operating expenses	–	(252)	–	(132)
<b>Operating profit from discontinued operations before income tax</b>	<b>102</b>	<b>1,138</b>	<b>102</b>	<b>1,299</b>
Income tax benefit/(expense)	62	(182)	62	(47)
<b>Profit from discontinued operations after income tax</b>	<b>164</b>	<b>956</b>	<b>164</b>	<b>1,252</b>
<b>Other comprehensive loss:</b>				
Net movement for period <sup>(6)</sup>				
Exchange differences on translation and hedge of foreign operations (Note 39 (v))	–	(73)	–	–
Cash flow hedges, net movements recognised in OCI (Note 39 (v))	–	(47)	–	–
<b>Other comprehensive loss from discontinued operations</b>	<b>–</b>	<b>(120)</b>	<b>–</b>	<b>–</b>
<b>Total comprehensive income from discontinued operations</b>	<b>164</b>	<b>836</b>	<b>164</b>	<b>1,252</b>
Total comprehensive income from discontinued operations attributable to non-controlling interests	–	(1)	–	–
<b>Total comprehensive income from discontinued operations attributable to the equity holder of the Company</b>	<b>164</b>	<b>835</b>	<b>164</b>	<b>1,252</b>

(1) Previous year includes \$820 million of rental income (of which \$40 million is net supplemental rent on aircraft) net of \$361 million of depreciation on operating lease assets.

(2) Previous year includes \$195 million of interest expenses in the Consolidated Entity and \$43 million in the Company paid by the businesses to Group Treasury. These amounts have been reported as interest income in the Consolidated Entity's continuing operations.

(3) Previous year includes income under fee sharing and other arrangements from subsidiaries.

(4) Previous year includes \$339 million of gain on disposal of assets and liabilities held for sale in the Consolidated Entity.

(5) Previous year includes \$715 million of dividend income and \$219 million of net gain on disposal of subsidiaries in the Company.

(6) 10 December 2018, being the disposal date.

# Notes to the Financial Statements

For the financial year ended 31 March 2020 continued

## Note 39

### Discontinued operations continued

#### (iii) Gain on disposal

	CONSOLIDATED		COMPANY	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Consideration <sup>(1)</sup>	102	6,949	102	4,010
Carrying value of net assets and liabilities disposed of or deconsolidated (Note 39(iv))	–	6,649	–	3,774
Gain on disposal before transfer of OCI to the income statement	102	300	102	236
Items reclassified from OCI to the income statement:				
Exchange differences on translation and hedge of foreign operations (Note 39(v))	–	160	–	–
Cash flow hedges (Note 39(v))	–	47	–	–
<b>Total gain on disposal</b>	<b>102</b>	<b>507</b>	<b>102</b>	<b>236</b>

#### (iv) Carrying value of net assets and liabilities disposed of on 10 December 2018

	CONSOLIDATED	COMPANY
	2019 \$m	2019 \$m
<b>Assets</b>		
Cash and bank balances	422	11
Other assets	641	27
Loan assets <sup>(2)</sup>	3,795	2,341
Property, plant and equipment and right-of-use assets	8,162	–
Investment in associates and joint ventures	629	351
Investment in subsidiaries	–	1,146
Deferred tax assets	185	–
<b>Total assets</b>	<b>13,834</b>	<b>3,876</b>
<b>Liabilities</b>		
Deposits	(192)	–
Other liabilities	(1,195)	(40)
Borrowings	(5,113)	–
Debt issued	(37)	–
Due to subsidiaries	–	(62)
Deferred tax liabilities	(648)	–
<b>Total liabilities</b>	<b>(7,185)</b>	<b>(102)</b>
<b>Net assets</b>	<b>6,649</b>	<b>3,774</b>

(1) Current year includes \$102 million deferred consideration receivable for the Consolidated Entity and the Company (refer to Note 39(i) for further details).

Previous year includes cash consideration of \$6,506 million for the Consolidated Entity and \$3,991 million for the Company.

(2) Net of ECL allowance of \$33 million for the Consolidated Entity and \$8 million for the Company.

**Note 39****Discontinued operations continued****(v) Reserves**

	CONSOLIDATED
	2019 \$m
<b>Foreign currency translation and net investment hedge reserve<sup>(1)</sup></b>	
Balance at the beginning of the financial year	73
Exchange differences on translation	87
Transferred to income statement on disposal of foreign operations	(160)
<b>Balance at the end of the financial year</b>	–
<b>Cash flow hedging reserve<sup>(1)</sup></b>	
Balance at the beginning of the financial year	47
Revaluation movement for the financial year	(1)
Transferred to income statement	(7)
Transferred to income statement on disposal of the businesses	(39)
<b>Balance at the end of the financial year</b>	–

**(vi) Cash flow information**

	CONSOLIDATED	COMPANY
	2019 \$m	2019 \$m
<b>Net cash flow</b>		
Cash (utilised in)/generated from operating activities	(183)	2
Cash generated from investing activities	384	–
<b>Net increase in cash and cash equivalents from discontinued operations</b>	201	2
Cash and cash equivalents at the beginning of the financial year	221	9
Cash and cash equivalents at the end of the financial period <sup>(2)</sup>	422	11

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

(2) 10 December 2018, being the disposal date.

# Notes to the Financial Statements

For the financial year ended 31 March 2020 *continued*

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## **Note 40**

### **Acquisitions and disposals of subsidiaries and businesses**

#### **Significant entities or businesses acquired or consolidated due to acquisition of control**

There were no individually significant entities or businesses where control was acquired during the current and previous financial year.

#### **Significant disposal of entities or businesses**

There were no individually significant entities or businesses disposed of or deconsolidated where control was lost during the current and previous financial year other than as disclosed in Note 39 *Discontinued operations*.

## **Note 41**

### **Events after the reporting date**

There were no material events subsequent to 31 March 2020 and up until the authorisation of the financial statements for issue, that have not been disclosed elsewhere in the financial statements.

## Directors' declaration

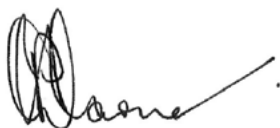
Macquarie Bank Limited

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 55 to 200 are in accordance with the *Corporations Act 2001* (Cth), including;
  - (i) complying with the 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 2020 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



**Mary Reemst**

Managing Director and Chief Executive Officer

Sydney

8 May 2020

# Independent auditor's report

To the members 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 2020 and of their financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

### What we have audited

The Consolidated Entity and Company's financial report comprises:

- The Consolidated and Company statements of financial position as at 31 March 2020
- the Consolidated and Company income statements for the year then ended
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- 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

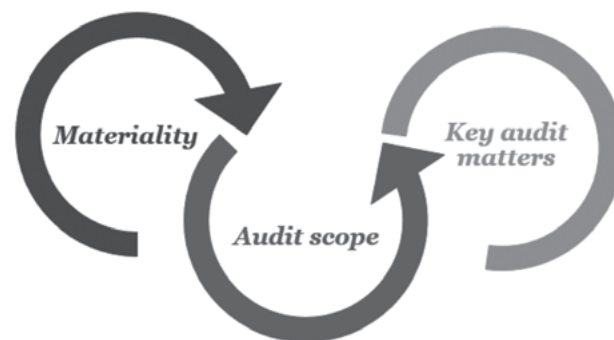
We are independent of the Company and the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including 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. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram, Jacksonville and Manila which undertake operational activities that are important to the financial reporting processes. The Consolidated Entity's financial report includes the two operating groups and the corporate segment.



### Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of \$83 million, which represents approximately 1% of the Consolidated Entity's net assets.

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 net assets as the benchmark as the Consolidated Entity is a wholly owned subsidiary with listed debt and, in our view, net assets represent an important benchmark against which the performance of the Consolidated Entity is measured by relevant stakeholders.

We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

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### Consolidated Entity audit scope

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

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

Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other member firms of the PwC global network to perform audit procedures ranging from an audit of financial information to specified procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn instructed. As part of the overall supervision of our audit and to develop our understanding of the Consolidated Entity's global operations, the group audit team or the component audit teams also visited overseas locations, including Gurugram, Houston, Jacksonville, London, Munich, Manila, New York and Singapore.

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.

# Independent auditor's report

To the members of Macquarie Bank Limited continued



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any

commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee. The key audit matters identified below relate to the audit of both the Consolidated Entity and the Company, and references to the Consolidated Entity also apply to the Company.

Key audit matter	How our audit addressed the key audit matter
<b>Provision for expected credit losses on loan assets (Refer to Note 11)</b>	
<p>Under the credit impairment model required by AASB 9: <i>Financial Instruments</i> (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>Given the rapidly developing COVID-19 pandemic and uncertainty as to the economic and financial market impact, significant judgement was required to be exercised by the Consolidated Entity in calculating the ECL. Specifically this includes judgements around the impact of COVID-19 on forward-looking information, including developing macroeconomic scenarios and their associated weightings given the wide range of potential economic outcomes and impacts from COVID-19 that may impact future expected credit losses.</p> <p>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 considered 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"> <li>– review, challenge and approval of certain forward-looking macroeconomic assumptions and scenario weightings, including specifically the consideration of impacts from COVID-19</li> <li>– the accuracy of certain critical data elements used in key ECL models, and</li> <li>– the review and challenge forums to assess the ECL output and post model adjustments.</li> </ul> <p>In addition to controls testing, we also performed substantive procedures including:</p> <ul style="list-style-type: none"> <li>– using PwC credit modelling experts to assess the reasonableness of conclusions reached by the Consolidated Entity from model monitoring performed on key models. This included reviewing key model components such as SICR and also involved independent reperformance of certain tests within the model monitoring performed</li> <li>– using PwC credit modelling experts to assess whether the list of critical data elements identified by the Consolidated Entity is reasonable for key models</li> <li>– engaging PwC economics experts to assess and challenge the reasonableness of macroeconomic scenarios developed and certain forward-looking economic data developed by the Consolidated Entity, with a particular focus on the impact of COVID-19 in light of certain available information and consensus views</li> <li>– assessing the reasonableness of individual credit ratings used in ECL models to determine whether these have incorporated the impact of COVID-19 at balance date</li> <li>– testing the completeness and accuracy of certain critical data elements used in key ECL models</li> <li>– assessing certain post model adjustments identified by the Consolidated Entity</li> <li>– considering the impacts on the ECL of events occurring subsequent to balance date.</li> </ul> <p>For credit impaired loan (stage III) provisions, we examined a sample of individual loan exposures to consider the reasonableness of provisions adopted.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.</p>



Key audit matter	How our audit addressed the key audit matter
<b>Valuation of financial assets and liabilities held at fair value with significant unobservable inputs (Level 3 financial instruments) (Refer to Note 35)</b>	
<p>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.</p> <p>For the Consolidated Entity, these Level 3 financial instruments predominantly consist of trading assets, financial investments, loan assets, derivative financial instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs.</p> <p>Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over:</p> <ul style="list-style-type: none"> <li>– approval and validation of the models adopted</li> <li>– accuracy of data and inputs to models</li> <li>– the Consolidated Entity's process for testing valuations, and</li> <li>– governance and review.</li> </ul> <p>For derivatives and trading assets, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations.</p> <p>For a sample of financial investments and loan assets, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of the inputs used. For a sample of financial investments, we assessed the sensitivity of the valuations to alternative assumptions where appropriate.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.</p>
<b>IT systems and controls over financial reporting</b>	
<p>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:</p> <ul style="list-style-type: none"> <li>– the framework of governance over IT systems</li> <li>– controls over program development and changes</li> <li>– controls over access to programs, data and IT operations, and</li> <li>– governance over generic and privileged user accounts.</li> </ul> <p>Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.</p> <p>We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.</p> <p>Where we noted design or operating effectiveness matters relating to IT system 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.</p>
<b>Provisions for tax payable (Refer to Note 20)</b>	
<p>The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid.</p> <p>Given the extent of judgement involved, we considered this to be a key audit matter.</p>	<p>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 tax authorities.</p> <p>Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provisions for tax. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.</p>

# Independent auditor's report

To the members of Macquarie Bank Limited continued



## 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 2020, 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: [www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.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 33 to 50 of the Directors' Report for the year ended 31 March 2020.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2020 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  
8 May 2020

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Operating and  
Financial Review

Directors' Report

**Financial Report**

Further Information

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